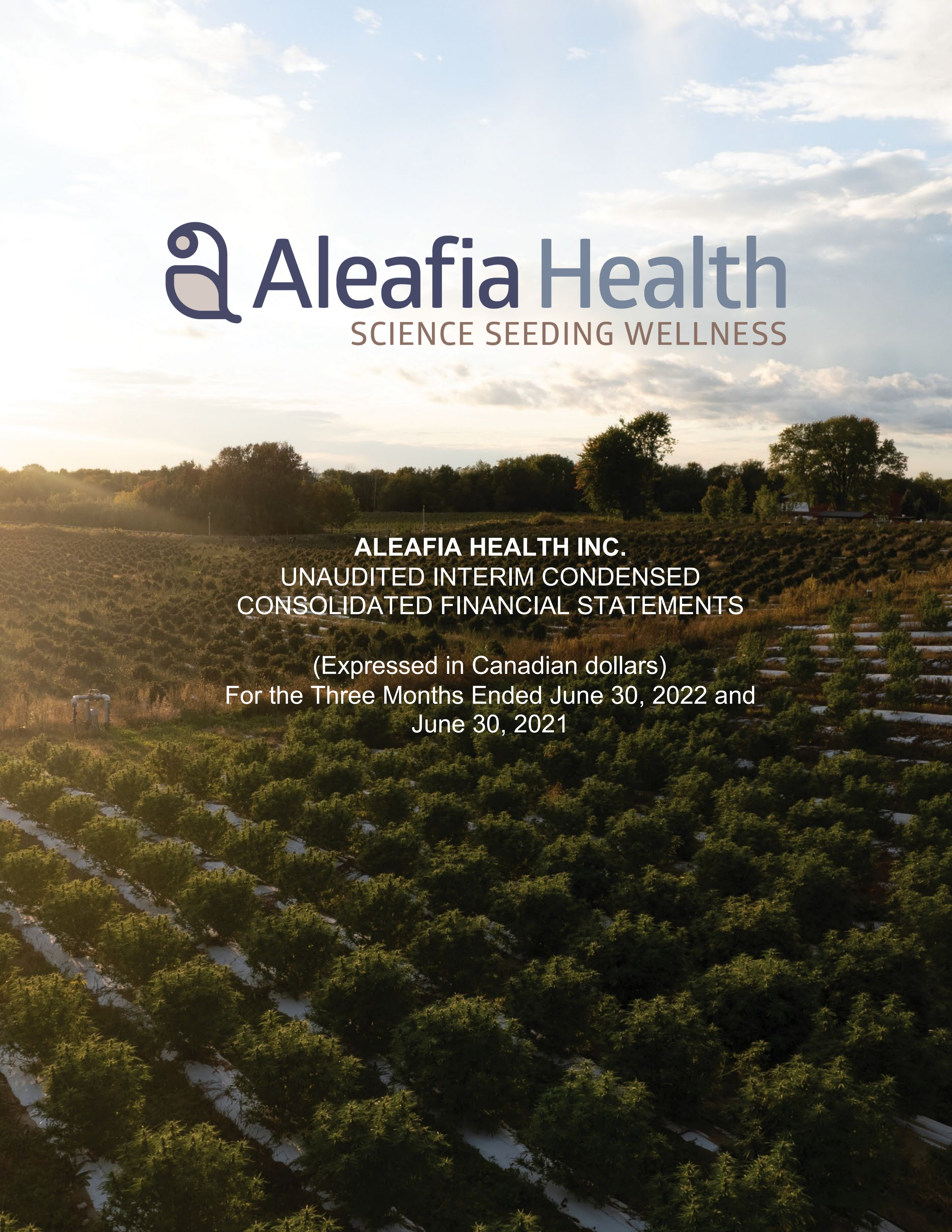

Aleafia Health
SCIENCE SEEDING WELLNESS

ALEAFIA HEALTH INC.
UNAUDITED INTERIM CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian dollars)
For the Three Months Ended June 30, 2022 and
June 30, 2021

MANAGEMENT’S RESPONSIBILITY

To the Shareholders of Aleafia Health Inc.:

The accompanying unaudited interim condensed consolidated financial statements of Aleafia Health Inc. and its subsidiaries (the “Company”) were prepared by management, which is responsible for the integrity and fairness of the information presented, including the many amounts that out of necessity are based on estimates and judgements. These unaudited interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards.

In fulfilling its responsibilities, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded, and financial records are properly maintained to provide reliable information for the preparation of these unaudited interim condensed consolidated financial statements.

The Board of Directors oversees the responsibilities of management for financial reporting through an Audit Committee, which is composed entirely of independent directors. This Audit Committee reviews the unaudited interim condensed consolidated financial statements and recommends them to the Board of Directors for approval. They meet regularly with management to review internal control procedures and advise directors on accounting matters and financial reporting issues.

“Tricia Symmes”

Patricia Symmes-Rizakos
Chief Executive Officer

“Matthew Sale”

Matthew Sale
Chief Financial Officer

ALEAFIA HEALTH INC.

Unaudited Interim Condensed Consolidated Statements of Financial Position

As at June 30, 2022 and March 31, 2022

(Amounts reflected in thousands of Canadian dollars)

	Notes	June 30, 2022	March 31, 2022
		$	$
ASSETS			
Current			
Cash		**5,455**	1,356
Restricted cash		**168**	213
Marketable securities	3	**216**	1,190
Trade and other receivables, net	15	**10,430**	11,085
Prepaids and deposits		**3,290**	3,775
Inventory, net	6	**20,453**	21,664
Biological assets	7	**3,639**	1,179
		43,651	40,462
Non-current			
Property, plant, and equipment, net	5	**38,638**	40,448
Right-of-use assets	4	**1,693**	1,844
Investments		**2,391**	2,391
		42,722	44,683
TOTAL ASSETS		**86,373**	85,145
LIABILITIES			
Current			
Accounts payable and accrued liabilities		**22,053**	27,626
Lease liability	4	**625**	522
Credit facility	8	**13,857**	12,073
Convertible debt	9	**-**	36,401
		36,535	76,622
Non-current			
Lease liability	4	**1,659**	1,833
Convertible debt	9	**23,493**	–
Credit facility	8	**5,292**	5,075
		30,444	6,908
TOTAL LIABILITIES		**66,979**	83,530
SHAREHOLDERS' EQUITY			
Share capital	10	**408,690**	404,341
Contributed surplus	10	**108,376**	90,477
Deficit		**(497,672)**	(493,203)
		19,394	1,615
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**86,373**	85,145

COMMITMENTS AND CONTINGENCIES (Note 16)
GOING CONCERN (Note 2)

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.
Approved and authorized for issue on behalf of the board on August 11, 2022.

"*Mark J. Sandler*"
Mark J Sandler, Chairman

"*Lu Galasso*"
Lu Galasso, Director

ALEAFIA HEALTH INC.

Unaudited Interim Condensed Consolidated Statements of Profit or Loss and Comprehensive Profit or Loss

For the three months ended June 30, 2022 and 2021

(Amounts reflected in thousands of Canadian dollars, except share and per share amounts)

	Notes	June 30, 2022	June 30, 2021 (Restated – note 17)
		$	$
Revenue		**16,512**	11,650
Excise taxes		**4,484**	978
Net revenue		**12,028**	10,672
Cost of sales		**9,401**	6,124
Gross profit before fair value adjustment and inventory provision		**2,627**	4,548
Fair value changes in biological assets and changes in inventory sold	7	**3,090**	3,572
Gross profit		**5,717**	8,120
Operating expenses			
Selling, general and administrative expenses	11	**5,006**	9,165
Amortization and depreciation expense	4,5	**509**	1,714
Share-based compensation expense	10	**570**	539
Business transaction costs		**315**	1,061
Bad debt expense	15	**–**	1,894
		6,400	14,373
Other expenses (income)			
Interest expense		**2,760**	1,755
Fair value adjustments through profit and loss	3	**977**	(700)
Other non-operating expense (income)		**52**	(447)
Gain on sale of assets		**(3)**	(12,092)
		3,786	(11,484)
Net profit (loss) before income taxes		**(4,469)**	5,231
Income tax			
Current income tax expense (recovery)		**–**	–
Deferred income tax recovery		**–**	–
Net profit (loss) and comprehensive profit (loss)		**(4,469)**	5,231
Profit (Loss) per share, basic and diluted		**(0.01)**	0.02
Weighted average common shares outstanding		**343,861,701**	330,523,293

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

ALEAFIA HEALTH INC.

Unaudited Interim Condensed Consolidated Statements of Changes in Shareholders' Equity

For the three months ended June 30, 2022 and 2021

(Amounts reflected in thousands of Canadian dollars, except share and warrant amounts)

	Number of Shares	Common Shares	Contributed Surplus	Deficit	Total
	#	$	$	$	$
Balances, March 31, 2022	331,124,351	404,341	90,477	(493,203)	1,615
Share issuance costs	–	(1,511)	–	–	(1,511)
Shares issued under private placement (Note 10)	71,559,015	5,623	–	–	5,623
Shares issued under deferred share unit plan (Note 10)	–	152	–	–	152
Shares issued from conversion of convertible debentures	204,761	15	–	–	15
Equity portion of debt issuance	–	–	16,047	–	16,047
Restricted share units issued/released	125,648	70	(70)	–	–
Warrants issued	–	–	1,352	–	1,352
Share-based compensation expense	–	–	570	–	570
Net loss for the period	–	–	–	(4,469)	(4,469)
Balances, June 30, 2022	**403,013,775**	**408,690**	**108,376**	**(497,672)**	**19,394**

	Number of Shares	Common Shares	Contributed Surplus	Deficit (Restated – note 17)	Total
	#	$	$	$	$
Balances, March 31, 2021	330,491,826	404,128	88,147	(334,584)	157,691
Issuance of common shares	231,500	95	1	–	96
Share-based compensation expense	–	–	539	–	539
Net profit for the period	–	–	–	5,231	5,231
Balances, June 30, 2021	**330,723,326**	**404,223**	**88,687**	**(329,353)**	**163,557**

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

ALEAFIA HEALTH INC.

Unaudited Interim Condensed Consolidated Statements of Cash Flows

For the three months ended June 30, 2022 and 2021
(Amounts reflected in thousands of Canadian dollars)

	June 30, 2022	June 30, 2021 (Restated – note 17)
	$	$
Operating activities		
Net profit (loss) for the period	**(4,469)**	5,231
Adjustments for non-cash items:		
Depreciation expense	**2,101**	1,373
Amortization expense	–	540
Share-based compensation expense	**570**	539
Interest accretion	**1,758**	965
Bad debt expense	–	1,894
Gain on sale of marketable securities	**(3)**	(12,092)
Fair value adjustments through profit and loss	**977**	(700)
Loss on property, plant and equipment disposal	**11**	–
Fair value changes in biological assets and changes in inventory sold	**(3,090)**	(3,572)
	(2,145)	(5,822)
Changes in operating working capital:		
Trade and other receivables	**648**	(1,357)
Prepaids and deposits	**485**	522
Inventory	**1,211**	3,340
Biological assets	**630**	(5,270)
Accounts payable and accrued liabilities	**(2,425)**	(2,339)
Deferred expenses	**–**	92
Net cash used in operating activities	**(1,596)**	(10,834)
Investing activities		
Proceeds from sale of marketable securities	**7**	**–**
Proceeds from sale of property, plant, and equipment	**17**	**–**
Acquisition of property, plant, and equipment	**(168)**	(1,754)
Net cash used in investing activities	**(144)**	(1,754)
Financing activities		
Lease liability payments	**(178)**	(332)
Proceeds from revolving facility	**1,271**	**–**
Proceeds from the issuance of common shares	**5,623**	96
Conversion of convertible debt into equity	**(286)**	**–**
Debt Issuance cost	**(636)**	**–**
Net cash provided by financing activities	**5,794**	(236)
Change in cash	**4,054**	(12,824)
Cash and restricted cash, beginning of period	**1,569**	17,678
Cash and restricted cash, end of period	**5,623**	4,854

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

Note 1 Nature of Operations

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 federally licensed Canadian cannabis company offering cannabis products in Canada and destined for international markets, including Australia and Germany. The Company operates a virtual medical cannabis clinic staffed by physicians and nurse practitioners which provide health and wellness services across Canada.

The Company owns three licensed cannabis production facilities and operates a strategically located distribution centre all in the province of Ontario, including the largest, outdoor cannabis cultivation facility in Canada. The Company produces a diverse portfolio of cannabis and cannabis derivative products including dried flower, pre-roll, milled, vapes, oils, capsules, edibles, sublingual strips, and topicals, 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. Previously, common shares were traded on the TSX Venture Exchange Inc. under a different ticker symbol from March 18, 2019.

Note 2 Significant Accounting Policies

Basis of presentation

These unaudited interim condensed consolidated financial statements as at and for the three months ended June 30,2022 and 2021 have been prepared in accordance with International Financial Reporting Standards(“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and in accordance with IAS 34, Interim Financial Reporting (“IAS 34”). The accounting policies, methods of computation and presentation appliedin these unaudited condensed interim consolidated financial statements are consistent with those of the previousfiscal year. These unaudited interim condensed consolidated financial statements reflect the accounting policies and disclosures described in Note 2 and the Company’s audited consolidated financial statements for the yearended March 31, 2022, and accordingly, should be read in conjunction with those audited consolidated financial statements and the notes thereto.

The unaudited interim condensed consolidated financial statements have been prepared on the historical cost basis, with the exception of financial instruments and biological assets which are measured at fair value. In addition, these unaudited interim condensed consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information. The functional currency of the Company and its wholly owned subsidiaries is theCanadian dollar.

In February 2022, the Company changed its reporting year end from December 31 to March 31 to accommodate the shortage of personnel in public accounting firms.

The Board of Directors approved these interim condensed consolidated financial statements on August 11, 2022.

Going concern assumption

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

The Company has experienced recurring losses, has a cumulative deficit of $497,672 (March 31, 2022 – $493,203) and a net working capital of $7,116 (March 31, 2022 – deficiency of $36,160). 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.

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

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 and expects to have adequate sources of funding to finance the Company's projects and operations. The Company manages liquidity risk by exploring 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 plans in place to meet its financial obligations as they come due.

The Company has multiple options to meet 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, share capital, and 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:

- 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
- Remain in compliance with its credit facility and convertible debenture covenants; and
- Raise additional debt and equity financing.

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.

Consolidation

These interim condensed consolidated financial statements comprise the financial statements of the Company and its subsidiaries, as presented below. Subsidiaries are those entities which the Company controls by having the power to govern the financial and operational policies of the entity. This control is generally evidenced through owning more than 50% of the voting rights or currently exercisable potential voting rights of a company's share capital. All intercompany transactions and balances have been eliminated. All Subsidiaries, except for the inactive are for the purpose of carrying out the Company's business in the normal course and are domiciled in Canada. Inactive subsidiaries are holding companies.

	June 202	March 2020
	%	%
Aleafia Inc.	100	100
Canabo Medical Corporation (“Canabo")	100	100
Aleafia Farms Inc. (“Aleafia Farm")	100	100
Emblem Corp. ("Emblem")	100	100
Emblem Cannabis Corporation (“EC")	100	100
GrowWise Health Limited ("GrowWise”)	100	100
Emblem Realty Ltd. (“Emblem Realty")	100	100
Aleafia Brands Inc. (inactive)	100	100
Aleafia Retail Inc. (inactive)	100	100
2672533 Ontario Inc (inactive)	100	100
2676063 Ontario Inc.(inactive)	100	100

Note 3 Marketable Securities

On May 10, 2021, the Company (specifically, wholly owned subsidiaries, Canabo and GrowWise) completed the sale of certain clinic related assets to Myconic Capital Corp (d.b.a Wellbeing Digital Sciences Limited “WDSL”). Pursuant to the Asset Purchase Agreement (the “APA”), certain inventory and equipment was sold, in addition to the assignment of research revenue and clinic leases.

In consideration for the sale and assignment of certain agreements, Myconic Capital Corp, issued and delivered a total of 7,000,000 common shares subject to statutory and contractual lock-up provisions, with a fair value of $12,250 on the date of closing.

The sale resulted in the derecognition of certain right of use assets with a net book value of $255 and related lease obligations of $329. In addition, equipment with a net book value of $232 were sold.

The gain on sale of Canabo and GrowWise net assets was determined as follows:

	$
Consideration	12,250
Assets sold/assigned	(487)
Liabilities assumed	329
Gain on sale	**12,092**

The Myconic Capital Corp common shares are classified as fair value through profit and loss. The marketable securities are classified as Level 1 on the fair value hierarchy as they have quoted prices in an active market.

On April 11, 2022, the Company terminated its Clinic License and Services Agreement with WDSL. As a result, certain revenue streams that were assigned to WDSL as part of the Services Agreement will revert to the Company such as Provincial billings for physician services and clinic education fees. Additionally, any unexpired leases which were unassigned as of the date of the termination reverted to the Company. The termination does not impact any consideration paid to the Company and the common shares are available to trade.

The current fair value of the owned common shares is $216.

Note 4 Right-of-Use Asset and Lease Liability

The Company entered into a lease agreement, commencing June 1, 2020 for its distribution operations and corporate office. The term of the lease is 5 years and expires on July 31, 2025. As at June 30, 2022, the undiscounted commitment for the remaining office lease term is approximately $2,034. The balance of the lease right of use assets and obligations are relate to leased equipment.

RIGHT-OF-USE ASSET

	$
Cost	
Balance, December 31, 2020	3,994
New leases	328
Leases adjustment	(157)
Termination of lease	(1,277)
Balance, March 31, 2022	2,888
Balance, June 30, 2022	2,888
Accumulated amortization	
Balance, December 31, 2020	(1,212)
Termination of lease	682
Lease adjustment	376
Amortization	(890)
Balance, March 31, 2022	(1,044)
Amortization	(151)
Balance, June 30, 2022	(1,195)
Net book value, March 31, 2022	1,844
Net book value, June 30, 2022	**1,693**

LEASE LIABILITY

	$
Balance, December 31, 2020	3,167
New leases	328
Derecognition of lease liability	(392)
Lease adjustment	(284)
Interest accretion	600
Payments	(1,064)
Balance, March 31, 2022	2,355
Interest accretion	107
Payments	(178)
Balance, June 30, 2022	**2,284**
Current portion	**625**
Long-term portion	**1,659**

As is permitted under IFRS 16, *Leases*, the Company elected to expense its short-term or low value dollar leases in selling, general and administrative expenses in the consolidated statements of profit or loss and comprehensive profit or loss on a straight-line basis over the lease term.

Note 5 Property, Plant and Equipment

	Computer and Software	Equipment and Furniture	Leasehold Improvements	Land	Buildings	Total
	$	$	$	$	$	$
Cost						
Balance, December 31, 2020	976	13,980	5,773	7,737	59,242	87,708
Additions	85	2,934	34	—	1,606	4,659
Disposals	(339)	(965)	(175)	—	(892)	(2,371)
Balance, March 31, 2022	722	15,949	5,632	7,737	59,956	89,996
Additions	—	168	—	—	—	168
Disposals	—	(46)	—	—	—	(46)
Balance, June 30, 2022	722	16,071	5,632	7,737	59,956	90,118
Accumulated depreciation						
Balance, December 31, 2020	(418)	(2,816)	(583)	—	(5,422)	(9,239)
Depreciation	(210)	(4,164)	(410)	—	(7,309)	(12,093)
Disposals	256	192	136	—	—	584
Impairment write-down	—	(5,312)	—	—	(23,488)	(28,800)
Balance, March 31, 2022	(372)	(12,100)	(857)	—	(36,219)	(49,548)
Depreciation	(31)	(1,663)	(81)	—	(175)	(1,950)
Disposals		18		—	—	18
Balance, June 30, 2022	(403)	(13,745)	(938)	—	(36,394)	(51,480)
Net book value						
As at March 31, 2022	350	3,849	4,775	7,737	23,737	40,448
As at June 30, 2022	**319**	**2,326**	**4,694**	**7,737**	**23,562**	**38,638**

Depreciation relating to manufacturing equipment and production facilities for owned and right-of-use lease assets is capitalized to biological assets and inventory and is expensed to cost of sales upon the sale of goods. During the three months ended June 30, 2022, the Company recognized depreciation expense of $1,950 (June 30, 2021 – $2,309), of which $1,592 (June 30, 2021 – $958) was included in cost of sales, biological assets and inventory, and $358 (June 30, 2021 – $1,351) was included in operating expenses.

Note 6 Inventory

Inventory is comprised of the following items as at:

	June 30, 2022	March 31, 2022
	$	$
Finished goods	5,572	4,454
Work-in-progress	25,717	27,992
Supplies and consumables	2,886	2,940
Inventory provision	(13,722)	(13,722)
Total inventory	**20,453**	**21,664**

Inventory provision mostly relates to work-in-progress.

Note 7 Biological Assets

Biological assets are valued in accordance with IAS 41. The Company's biological assets consist of cannabis plants. As there is no actively traded commodity market for these, the valuation of these biological assets is obtained using valuation techniques where the inputs are based upon unobservable market data which are considered level 3 inputs under IFRS. These inputs are subject to volatility in market prices and several uncontrollable factors could significantly affect the fair value of assets in the future. The fair value is determined using a valuation model to estimate the expected harvest yield per plant applied to the estimated price per gram less processing and selling costs. The Company capitalizes all the direct and indirect costs as incurred related to the transformation of biological assets and measures biological assets consisting of cannabis plants at fair value less cost to sell up to the point of harvest, which becomes the basis for the cost of finished goods inventories after harvest. Unrealized gains or losses arising from changes in fair value less cost to sell during the year are included in the results of operations of the related year.

The Company's estimates are subject to change and differences from the anticipated yield will be reflected in the gain or loss on biological assets in future periods.

The following table depicts the changes in the fair value measurement (unrealized gain/loss resulting from fair value changes on growth of biological assets) and the fair value of biological assets as of June 30, 2022 and March 31, 2022 as required by IFRS 13 fair value measurement.

	$
Balance, December 31, 2020	2,511
Changes in fair value less costs to sell due to biological transformation	1,333
Production costs capitalized to biological assets	22,053
Transferred to inventory upon harvest	(24,718)
Balance, March 31, 2022	1,179
Changes in fair value less costs to sell due to biological transformation	2,460
Production costs capitalized to biological assets	1,827
Transferred to inventory upon harvest	(1,827)
Balance, June 30, 2022	**3,639**

In determining the fair value of biological assets, management had made the following significant assumptions in the valuation model:

	June 30, 2022		**March 31, 2022**	
	Indoor	**Outdoor**	**Indoor**	**Outdoor**
Average fair value per gram ($)	0.98	0.37	0.98	0.16
Average yield per plant (grams)	60	750	60	750
Average of growth cycle (weeks)	13	16	13	16

The Company values cannabis plants at fair value. Management determined cost approximates fair value from the date of receiving the vegetative plants until halfway through the flowering cycle of plants. Measurement of the biological transformation of the plant at fair value begins in the fourth week prior to harvest and is recognized evenly until the point of harvest. The number of weeks in the growing cycle is between twelve and sixteen weeks from propagation to harvest.

The fair value adjustment to biological assets and inventory sold consists of the following for the three months ended:

	June 30, 2022	June 30, 2021
	$	$
Realized fair value amounts included in inventory sold	(630)	(347)
Change in fair value on growth of biological assets	(2,460)	(3,225)
Fair value changes in biological assets and inventory sold	**(3,090)**	**(3,572)**

Note 8 Credit Facilities

Credit Facility – Current

On December 24, 2021, the Company entered into a new loan agreement that provides for a term facility of $12,000 and access to a revolving facility up to $7,000. The loans bear interest at a rate of the National Bank of Canada prime (with a floor of 3.45%) rate plus 9%, annually, with an effective interest rate of 14.8%. Under the agreement, the Company prepaid interest of $749. 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 Company received net proceeds of $10,798 on December 24, 2021.

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 on the Company.

On each of March 28, 2022 and June 17, 2022 the Company and the lender agreed to certain amendments to the agreement to provide for ongoing funding under the revolving facility despite one or more breaches of existing covenants.

The amount drawn from the revolving facility as at June 30, 2022 was $1,771.

The amortization of the credit facility as at June 30, 2022:

	$
Balance, December 31, 2020	—
Amortized cost	11,440
Penalty	60
Interest expense	470
Interest paid	(397)
Revolver draw down	500
Balance, March 31, 2022	12,073
Interest expense	513
Revolver draw down	1,271
Balance, June 30, 2022	**13,857**
Credit facility	12,086
Revolver	1,771
Balance, June 30, 2022	**13,857**

The undrawn balance at the date hereof is $4,737.

Credit Facility – Non Current

On August 23, 2021, the Company entered into a secured Credit Agreement, to receive $10,000 for working capital and general corporate purposes. The term of the loan was for one year with a fixed interest rate of 12% and an effective interest rate of 17.3%. Accrued interest may either be paid monthly in arrears or upon maturity of the facility. 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 facility is secured by a first lien mortgage on the Port Perry, Ontario facility.

On December 24, 2021, the Company entered into an amendment with its lender to revise certain terms in the credit facility. Second lien mortgages were granted against the Paris, Ontario and Grimsby, Ontario production facilities. The maturity date was extended by approximately 16 months to December 24, 2023, the stated interest rate applicable changed to 12.45%, and the interest to begin paying in June 2022.

The Company made a principal repayment of $5,000 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 third tranche of 125,000 common share purchase warrants of 250,000 vested on May 20, 2022 and the remaining 125,000 common share purchase warrants vest on August 20, 2022.

On December 24, 2021, the Company entered into an amendment with its lender to revise certain terms in the credit facility. $623 representing one year of interest, from June 2022 to June 2023 was prepaid.

As a result of the amendments to the credit facility, the present value of the amended terms decreased the amortized cost by $152. This amount is offset with the interest expense of $628 and is recorded as a reduction to interest expense in the consolidated statements of profit or loss and comprehensive profit or loss.

	$
Balance, December 31, 2020	—
Amortized cost	9,749
Principal repayment	(5,000)
Interest paid	(380)
Interest accretion	254
Accrued interest	604
Adjustment to amortized cost	(152)
Balance, March 31, 2022	5,075
Interest accretion	62
Accrued interest	155
Balance, June 30, 2022	**5,292**

Note 9 Convertible Debt

Aleafia Convertible Debt

In June 2019, the Company issued 40,250 additional convertible debentures units (the “Aleafia Convertible Debt Unit”) for gross proceeds of $40,300 (the “**June 2019 Convertible Debenture**”). The Aleafia Convertible Debt Unit consists of one $1,000 principal amount of unsecured convertible debenture of the Company and 680 common share purchase warrants, under 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
- The Company 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 the Company on the TSX be greater than $3.10 for 20 consecutive trading days.

During 2019, Debenture holders converted $2,900 debentures to common shares. Accordingly, the remaining principal balance to be paid upon maturity is $37,350.

During the three months ended March 31, 2022, Debenture holders converted $301 debentures to 204,751 common shares. Accordingly, the remaining principal balance to be paid upon maturity is $37,049.

On June 23, 2022, the Company amended key commercial terms of its unsecured convertible debenture (Debenture Amendments), maturing June 27, 2022. The amendment includes, among other things, exchanging the current convertible debentures for new convertible debentures with maturities in two, four and six years. The interest rate remains the same at 8.5%, with payment in kind with additional new convertible debentures and a reduction in the conversion price from $1.47 to $0.25 for the debentures expiring in 2024, $0.30 for the debentures expiring in 2026, and $0.35 for the debentures expiring in 2028.

The Debenture Amendments were effected by the exchange of the outstanding $37,049 principal amount of unsecured convertible debentures for new, secured convertible debentures, which were issued to existing debenture holders in three equal, separate series (each, a "Series"): (a) 8.50% Series A Secured Debentures Due June 30, 2024 (the "**Series A Debentures**"), (b) 8.50% Series B Secured Debentures Due June 30, 2026 (the "**Series B Debentures**"), and (c) 8.50% Series C Secured Convertible Debentures Due June 30, 2028 (the "**Series C Debentures**" and, collectively with the Series A Debentures and the Series B Debentures, the "**New Debentures**").

The interest rate remains at 8.5%, with no mandatory cash interest payment for either 24 and 30 months depending on the length of the term, as interest will be paid-in-kind with additional New Debentures (the "PIK Interest") during these periods.

In addition, $2,387 principal amount of Series C Debentures were issued as consideration for the consent fee payable to debenture holders who consented in favour of the extraordinary resolution approving the Debenture Amendments.

Following the closing of the Debenture Amendments, the following New Debentures are issued and outstanding on the following terms:

New Debenture	Initial Principal Amount	Maturity Date	Conversion Price
Series A Debentures	$12,350	June 30, 2024	$0.25
Series B Debentures	$12,350	June 30, 2026	$0.30
Series C Debentures	$14,736	June 30, 2028	$0.35

The New Debentures are secured against certain assets of the Company, but are fully subordinated to the Company's existing credit facilities. The Company is not permitted to incur further senior secured indebtedness, subject to certain exceptions including to fund working capital, capital expenditures, and acquisitions.

The below table summarizes the changes in the total consolidated convertible debentures.

	$
Balance, December 31, 2020	56,802
Repayment of convertible debenture	(25,650)
Interest accretion	5,249
Balance, March 31, 2022	36,401
Interest accretion	928
Accrued interest	3,148
Conversion into equity	(301)
Derecognition of June 2019 convertible debenture	(40,175)
Transaction costs	(636)
Issuance of new convertible debentures	24,128
Balance, June 31, 2022	**23,493**

The modifications to the June 2019 Convertible Debentures were determined to be substantial and therefore accounted for as an extinguishment.

The liability component of the New Debentures is recorded at the present value of the future interest and principal payments using the discount rate of 19.5%. The equity component represents the residual amount attributed to the Company's liability to equity conversion option amounting to $16,047 and is recorded in the contributed surplus in the interim condensed consolidated statements of financial position.

Note 10 Share Capital

Authorized

The Company is authorized to issue an unlimited number of common shares without par value.

Issued and Outstanding

As at June 30, 2022, there were 403,013,775 common shares issued and outstanding.

During the three months ended June 30, 2022, the Company issued 68,151,515 common shares at a price of $0.0825 plus 3,407,500 common shares as finder's fee, pursuant to the private placement dated June 24, 2022, resulting in net proceeds of $5,623. Each common share also has one half of one common share purchase warrant (refer to "warrant" section below).

During the three months ended June 30, 2021, the Company issued 231,500 common shares at an average price per share of $0.41, for gross proceeds of $95 under its at-the-market equity program.

Stock Options

The Company has adopted a stock option plan (the "Plan"), providing the Board of Directors with the discretion to issue an equivalent number of options of up to 20% of the issued and outstanding share capital. Stock options are granted with an exercise price of not less than the closing share price of the day preceding the date of grant.

The total stock option expense recognized as share-based compensation expense for the three months ended June 30, 2022 was $563 (three months ended June 30, 2021 – $529).

The following table summarizes information relating to outstanding and exercisable stock options as at March 31, 2022:

	Options	Weighted average exercise price
	#	$
Balance, December 31, 2020	26,260,632	1.06
Granted	11,564,000	0.39
Exercised/released	(781,250)	0.65
Forfeited/cancelled	(2,468,885)	0.76
Expired	(4,098,051)	0.46
Balance, March 31, 2022	30,476,446	0.88
Granted	20,044,000	0.10
Forfeited/cancelled	(1,574,425)	0.61
Balance, June 30, 2022	**48,946,021**	**0.57**
Vested, June 30, 2022	24,587,105	0.98
Unvested, June 30, 2022	24,358,916	0.16

The fair values of the stock options granted during the three months ended June 30, 2022, were estimated using the Black-Scholes option pricing model with following weighted average assumptions:

Weighted average share price	$0.06
Weighted average risk-free interest rate	2.50%
Weighted expected life-years	3.2 years
Weighted average expected daily volatility	86.7%
Weighted expected dividends	Nil
Forfeiture rate	8%

The volatility was calculated using the historical daily trading prices over a period commensurate with the expected life.

Restricted Share Units ("RSUs")

The Company has a restricted share unit plan (the "RSU Plan"). For each RSU granted under the plan, the Company recognizes an expense equal to the market value of a common share at the date of grant based on the number of RSUs expected to vest over the term of the vesting period, with a corresponding credit to equity for share-based compensation expense anticipated to be equity settled. RSUs under the RSU plan may vest immediately or become exercisable in various increments based on conditions as determined by the Board. In determining the amount of share-based compensation, the Company used the closing price of the common shares on the RSU grant date.

During the three months ended June 30, 2022, no RSUs were granted (three months ended June 30, 2021– 987,000). The total RSU expense recognized as share-based compensation expense for the three months ended June 30, 2022 was $7 (three months ended June 30, 2021 – $10).

A summary of the RSUs granted and outstanding as at June 30, 2022, is as follows:

	#
Balance, December 31, 2020	–
Granted	1,274,000
Exercised/released	(335,250)
Cancelled/forfeited	(214,083)
Balance, March 31, 2022	724,667
Exercised/released	(167,334)
Cancelled/forfeited	(117,000)
Balance, June 30, 2022	**440,333**

There are no RSU’s exercisable as they are issued as common shares upon vesting.

Deferred Share Unit Plan for Directors

At the Company’s annual general meeting on June 30, 2020, shareholders passed a resolution approving the Company’s deferred share unit plan (the “DSU Plan”), which was implemented during the year ended December 31, 2020.

The purpose of the DSU Plan is to promote a greater alignment of long-term interests between eligible participants (being non-executive directors only) and the Company and its shareholders, to provide a compensation system for non-employee directors that, together with other director compensation, is reflective of the responsibility, commitment and risk accompanying membership on the Board and the performance of the duties required of the various committees of the Board.

The deferred share units are settled in either cash or shares or a combination of both, at the election of the board of Directors. The DSUs have been classified as liability in anticipation of cash settlement and are revalued at each reporting period using the quarter end Company stock price.

During the three months ended June 30, 2022, no new DSUs were granted (three months ended June 30, 2021 – 130,332 DSUs). As at June 30, 2022, there were 2,030,003 DSUs issued and outstanding. As at June 30, 2022, the fair value of the DSU liability is $152 (June 30, 2021 – $185). The DSU liability is included in accounts payable and accrued liabilities on the unaudited interim condensed consolidated statements of financial position.

A summary of the DSUs granted and outstanding as at June 30, 2022 is as follows:

	#
Balance, December 31, 2019	–
Granted	148,431
Balance, December 31, 2020	148,431
Granted	2,229,549
Exercised/released/settled	(347,977)
Balance, March 31, 2022	2,030,003
Balance, June 30, 2022	**2,030,003**

There are no DSU’s exercisable as they are issued as common shares upon vesting.

Warrants

The Company has the following warrants outstanding:

	Warrants outstanding	Weighted average exercise price
	#	$
Balance, December 31, 2021	50,221,974	1.17
Issued	15,316,000	0.99
Exercised	(1,050,890)	0.75
Expired	(8,331,652)	0.74
Balance, March 31, 2022	56,155,432	1.19
Issued	34,075,758	0.10
Expired	(29,285,900)	1.45
Outstanding and exercisable, June 30, 2022	**60,945,290**	**0.45**

In conjunction with the issuance of common shares under the private placement, each holder received one half of one common share purchase warrant. A total of 34,075,758 were issued with an exercise price of $0.1025, expiring June 24, 2026. The expiry date may 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 is greater than $0.165 for any 10 consecutive trading day after the four month lock up period and prior to the expiry of the warrants.

The remaining outstanding and exercisable warrants expire between March 9, 2023 and June 24, 2026.

Note 11 Expenses by Nature

The consolidated statements of profit (loss) and comprehensive profit (loss) include the following expenses by nature for the three months ended:

	June 30, 2022	**June 30, 2021**
	$	$
Salaries, bonuses and benefits	4,468	6,349
Share-based compensation	570	540
Termination benefits and severance costs	612	241
Total	**5,650**	**7,130**

Salaries, bonuses and benefits relating to manufacturing and production facilities are capitalized to inventory and then expensed to cost of sales upon the sale of goods. During the three months ended June 30, 2022, the Company recognized salaries, bonuses and benefits of $4,468 (three months ended June 30, 2021 – $6,349), of which $1,715 (three months ended June 30, 2021 – $2,279) was included in cost of sales and $2,753 (three months ended June 30, 2021 – $4,070) was included in operating expenses.

Note 12 Key Management Compensation

Key management includes directors and key executives of the Company.

During the three months ended June 30 2022 and 2021, the Company had the following transactions with the officers and directors of the Company:

	June 30, 2022	June 30, 2021
	$	$
Wages and benefits: Directors	-	175
Wages and benefits: Management	288	321
Share based compensation: Management	527	121
	815	**617**

Note 13 Profit (Loss) per Share

Loss per common share is calculated using the weighted average number of common shares outstanding. The weighted average number of shares outstanding for the three months ended June 30, 2022 was 343,861,701 (three months ended June 30, 2021 – 330,523,293).

Diluted income per common share is calculated using the weighted average number of common shares outstanding taking into consideration the weighted average impact of dilutive securities. All of the Company's potentially dilutive securities are anti-diluted during the periods presented due to losses incurred.

Note 14 Management of Capital

The Company's objectives when managing capital are to sustain a sufficient capital base to maintain investor, creditor, supplier, and customer confidence and to sustain the future development of the business. The Company does not have any externally imposed capital requirements to which it is subject.

The Company defines capital as the aggregate of its shareholders' equity, credit facilities, lease liabilities, and convertible debt. The Company manages the capital structure and adjusts it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares or dispose of assets or adjust the amount of cash. In the current period, the Company manages its capital with a heightened focus on maintaining and improving its liquidity. During the three months ended June 30, 2022, there has been no other significant changes to the management of capital.

Note 15 Financial Instruments and Financial Risks

Fair Value of Financial Instruments

The Company's financial instruments consist of cash, restricted cash, marketable securities, trade and other receivables, investments, accounts payable, lease liability, and convertible debt. The following table summarizes the carrying values of the Company's financial instruments by measurement category:

	June 30, 2022	March 31, 2022
	$	$
Fair value through profit and loss (Cash, restricted cash, investments, and marketable securities	8,230	5,150
Assets, amortized cost (Trade receivables)	10,430	11,085
Liabilities, amortized cost (Accounts payable, lease liability, credit facilities and convertible debt)	66,979	83,530

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
- Level 3 - Inputs that are not based on observable market data

The following table sets out for the Company's financial assets measured at fair value on a recurring basis by level within the fair value hierarchy as at March 31, 2022 and June 30, 2022:

	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, March 31, 2022	**2,759**	**–**	**2,391**	**5,150**

	Level 1	**Level 2**	**Level 3**	**Total**
	$	$	$	$
Cash	5,455	–	–	5,455
Restricted cash	168	–	–	168
Marketable securities	216	–	–	216
Investments	–	–	2,391	2,391
Total, June 30, 2022	**5,839**	–	**2,391**	**8,230**

The carrying value of trade receivables and accounts payable are a reasonable approximation of their fair value due to their short-term nature. The carrying value of lease liability and convertible debt are a reasonable approximation of their value based on market interest rates for similar instruments as at June 30, 2022.

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 Company has a strong, disciplined risk culture where managing risk is a responsibility shared by all of the company's employees.

The primary goals of the risk management are to ensure that the outcomes of risk-taking activities are consistent with the Company's strategies and the risk appetite and that there is an appropriate balance between risk and reward in order to maximize shareholder value.

The Company has identified the below potential risk categories:

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. During the three months ended June 30, 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 $12,000 term facility and the drawn amount of the $7,000 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 rates 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 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 as the Company does not invest in asset backed investments. To manage and mitigate credit risk in respect of trade receivables, the Company has the option in certain cases to receive product in kind.

For the three months ended June 30, 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 have 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:

	June 30, 2022	**March 31, 2022**
	$	$
Current	6,932	6,364
0 – 30 days past due	220	250
31 – 60 days past due	13	95
61 – 90 days past due	157	69
90 + days past due	1,608	1,041
Provision for credit losses	(519)	(519)
Other receivables	2,019	3,785
Total	**10,430**	**11,085**

The standard payment terms applicable to most customers are between 30 – 60 days upon receipt of goods. There is negligible credit risk with respect to other receivables, as they are mostly due from government agencies.

The Company has concentration risk, as approximately 88% (March 31, 2022 – 76%) of total revenue came from four (March 31, 2022 – three) customers and approximately 74% (March 31, 2022 – 79%) of total trade accounts receivable is due from three (March 31, 2022 – three) 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 $497,672. Cash flow from operations is negative. Refer to note 2, Going Concern.

As at June 30, 2022, the Company has total current assets of $43,651 (March 31, 2022 – $40,462) and total current liabilities of $36,535 (March 31, 2022 – $76,622), providing for net current assets of $7,116 (March 31, 2022 – net current liability of $36,160). The significant change during the three months ended June 30, 2022 is a result of the modification to the convertible debentures extending payment terms.

The Company has the following undiscounted future payments for convertible debenture, credit facilities, lease obligations, and purchase commitments as at June 30, 2022:

	within 1 year	2 years	3 years	4 years	5 years and thereafter
	$	$	$	$	$
Convertible debenture	–	15,669	2,276	16,816	18,638
Credit facilities	2,882	20,425	–	–	–
Lease obligations	739	751	686	5	5
Purchase commitments	163	60	60	–	–
Total	**3,784**	**36,905**	**3,022**	**16,821**	**18,643**

The interest on the credit facilities included in the table above is approximately $2,900 within one year and approximately $1,300 due between one year and two years.

Note 16 Commitments and 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 these 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 $10,000 in damages. The claim is being contested and the action is proceeding to mediation in the latter half of fiscal 2022. 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 $500,000 (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 $5,000 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.

Note 17 Restatement of Corresponding Amounts

The Company has restated its consolidated statements of financial position as at December 31, 2020 and its consolidated statements of profit (loss) and comprehensive profit (loss), consolidated statement of changes in shareholders’ equity and consolidated statements of cash flows for the year ended December 31, 2020. In the course of preparing the Company’s consolidated financial statements for the year ended March 31, 2022, a misinterpretation was discovered involving two non-recurring transactions in the bulk wholesale sales channel recorded in the quarters ended June 30, 2020 and September 30, 2020.

	June 30, 2021	June 30, 2021	June 30, 2021
	As presented	Adjustments	Restated
	$	$	$
Consolidated Statement of Financial Position			
Trade and other receivables	4,675	(3,000)	1,675
Deficit	(326,353)	(3,000)	(329,353)
Consolidated Statement of Profit (Loss) and Comprehensive Profit (Loss)			
Bad debt expense	(7,161)	5,267	(1,894)
Net profit (loss) and comprehensive profit (loss)	(36)	5,267	5,231
Profit (loss) per share, basic and diluted	(0.00)	0.02	0.02
Consolidated Statement of Changes in Shareholders' Equity			
Balances, March 31, 2021	165,958	(8,267)	157,691
Net profit (loss) for the period	(36)	5,267	5,231
Consolidated Statement of Cash Flows			
Net profit (loss) for the period	(36)	5,267	5,231
Adjustments for non-cash items:			
Bad debt expense	7,161	(5,267)	1,894
Changes in operating working capital:			
Trade and other receivables	(14)	(1,075)	(1,089)
Tax receivable	(1,343)	1,075	(268)

In the three months ended June 30 and September 30, 2020, the Company recorded net revenue of $6,163 and $2,104, respectively. Both of these non-recurring transactions in the bulk wholesale sales channel were to one customer. These transactions provided the wholesale customer with extended payment terms which were initiated upon shipment to the customer. Some products which were shipped to the customer were later returned to the Company. No payment to date has been received by the Company for either of these two non-recurring transactions.

As a result of the aforementioned, the restatement impacts the bad debt expense subsequently recorded during the three months ended June 30, 2021 amounting to $5,267. The following tables present the impact of the restatement adjustments on the Company's previously reported unaudited interim condensed consolidated financial statements as at and for the three months ended June 30, 2021 The "Restated" columns for 2021 reflect final adjusted balances after the restatement.