Aleafia Health
SCIENCE SEEDING WELLNESS

ALEAFIA HEALTH INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the three months ended June 30, 2022

Dated August 10, 2022

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MANAGEMENT’S DISCUSSION AND ANALYSIS FOR THE THREE MONTHS ENDED JUNE 30, 2022

This Management’s Discussion and Analysis (“MD&A”) of Aleafia Health Inc. (the “Company” or “Aleafia Health”) is dated August 10, 2022 and provides an analysis of the financial operating results for the three months ended June 30, 2022. Unless the context otherwise requires, “Aleafia Health” refers to Aleafia Health Inc. and the “Company” refers to Aleafia Health and its affiliates, subsidiaries and associated corporations. This MD&A should be read in conjunction with the Company’s unaudited interim condensed consolidated financial statements for the three ended June 30, 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 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 federally licensed Canadian cannabis company offering cannabis products in Canadian adult-use and medical markets and in select 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.

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 brands, anchored by Divvy, the everyday brand focused on delivering an exceptional value proposition to consumers.

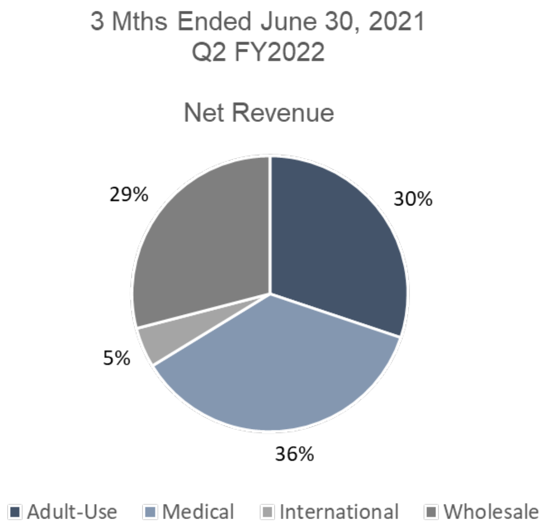
Within the branded cannabis products portfolio, the adult-use sales channel experienced very strong 107% growth in the quarter ended June 30, 2022 relative to the prior year. The three main product categories include dried flower, pre-roll and vapes in addition to a suite of derivative products. It accounts for the largest percentage of total net revenue.

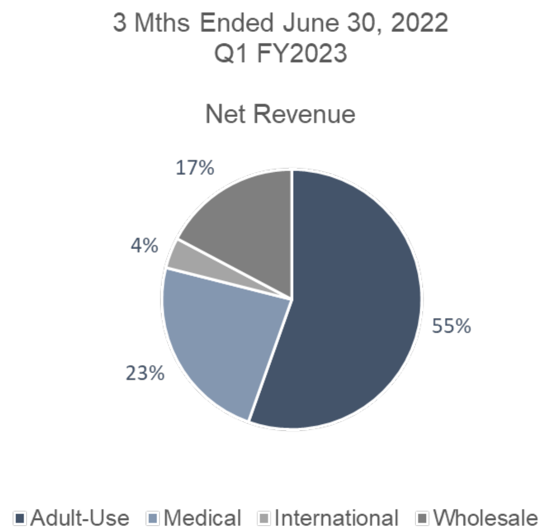
The medical sales channel represents a stable, but higher margin revenue stream, driven by the recurring ordering patterns of our active patient base and referrals from third-party clinics. The majority of sales are cannabis derivative products which generally deliver a higher margin than flower format products, and sales also include medical clinic related revenue. We continue to drive increased patient engagement to improve ordering frequency, basket size and lifetime revenue.

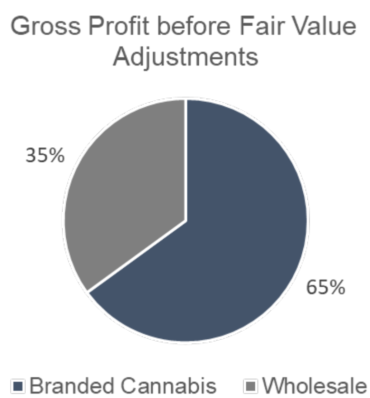
The international sales channel is our most recently added sales channel and was the highest growth channel in fiscal year 2022 with 168% year over year growth. The sales are a combination of bulk flower and oils and capsules which are exported into international jurisdictions, delivering the highest sales growth rate and net realizable margin per gram of equivalent flower sold.

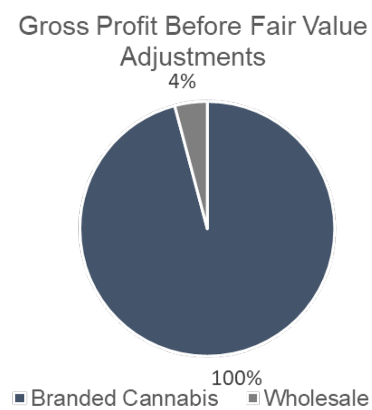
Together, the adult-use, medical and international sales channels are referred to as our branded cannabis product portfolio. Historically, the bulk wholesale sales channel has been an important vertical for the Company as it allowed the Company to opportunistically sell cannabis flower, oils, distillate 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.

The below charts illustrate the percentage of total net revenue represented by each sales channel. Due primarily to an increase in adult-use net revenue, the branded cannabis product portfolio represents a meaningfully larger proportion of net revenue in Q1 fiscal year 2023, relative to bulk wholesale net revenue. The branded cannabis product portfolio, which includes adult-use, medical and international sales channels, accounted for 83% of net revenue in the quarter ended June 30, 2022 versus 71% in the same period a year ago.









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 is consistently a top searched brand on OCS.ca. The Company's product portfolio and SKU listings are focused on the largest adult-use categories: flower, pre-roll, and vapes which represent a majority of sales. The Company sells into four provinces with Ontario and Alberta representing its two largest customers and this sales channel represented 55% of Q1 fiscal year 2023 total net revenue.

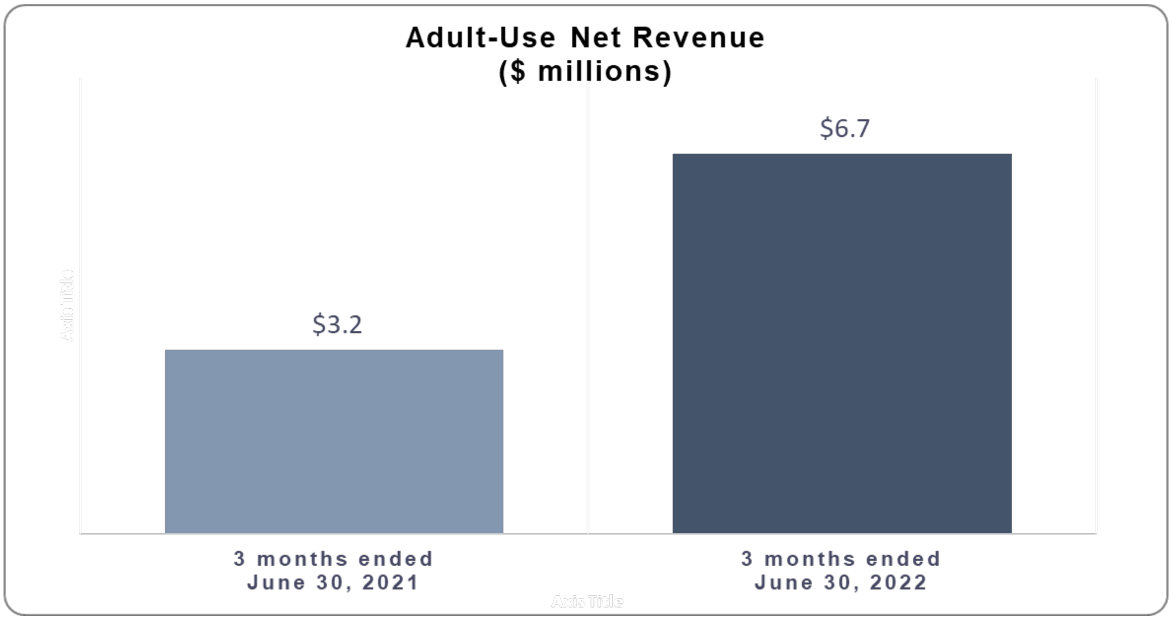
   Brands & Products: The other four brands under the adult-use portfolio, Bogart's Kitchen, Kin Slips, Nith & Grand and Noon & Night, are niche brands targeted at specific consumer segments in the market and span from value to premium craft. 12 new product formats were launched in fiscal year 2022, including: 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. 14 new SKUs were launched in Q1 fiscal year 2023, including: Divvy 28g cropped flower in both Indica and Sativa, the second and third installments of the collaboration between Bogart's Kitchen and Heartbeat Hot Sauce (Red Habanero and Jalapeno), a 28g offering of Do Si Dos craft flower from Nith & Grand, Divvy's Nebula II CBD vape cartridge, and a new format of Divvy's popular pre-rolls: 7x1g offerings of Sour Kush and Pineapple Nuken. The Company has over 100 provincial listings and 44 SKUs, including a full suite of dried flower, pre-roll, vape and cannabis derivative products.

Geographic Markets: 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.

Go-to-Market Approach: 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.

Market Share Capture: 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 Q2 2022 #12th, and in the most recently available month July 2022 the Company still maintained the #12th position, according to data from HiFyre based on the products and geographic regions (Ontario, Alberta, British Columbia, and Saskatchewan) Aleafia operates in. The Company targets to become a top 10 Canadian LP measured by retail sales pull-through in its four core provincial markets in 2022.

The Company increased net revenue by 107% to $6.7 million in Q1 fiscal year 2023 versus $3.2 million the prior year.



2. Leadership in Medical

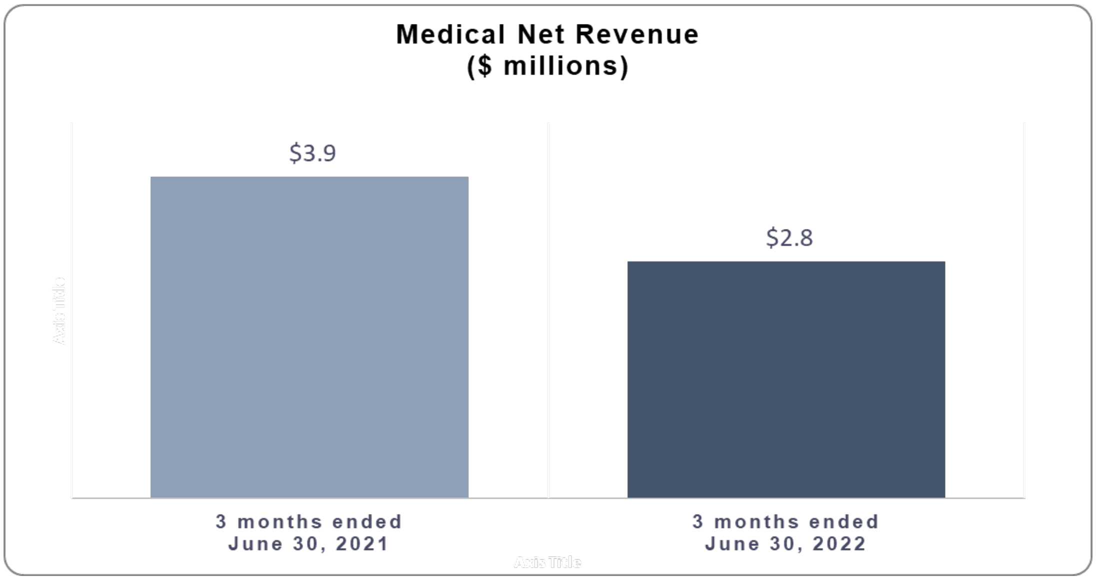
The medical sales channel in Canada is core to the Company and supported by our medical ecosystem, offering the ability for new patients to be onboarded, consulted, prescribed, and delivered medical cannabis products. With over 20,000 active patients with stable ordering patterns, this sales channel has a high level of recurring revenue. The medical sales channel includes revenue from: the sale of medical cannabis in the Canadian markets, clinic fees, and research revenue, and represented 23% of Q1 fiscal year 2023 total net revenue.

Go-to-Market Approach: The Company delivers medical products through our physical clinics, our virtual clinic, through referrals from third-party clinics and resells to other Canadian LPs. We are able to deliver products direct-to-patient the same day they are ordered in the Greater Toronto Area, Canada's most populous region.

Product Portfolio: Aleafia Health's Emblem brand is used exclusively in the Company's medical sales channel. The Company also offers certain other products from its House of Brands and resells other products procured from third-parties to its medical patients. The Company also resells its medical products to other Canadian LPs. The majority of sales in the medical sales channel are of cannabis derivative products, including: oils, capsules and vapes.

Growth Initiatives: The Company launched a program targeted at the veteran market segment and entered the Quebec market in Q4 2021.

The Company generated $2.8 million in medical net revenue in Q1 fiscal year 2023, relative to $3.9 million in the prior year. This reduction was driven by a decline in the overall medical market. During this time the Company has increased its market share to partially offset some of this market decline.



3. **Well-Positioned for International Growth**

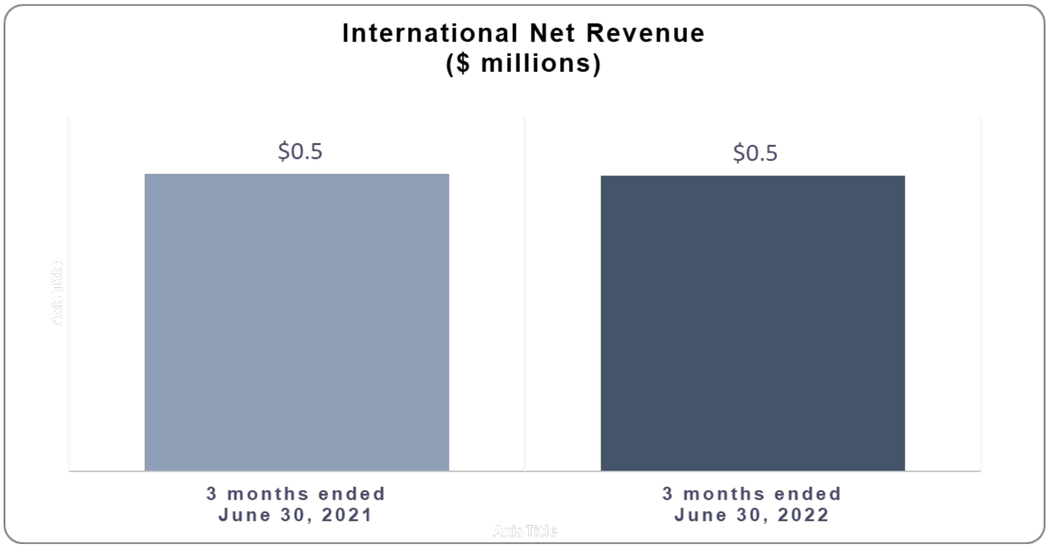
In parallel to serving the Canadian medical market, the Company is well-positioned to benefit from the expansion of the global medical cannabis market and the continued legalization of global recreational markets. This sales channel represented 4% of Q1 fiscal year 2023 total net revenue.

Strategic Focus: 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 sales agreements for international sales typically are longer in duration than the adult-use or medical channels, with purchase commitments, and partial cash payments in advance of shipment. Moreover, they typically deliver the highest net realizable margins per gram of flower equivalent sold than the other sales channels.

Select Key International Markets: The Company's products have been successfully exported into key global markets including Germany, the UK and Australia. The Company continues to engage in discussions to deepen its penetration in these markets and selectively expand into other jurisdictions where it could also enjoy an early mover advantage.

Recent Agreements: During the quarter ended June 30, 2022, the Company secured a new $4.6 million international sales agreement to supply bulk flower into the European market. It is a two-year agreement, with a minimum annual sales commitment of $2.0 million per year based on a fixed price per gram of flower. The Company anticipates beginning shipments under this contract by the end of fiscal year 2023.

International net revenue was $0.5 million in the Q1 fiscal year 2023, and the company is looking to further develop this channel with an active pipeline of opportunities for fiscal year 2023.



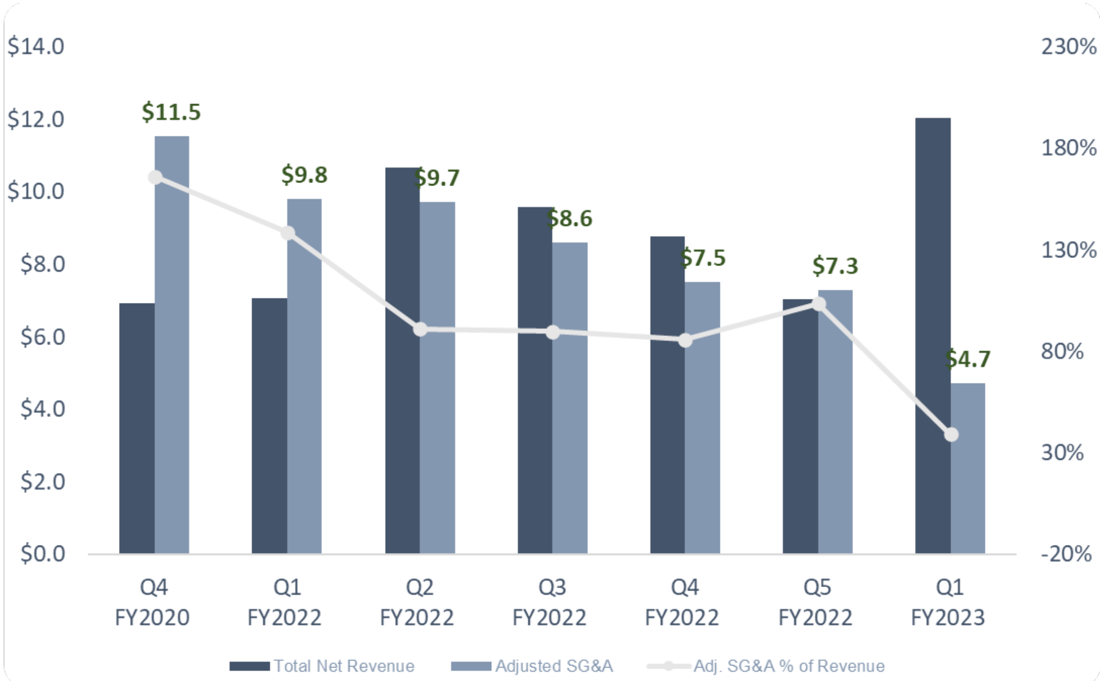
4. Adjusted EBITDA[1] Profitability

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 breakeven 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.

The Company is driving towards Adjusted EBITDA profitability by focusing on:

1. Growing sales volumes of our highest margin products;
2. Improving gross profit margins by focusing on flower, pre-roll and vape product categories with large size product formats; and
3. Identifying, reducing and containing selling, general and administrative expenses.

[1] This is a Non-IFRS Measure. Please see page 38 for more information including its composition and reconciliation.
[2] This is a Supplementary Measure. Please see page 34 for its composition.



In September 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 30% representing $7.8 million;
- the reduction in the use of external consultants, legal counsel and external advisors representing $2.0 million; and
- the wind down of leased spaces to consolidate operations representing $0.5 million.

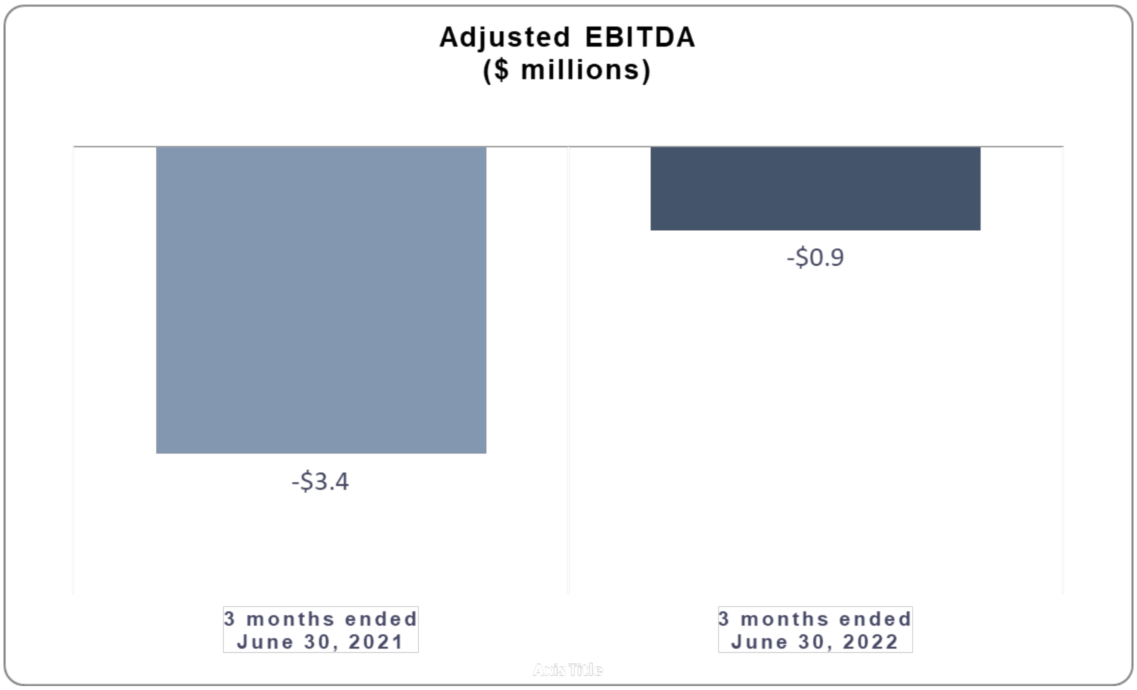
In November 2021 the Company completed a portfolio optimization to further improve adult-use profit margins. This aligned our portfolio with the best-selling products formats that deliver the strongest gross profit margins and executed moderate strategic price increases.

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 high THC potency flower ("**Usable Flower**"). The Company assessed procurement practices, resulting in a consolidation of certain vendors leading to cost efficiencies.

In July 2022, the Company enacted a vendor consolidation initiative, to extract economies of scale by aggregating procurement across its four facilities into key trusted vendors. Thus far the Company has identified and enacted agreements which represent an annualized cost of sales savings of $2.3 million.

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 fiscal year 2023. 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

The Company's overall objectives for fiscal year 2023 are to continue to build upon the successes it recognized during fiscal year 2022. During fiscal year 2022, Aleafia focused on growth as being 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. Accordingly, 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;

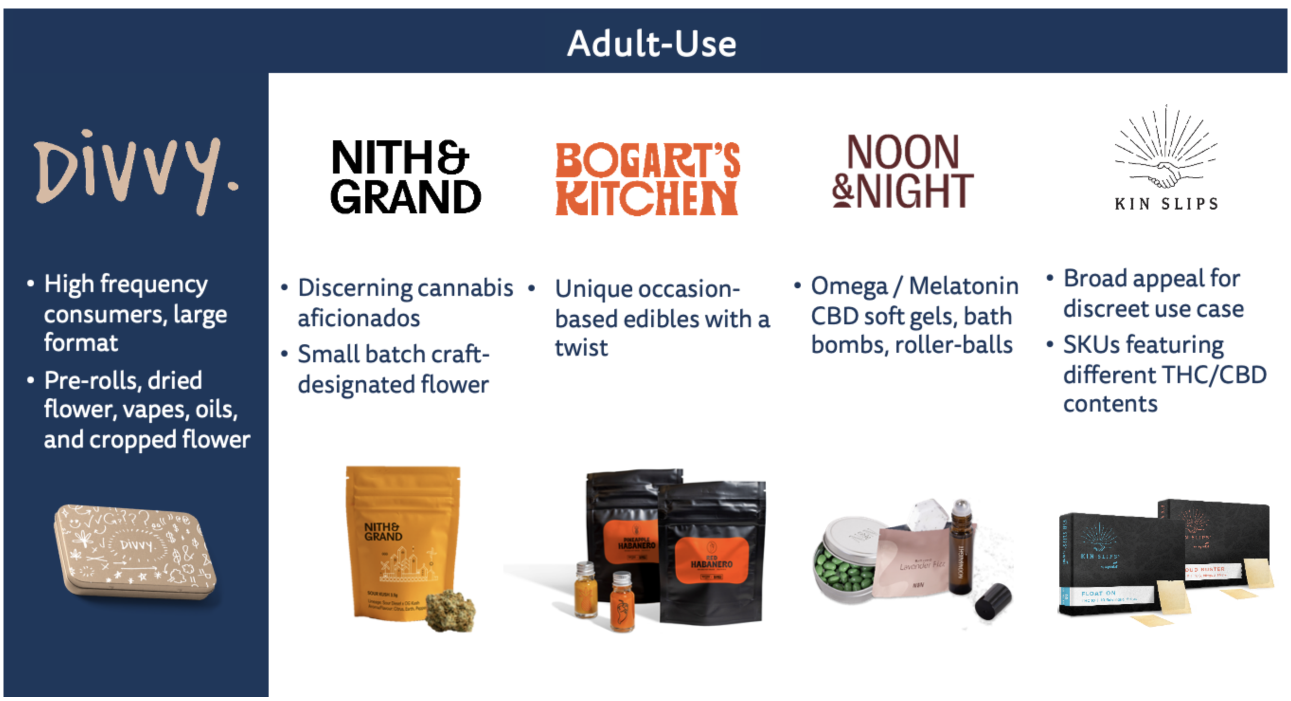
[3] The foregoing projections are Forward Looking Information. Please see the cautionary statement on page 37.

- Maintain a leadership position in the medical market;
- 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 breakeven Adjusted EBITDA 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 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.



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4 This is a Non-IFRS Measure. Please see page 23 for more information including its components and reconciliation.

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. It also opportunistically offers select products from its Sunday Market House of Brands and other limited time promotional products to its medical patients to better serve their needs.

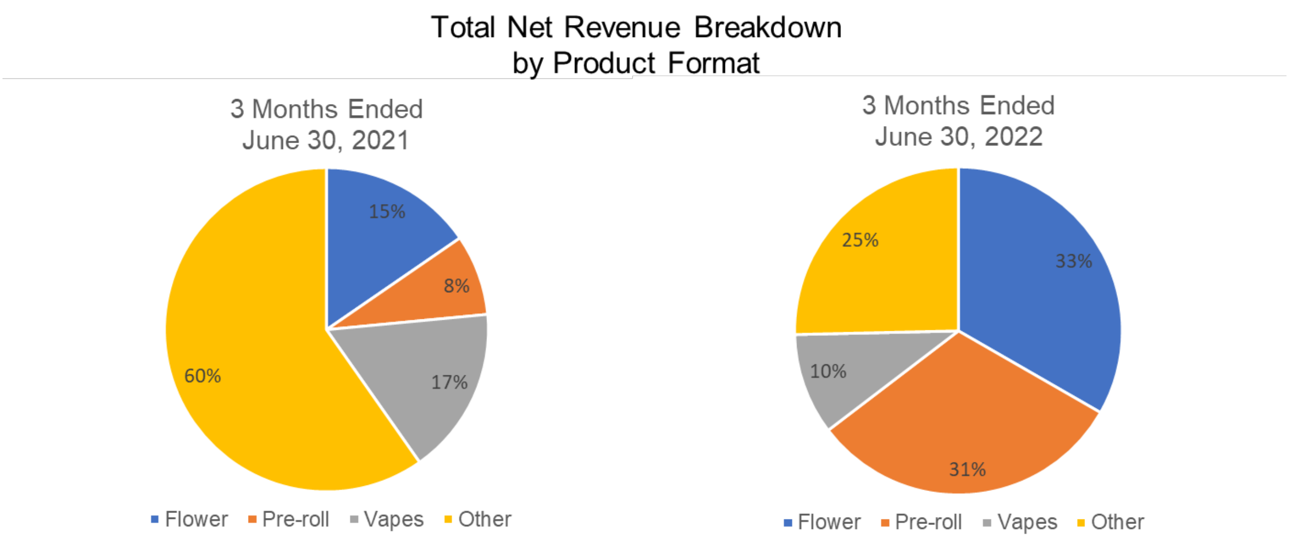
Emblem™

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 consumers and patients.

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 and in the most recent quarter ended June 30, 2022 represented 33% of total net revenue.



Note: Other includes oils, capsules, sublingual strips, edibles, and bath & Body

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 utilizes its cultivation primarily from its Port Perry cultivation facility to supply its pre-roll offering, which represents the third largest product category in the Canadian cannabis market, according to data from HiFyre. The 2021 Port Perry 2021 harvest delivered record high potency, high terpene profile flower results, which when combined with the strategic outsourcing of pre-roll 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) **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) **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. The brand currently contains the collaboration hot sauces and has a new product in development for a Fall 2022 launch.

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

Amendment to $37.3 Million Convertible Debentures

The Convertible Debentures amendments became effective on June 28, 2022,. The 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 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 approved the Debenture Amendments received 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, 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.

$5.6 Million Equity Financing

On June 24, 2022, the Company closed a private placement of 68,151,515 units 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. 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.

Amendment to August 2021 Credit Facility

On June 23, 2022 the Company made its second amendment to its August 2021 Credit Facility, whereby amongst other things it agreed to prepay an amount equal to $622,500 as a prepayment of interest under the loan agreement in respect of the period beginning June 24, 2022 and ending June 24, 2023. In addition, the Company agreed to grant to the lender a general security interest from the Company in favour of the Lender.

SELECTED QUARTERLY INFORMATION

The following information has been prepared in accordance with IFRS in Canadian dollars.

($,000s) except per share amounts	Three months ended	
	30-Jun-22	30-Jun-21 (Restated)
Net revenue	12,028	10,672
Total Cost of Sales	9,401	6,124
Total operating expenses	6,400	14,373
Total other expenses (income)	3,786	(11,484)
Net profit (loss) and comprehensive profit (loss)	(4,469)	5,231
Profit (Loss) per share, basic and diluted	(0.01)	0.02
Total assets	86,373	218,423
Total non-current liabilities	36,535	4,965

The fluctuations in reported results during the three months ended June 30, 2022 resulted primarily from the following factors:

- Net revenue increase was driven by strong growth in branded cannabis of 31% supporting the company's strategy to focus on its branded cannabis product portfolio.
- Total operating expenses were significantly improved as the company aggressively rationalized and in other instances contained operating costs including general and administrative, and business transaction costs.
- Total other expenses increased relative to the prior year primarily due to a non-recurring $12 million gain on the sale of clinic assets which occurred in the prior year. See page 20 for further information on other expenses.

OPERATIONAL AND FINANCIAL HIGHLIGHTS

($,000s)	Three months ended 30-Jun-22	Three months ended 30-Jun-21
Operating Results		
Kilograms Sold - Dried Flower	8,497	7,811
Avg Net Realized Price	1.42	1.37
Adult-Use Market Share %(1)	2.5%	0.8%
Adult-Use Market Share Ranking	12	19
Medical Use Orders	15,568	20,359
Medical Use Avg Order Value	$156	$144
Financial Results		
Revenue	16,512	11,650
Branded Cannabis Net Revenue	9,953	7,572
Wholesale	2,075	3,099
Net revenue(1)	12,028	10,672
Branded Cannabis profit $	2,519	2,955
Branded Cannabis profit %	25%	39%
Bulk Wholesale profit $	108	1,593
Bulk Wholesale profit %	5%	51%
Adjusted gross profit before fair value ("FV") adj's	2,627	4,548
Total Gross profit %	22%	43%
Adjusted SG&A	4,709	9,728
% to total net revenue	39%	91%
Adjusted EBITDA(2)(3)	(938)	(3,434)
Net Cash used in Operating Activities	(1,596)	(10,834)

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. Branded cannabis net revenue grew by 31% to $10 million in the quarter ended June 30, 2022 compared to $7.6 million during the quarter ended June 30, 2021. This was primarily driven by growth in adult-use cannabis sales.

The Company achieved growth in the adult-use channel with Canadian LP market share ranking reaching #12 compared to #19 a year earlier and market share increasing to 2.5% from 0.8% a year earlier. 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 by optimizing its product portfolio to focus on larger formats.

Medical net revenue of $2.8 million was lower for the three months ended June 30, 2022 compared to a year ago of $3.9 million. During this challenging macro environment where the overall market declined, the Company increased its average order value (“AOV”) and captured share of market. The Company estimates its current market share to be approximately 7.5%[5]. Positive growth in previously underrepresented Quebec has helped the company offset industry trends. Quebec patient registrations have grown 71% quarter over quarter.

The branded cannabis net revenue represented 83% of the total net revenue in the three months ended June 30, 2022 compared to 71% during the three months ended June 30, 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 over this period from $1.37 to $1.42.

The branded cannabis gross profit before fair value was $2.5 million in the three months ended June 30, 2022. Branded cannabis profit margins before fair value adjustments declined to 25% in the quarter ended June 30, 2022 compared to 39% in the quarter ended June 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, and also overall price compression in the adult-use market. The Company is mitigating this margin compression through:

- *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. The Company completed its first portfolio optimization in November 2021 and continues to actively monitor and reassess its portfolio to respond to emerging market trends.

- *Co-packing* - identifying areas where operational efficiencies can be extracted by outsourcing certain manufacturing and processing functions. These outside service providers allow the Company to rapidly scale throughput and improve the Company’s product out of stock performance.

- *Focusing on high quality usable flower* - the Company continues to optimize its grow practices at each of its three cultivation sites to focus on the yield of high potency, usable flower for its branded products. This strategic shift away from focusing on total quantity and towards usable flower continues to optimize the yield and drive down the cash cost to grow flower.

- *Growing its medical and international sales pipeline* - The company is actively seeking out and onboarding new international sales opportunities which provide improved revenue and cash flow, reduced cash conversion cycle and higher margin than adult-use sales channel. The company is driving market share capture by focusing on improving engagement with existing patients to grow average order values, access new regions and retaining our high value patients.

<u>Bulk Wholesale</u>

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5 *Data on cannabis for medical purposes*. Health Canada. https://www.canada.ca/en/health-canada/services/drugs-medication/cannabis/research-data/medical-purpose.html

Bulk wholesale net revenue declined from 41% of total net revenue in the three months ended June 30, 2021 to 12% of total net revenue in the three months ended June 30, 2022, as the Company is primarily focused on growing its branded cannabis sales. Total kilograms sold of dried flower increased in the three months ended June 30, 2022 to 8,497, compared to 7,811 in the three months ended June 30, 2021.

Total adjusted gross profit margin before fair value adjustments declined to 22% in the three months ended June 30, 2022 compared to 43% in the three months ended June 30, 2021. This was primarily driven by a nonrecurring sale of low potency bulk wholesale flower to one customer.

REVENUE COMPOSITION

	Three months ended	
($,000s)	**30-Jun-22**	**30-Jun-21**
Adult-Use	10,950	3,965
Medical Cannabis	2,454	2,995
Clinic Revenue	574	1,089
International	459	502
Medical Use	3,487	4,586
Total Branded	14,437	8,551
Bulk Wholesale	2,075	3,099
Total Revenue	16,512	11,650
Adult-Use	6,668	3,217
Medical Cannabis	2,252	2,765
Clinic Revenue	574	1,089
International	459	502
Medical Use	3,285	4,356
Total Branded	9,953	7,573
Bulk Wholesale	2,075	3,099
Total Net Revenue	12,028	10,672

OPERATING EXPENSES

($,000s)	Three months ended	
	30-Jun-22	30-Jun-21 (Restated)
Selling, general and administrative	5,006	9,165
Amortization and depreciation	509	1,714
Share-based compensation expense	570	539
Business transaction costs	315	1,061
Bad Debt expense	-	1,894
Total Operating Expenses	6,400	14,373

Total operating expenses for the three months ended June 30, 2022 declined 55% to $6.4 million, compared to $14.4 million for the three months ended June 30, 2021. Despite an increase in total net revenue over the same period of 13%. The decline is primarily driven by significant headcount reductions, various cost optimization initiatives, and rationalizations in consultants, advisors and legal costs as evidenced in the decline in selling, general and administrative ("SG&A") expenses from $9.2 million to $5.0 million. The Company's full-time equivalent headcount has decreased by 22% from 285 as at June 30, 2021 to 216 as at June 30, 2022. Bad debt expense decreased as the Company continues to improve the credit quality of the receivables with increased focus on branded cannabis sales which have negligible credit risk as they are mostly government agencies. Business transaction costs decreased from $1.0 million to $0.3 million mainly due to professional fees for the sale of clinic business, and non-recurring marketing, consultant, brand development and product formulation costs related to the launch of new product formats in the prior year comparative quarter.

OTHER EXPENSES (INCOME)

($,000s)	Three months ended	
	30-Jun-22	30-Jun-21
Interest expense, net	2,760	1,755
Fair value through profit and loss adjustments	977	(700)
Other non-operating expense (income)	52	(477)
Gain of sale of assets	(3)	(12,092)
Total	3,786	(11,514)

Other expenses for the three months ended June 30, 2022 was $3.8 million compared to an income of $11.5 million for the three months ended June 30, 2021. The increase is primarily due to 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 during the three months ended June 30, 2021. The increase in interest expense is driven by the incurrence of a $12 million term loan in December 2021 and the advancing under the $7 million revolving receivables facility.

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	
	30-Jun-22	30-Jun-21 (Restated)
SG&A	5,006	9,165
Business transaction costs	315	1,061
Wage subsidies, bonus reversals, severance	(612)	(498)
Adjusted SG&A	4,709	9,728

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 52% decline to $4.7 million in the three months ended June 30, 2022, compared to $9.7 million in the prior year. This was achieved despite total net revenue increasing 13% 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 30-Jun-22	 30-Jun-21 (Restated)
Net profit (loss)	**(4,469)**	5,231
Add back:		
Depreciation and amortization[1]	1,950	2,897
Interest expense, net	2,760	1,755
EBITDA	**241**	**9,883**
Inventory provision		
FV changes in biological assets and changes in inventory sold	(3,090)	(3,572)
Share-based payments	570	539
Bad debt expense	0	1,894
Business transaction costs	315	1,061
Gain on sale of assets	(3)	(12,092)
Fair value through profit and loss adjustments	977	(700)
Non-operating expense (income)	52	(447)
Adjusted EBITDA[(3)]	**(938)**	**(3,434)**

Adjusted EBITDA for the three months ended June 30, 2022 was a loss of $0.9 million, compared to a loss of $3.4 million in the prior year comparative quarter.

The improvement is primarily due to a reduction in selling, general and administrative expenses partially offset by a lower adjusted gross profit margin before fair value adjustments. 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, which 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 June 30, 2022 the Company's contractual obligations consist of accounts payable and accrued liabilities, credit facilities, 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
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 $13.8 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. $7.3 million of the proceeds was applied towards operating expenses and working capital and $0.3 million to capital expenditures.
June 24, 2022	Private Placement	$5.6 million	The Company expects to use the net proceeds to fund working capital and capital expenditures for the Company's continued growth, and other general corporate purposes.	Proceeds are currently being used to fund working capital and other general corporate purposes.

Cash Flow Highlights

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

	Three months ended	
($,000s)	**30-Jun-22**	**30-Jun-21**
Cash and restricted cash balance, beginning of period	1,569	17,678
Cash used in operating activities	(1,596)	(10,834)
Cash provided by used in investing activities	(144)	(1,754)
Cash provided by (used in) financing activities	5,794	(236)
Cash and restricted cash balance, end of period	5,623	4,854

Operating Activities

Cash used in operating activities was $1.6 million for the three months ended June 30, 2022 compared to cash used in operating activities of $10.8 million for the three months ended June 30, 2021. Cash used in operating activities has decreased by $9.2 million driven by higher total net revenue, an improvement in SG&A, and the scale-up of the Company's facilities to operate closer to their theoretical capacities. During the three months ended June 30, 2022 changes in working capital reflected a recovery of $0.5 million compared to a $5.0 million investment for the three months ended June 30, 2021.

Investing Activities

Cash used in investing activities was $0.1 million for the three months ended June 30, 2022 compared to $1.7 million for the three months ended June 30, 2021. 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 $5.8 million for the three months ended June 30, 2022 compared to cash used in financing activities of $0.2 million for the three months ended June 30, 2021. This was a result of the $5.6 million net proceeds received from the private placement completed on June 24, 2022.

Contractual Obligations & Capital Expenditures

As of June 30, 2022, the Company had the following contractual obligations:

($,000s)	Within 1 year	2 years	3 years	4 years	5 year and thereafter
Convertible debenture	-	15,669	2,276	16,816	18,638
Credit facilities	2,882	20,425	-	-	-
Lease Payments	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 not included in the table above is approximately $2.9 within one year and approximately $1.3 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.

In June 2022, two Debentureholders converted a total of $0.3 million debentures into 204,751 common shares.

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.

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 $1.8 million, including interest and fees, resulting in an undrawn balance of $5.2 million.

The undrawn balance at the date hereof is $4.7 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 third tranche of 125,000 common share purchase warrants vested on May 20, 2022 and the remaining 125,000 common share purchase warrants vest on 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, 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	
	30-Jun-22	30-Jun-21 (Restated)
Revenue	**16,512**	11,650
Excise taxes	**4,484**	978
Net Revenue	**12,028**	10,672
Costs 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	**3,090**	3,572
Gross profit (loss)	**5,717**	8,120
Expenses		
SG&A	**5,006**	9,165
Amortization and depreciation	**509**	1,714
Share-based compensation expense	**570**	539
Bad debt expense	**0**	1,894
Business transaction costs	**315**	1,061
	6,400	14,373
Other expenses (income)		
Interest expense, net	**2,760**	1,755
Fair value through profit and loss adjustments	**977**	(700)
Non-operating loss (income)	**52**	(447)
Gain on sale of assets)	**(3)**	(12,092)
	3,786	(11,484)
Net loss before income taxes	**(4,469)**	5,231
Income tax		
Current income tax recovery	-	-
Deferred income tax recovery	-	-
Net loss and comprehensive loss	**(4,469)**	5,231
Loss per share, basic and diluted	(0.01)	0.02
Weighted average common shares outstanding	**343,861,701**	330,523,293

Revenue increased $4.8 million in the three months ended June 30, 2022 driven by higher adult-use sales. This increase was partially offset by higher excise taxes, resulting in a $1.3 million increase in net revenue for the three months ended June 30, 2022, compared to the three months ended June 30, 2021. During the three months ended June 30, 2021 a greater proportion of revenue was derived through wholesale, in which there are no cannabis excise duties. During the three months ended June 30, 2022, most of the revenue was through the adult-use sales channel, which experienced average cannabis excise duties between a range of 35 to 45%.

For the three months ended June 30, 2022 operating expenses were $6.4 million, a $8.0 million decrease from $14.4 million for the three months ended June 30, 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)	June, 2022	Mar 31, 2022	Dec 31, 2021	Sep 30, 2021
Net revenue	12,028	7,039	8,764	9,581
SG&A expenses	5,006	4,887	6,980	7,005
Net loss and comprehensive loss	(4,469)	(4,152)	(71,509)	(82,922)
Basic and diluted earnings (loss) per share	($0.01)	($0.01)	($0.22)	($0.25)

	Three months ended			
($,000s)	June 30, 2021 (Restated)	Mar 31, 2021	Dec 31, 2020	Sep 30, 2020
Net revenue	10,672	7.066	15,203	4,968
SG&A expenses	9,165	6,896	7,085	5,920
Net profit (loss) and comprehensive profit (loss)	5,231	(11,248)	(217,301)	(19,761)
Basic and diluted earnings (loss) per share	$0.02	($0.04)	($0.72)	($0.06)

SUMMARY OF OUTSTANDING SHARE DATA

The Company is authorized to issue an unlimited number of common shares. Subsequent to June 30, 2022, 24,816 common shares were issued under the Company's share-based plans. The total number of common shares issued and outstanding is 403,038,591 as of the date hereof.

The fully diluted number of common shares outstanding as the date hereof is 516,466,756, which includes 403,038,591 common shares, 60,945,290 warrants, 48,307,771 stock options, 440,333 restricted share units and 3,734,771 deferred share units.

FINANCIAL INSTRUMENTS

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

($,000s)	June 30, 2022	Mar 31, 2022
Fair value through profit and loss(1)	8,230	5,150
Assets, amortized cost(2)	10,430	11,085
Liabilities, amortized cost(3)	66,979	83,530

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	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**

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.

Reference is made to the description of risk factors with respect to the Company and its business in the Company’s Annual MD&A for the financial year ending March 31, 2022, filed on SEDAR at www.sedar.com on June 28, 2022 . There have been no changes to the financial risk factors listed on pages 28-30 except as follows:

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 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 $12.0 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. 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 were 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:

	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 (2021 – 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 $497.7 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 June 30, 2022, the Company has total current assets of $43.6 million and total current liabilities of $36.5 million. Within its current asset base are cash, restricted cash and marketable securities of $5.8 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.

e) Compliance with TSX and OTCQX 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.

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 $497.6 million (March 31, 2022 – $493.2 million) and a net working capital of $7.1 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 judgment 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.

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.

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 June 30, 2022 and concluded they were effective.

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 our ICFR and concluded that they were effective as of June 30, 2022.

It should be noted that a control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that its objectives are met. Because of the inherent limitations in any control system, no evaluation of control can provide absolute assurance that all control weaknesses including, for example, any instances of fraud, have been detected. Inherent limitations include: (i) that management's assumptions and judgements could ultimately prove to be incorrect as conditions and circumstances vary; (ii) the impact of any undetected errors; and (iii) controls may be circumvented through the unauthorized acts of individuals, by collusion of two or more people, or by management override. The design of any system of control is also based upon assumptions as to the likelihood of future events and there is no assurance that any design will succeed in achieving its goals under future conditions.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter that materially affected, or were reasonably likely to materially affect, our ICFR.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

Forward Looking Information

Certain statements herein relating to the Company constitute "forward looking information", within the meaning of applicable securities laws, including without limitation, statements regarding future estimates, business plans and/or objectives, sales programs, forecasts and projections, assumptions, expectations, and/or beliefs of future performance, are "forward-looking information". Such forward-looking statements involve unknown risks and uncertainties that could cause actual and future events to differ materially from those anticipated in such statements. Forward looking statements include, but are not limited to, statements with respect to our market share, net revenue, net branded revenue, gross profit, gross profit margin, Adjusted SG&A, Adjusted EBITDA, and other financial outlook projections for financial year 2023, 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 August 10, 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 duties
  - Medical cannabis net revenue is net cannabis revenue for Canadian medical sales and clinic revenue.

- Adult-use cannabis net revenue is net cannabis revenue for Canadian adult-use sales.
- International cannabis net revenue is net cannabis revenue for international medical 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 International cannabis net revenue. It excludes wholesale bulk cannabis net revenue.

- Total Branded Cannabis Revenue is calculated as Adult-use cannabis revenue, Medical cannabis revenue and International cannabis 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

Reference is made to the description of risk factors with respect to the Company and its business in the Company’s Annual MD&A for the financial year ending March 31, 2022, filed on SEDAR at www.sedar.com on June 28, 2022 . There have been no changes to the risk factors listed on pages 31-51.