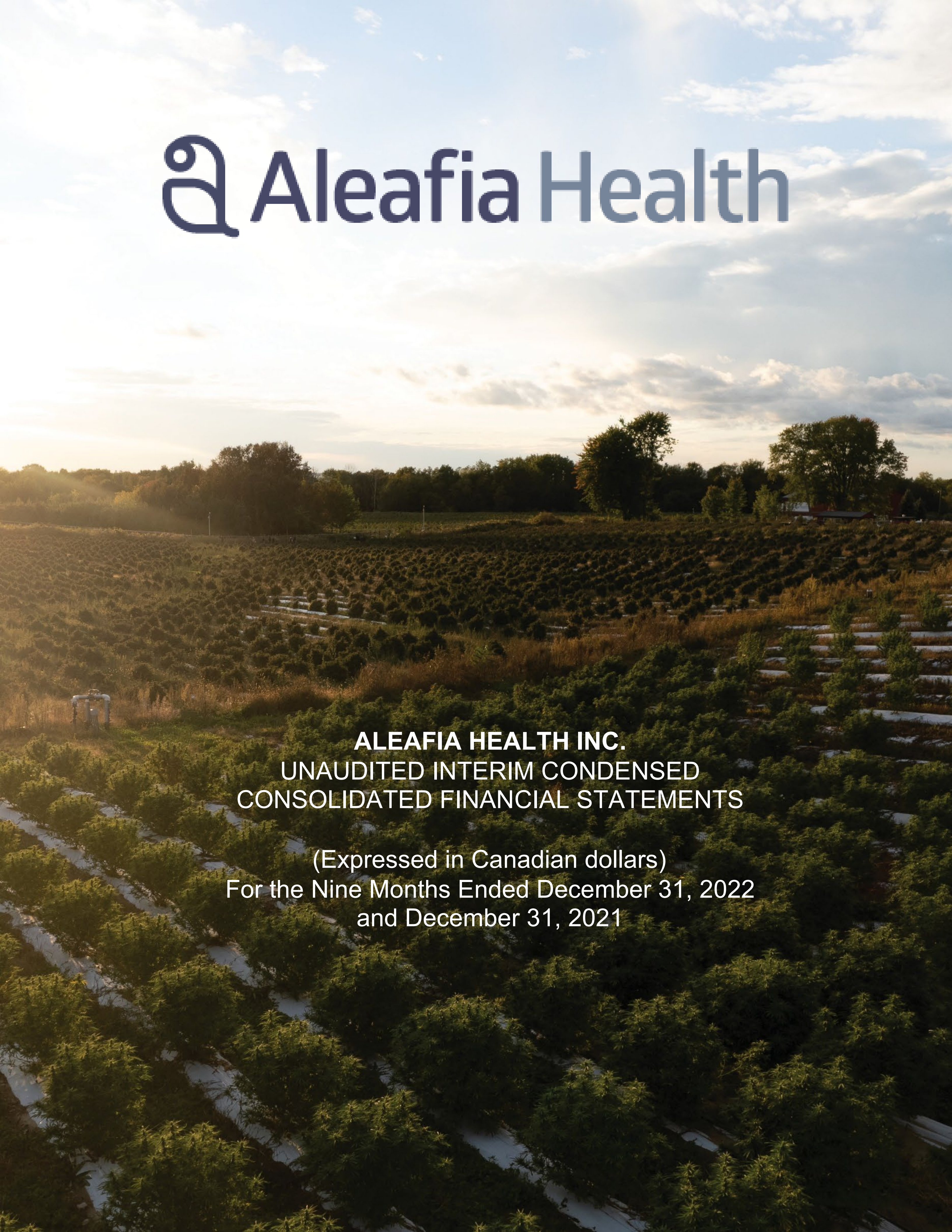

Aleafia Health

ALEAFIA HEALTH INC.
UNAUDITED INTERIM CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian dollars)
For the Nine Months Ended December 31, 2022
and December 31, 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 December 31, 2022 and March 31, 2022

(Amounts reflected in thousands of Canadian dollars)

	Notes	December 31, 2022	March 31, 2022
		$	$
ASSETS			
Current			
Cash		**434**	1,347
Restricted cash		**168**	222
Marketable securities	3	**49**	1,190
Trade and other receivables, net	15	**6,395**	7,751
Net tax receivable		**-**	530
Prepaids and deposits		**1,907**	2,952
Inventory, net	6	**22,196**	21,664
Biological assets	7	**1,056**	1,179
		32,205	36,835
Assets held for sale	18	**12,000**	-
Non-current			
Property, plant, and equipment, net	5	**21,118**	40,448
Right-of-use assets	4	**1,394**	1,844
Investments		**2,396**	2,391
		24,908	44,683
TOTAL ASSETS		**69,113**	81,518
LIABILITIES			
Current			
Accounts payable and accrued liabilities		**12,032**	23,999
Net tax payable		**7,487**	-
Lease liability	4	**464**	522
Credit facility	8	**13,222**	12,073
Convertible debt	9	**-**	36,401
		33,205	72,995
Liabilities held for sale	18	**4,375**	-
Non-current			
Lease liability	4	**1,524**	1,833
Convertible debt	9	**25,916**	-
Credit facility	8	**-**	5,075
Promissory note	8	**966**	-
		28,406	6,908
TOTAL LIABILITIES		**65,986**	79,903
SHAREHOLDERS' EQUITY			
Share capital	10	**408,703**	404,341
Contributed surplus	10	**110,184**	90,477
Deficit		**(515,760)**	(493,203)
		3,127	1,615
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**69,113**	81,518

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 February 10, 2023.

"*David Pasieka*"	*"Lu Galasso"*
David Pasieka, Chairman	Lu Galasso, Director

ALEAFIA HEALTH INC.

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

For the three months and nine months ended December 31, 2022, and 2021
(Amounts reflected in thousands of Canadian dollars, except share and per share amounts)

	Notes	Three months ended December 31, 2022	Three months ended December 31, 2021	Nine months ended December 31, 2022	Nine months ended December 31, 2021 (Restated – note 17)
		$	$	$	$
Revenue		**14,754**	11,981	**45,660**	36,009
Excise taxes		**(3,965)**	(3,217)	**(12,207)**	(6,552)
Net revenue		**10,789**	8,764	**33,453**	29,457
Cost of sales		**6,799**	6,415	**23,214**	26,460
Gross profit before fair value adjustment		**3,990**	2,349	**10,239**	2,997
Fair value changes in biological assets and changes in inventory sold	7	**(10,449)**	(6,633)	**4,534**	373
Inventory provision		**(6,795)**	(17,266)	**(6,795)**	(17,266)
Gross profit (loss)		**(13,254)**	(21,550)	**7,978**	(13,896)
Operating expenses					
Selling, general and administrative expenses	11	**3,872**	6,980	**13,061**	22,344
Amortization and depreciation expense	4,5	**1,022**	1,512	**3,010**	5,062
Share-based compensation expense	10	**685**	663	**2,083**	2,252
Restructuring costs		**291**	-	**291**	-
Business transaction costs		**67**	951	**428**	2,876
Bad debt expense	15	**-**	12	**(1)**	1,543
		5,937	10,118	**18,872**	34,077
Other expenses (income)					
Interest expense		**2,233**	2,185	**7,047**	5,922
Fair value adjustments through profit and loss	3	**126**	8,785	**1,132**	14,385
Gain on marketable securities		**-**	-	**(3)**	(12,092)
Impairment of property, plant and equipment		**3,578**	28,800	**3,578**	28,000
Impairment of goodwill		**-**	-	**-**	11,314
Impairment of intangible assets		**-**	-	**-**	53,093
Gain on sale of assets		**-**	-	**(91)**	-
Other non-operating expenses		**-**	71	**-**	71
		5,937	39,841	**11,663**	101,493
Net loss before income taxes		**(25,128)**	(71,509)	**(22,557)**	(149,466)
Income tax					
Current income tax expense (recovery)		**-**	-	**-**	-
Deferred income tax expense (recovery)		**-**	-	**-**	(2,854)
Net loss and comprehensive loss		**(25,128)**	(71,509)	**(22,557)**	(146,612)
Net loss per share, basic and diluted	13	**(0.06)**	(0.22)	**(0.06)**	(0.44)
Weighted average common shares outstanding		**403,061,914**	331,029,471	**381,042,259**	330,807,544

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 nine months ended December 31, 2022, and 2021

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

	Notes	Number of Shares	Common Shares	Contributed Surplus	Deficit	Total
	#	#	$	$	$	$
Balances, March 31, 2022		331,124,351	404,341	90,477	(493,203)	157,691
Share issuance costs		-	(1,511)	-	-	(1,511)
Shares issued under private placement	10	71,559,015	5,623	-	-	5,623
Shares issued under deferred share unit plan	10	24,816	152	-	-	152
Shares issued from conversion of convertible debentures		204,761	15	-	-	15
Equity portion of debt issuance	9	-	-	16,047	-	16,047
Restricted share units issued/released		149,766	83	(83)	-	-
Warrants issued		-	-	1,352	-	1,352
Share-based compensation expense		-	-	2,391	-	2,391
Net loss for the period		-	-	-	(22,557)	(19,129)
Balances, December 31, 2022		**403,062,709**	**408,703**	**110,184**	**(515,760)**	**6,555**

	Notes	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
Share issuance costs		-	-	37	-	37
Issuance of common shares		387,500	154	1	-	155
Shares issued under deferred share unit plan		89,709	96	-	-	96
Warrants issued		-	-	131	-	131
Share-based compensation expense	10	-	-	2,252	-	2,252
Restricted share units issued/released		110,718		(160)	-	(160)
Net loss for the period		-	-	-	(146,612)	(146,612)
Balances, December 31, 2021		**331,079,753**	**404,378**	**90,408**	**(481,196)**	**13,590**

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 nine months ended December 31, 2022, and 2021
(Amounts reflected in thousands of Canadian dollars)

	December 31, 2022	December 31, 2021 (Restated – note 17)
	$	$
Operating activities		
Net profit (loss) for the period	**(22,557)**	(146,612)
Adjustments for non-cash items:		
Depreciation expense	**5,672**	6,821
Amortization expense	**-**	1,080
Share-based compensation expense	**2,391**	2,252
Interest expense	**7,047**	2,835
Bad debt expense	**(1)**	1,543
Gain on sale of marketable securities	**(3)**	-
Fair value adjustments through profit and loss	**1,132**	14,385
Gain on property, plant and equipment disposal	**(91)**	(12,092)
Impairment of property, plant and equipment	**3,578**	28,800
Impairment of intangible assets	**-**	53,093
Impairment of goodwill	**-**	11,314
Deferred income tax recovery	**-**	(2,854)
Inventory provision	**6,795**	17,266
Fair value changes in biological assets and changes in inventory sold	**(4,534)**	(373)
	(571)	(22,542)
Changes in operating working capital:		
Trade and other receivables	**1,356**	(15,953)
Prepaids and deposits	**1,045**	1,477
Inventory	**(7,327)**	(8,047)
Biological assets	**4,657**	1,235
Accounts payable and accrued liabilities	**(8,817)**	6,288
Net tax payable (receivable)	**8,017**	486
Net cash used in operating activities	**(1,640)**	(37,056)
Investing activities		
Proceeds from sale of marketable securities	**7**	-
Proceeds from sale of property, plant, and equipment	**228**	-
Acquisition of property, plant, and equipment	**(1,613)**	(3,245)
Net cash used in investing activities	**(1,378)**	(3,245)
Financing activities		
Lease liability payments	**(669)**	(949)
Interest payments	**(1,931)**	-
Borrowing from (repayment to) credit facility	**(1,050)**	21,798
Proceeds from issuance of promissory note	**1,000**	-
Proceeds from the issuance of common shares	**5,623**	155
Conversion of convertible debt into equity	**(286)**	-
Debt issuance cost	**(636)**	-
Net cash provided by financing activities	**2,051**	21,004
Change in cash	**(967)**	(19,297)
Cash and restricted cash, beginning of period	**1,569**	30,529
Cash and restricted cash, end of period	**602**	11,232

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

Note 1 Nature of Operations and Basis of Presentation

Nature of Operations

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 pre-roll, milled, dried flower, 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.

Basis of presentation

These unaudited condensed consolidated interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting. They do not include all the information required for a complete set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"). As such, they must be read in conjunction with the annual audited consolidated financial statements for the period ended March 31, 2022 and the notes thereto. However, selected notes are included that are significant to understanding the Company's financial position and performance since the last annual consolidated financial statements for the year ended March 31, 2022. The unaudited interim financial statements are presented in Canadian dollars, which is the Company's functional currency. The amounts in the tables are expressed in Canadian dollars and rounded to the nearest thousand, unless otherwise stated.

The Board of Directors approved these unaudited condensed consolidated interim financial statements on February 10, 2023.

Note 2 Significant Accounting Policies

The accounting policies applied in these unaudited condensed consolidated interim financial statements are the same as those applied in the Company's consolidated financial statements for the year ended March 31, 2022. The annual consolidated financial statements are available on SEDAR at www.sedar.com. These policies have been applied throughout the periods reported.

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 $515,760 (March 31, 2022 – $493,203) and net working capital deficit of $1,000 (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, optimizing its fixed assets which in certain instances includes monetizing, 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 facilities 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.

Assets and liabilities held for sale

Assets and liabilities held for sale are no longer depreciated and are presented separately in the statement of financial position at the lower of their carrying amount and fair value less costs to sell. An asset is regarded as held for sale if its carrying amount will be recovered principally through a sale transaction, rather than through continuing use. For this to be the case, the asset must be available for immediate sale and its sale must be highly probable.

Reclassification of comparative period presentation

Certain amounts from prior periods have been reclassified to ensure consistency with the current period's presentation. These reclassifications had no effect on the reported results of operations. Net tax receivable as of March 31, 2022 has been presented separately, rather than being grouped with prepaids expenses and deposits, other receivables, and accounts payable and accrued liabilities on a gross basis. This is consistent with how the Canadian tax authorities treats the Company's sales taxes and excise duty on a net basis.

Note 3 Marketable Securities

On May 10, 2021, the Company, through its subsidiaries Canabo and GrowWise, sold certain clinic assets to Myconic Capital Corp (d.b.a Wellbeing Digital Sciences Limited "WDSL"). In exchange, WDSL issued 7,000,000 common shares with a fair value of $12,250 at the time of closing. The sale resulted in the derecognition of assets and lease obligations with a net book value of $586, resulting in a gain of $12,092.

The shares are classified as fair value through profit and loss, and the Level 1 on the fair value hierarchy as they have quoted market prices in an active market. The current fair value of the owned common shares is $49.

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 December 31, 2022, the undiscounted commitment for the remaining office lease term is approximately $2,497. The balance of the lease right of use assets and obligations are relate to leased equipment.

RIGHT-OF-USE ASSET

	$
Cost	
Balance, March 31, 2022	2,888
Terminations	(48)
Balance, December 31, 2022	**2,840**
Accumulated amortization	
Balance, March 31, 2022	1,044
Terminations	(43)
Amortization	445
Balance, December 31, 2022	**1,446**
Net book value, March 31, 2022	1,844
Net book value, December 31, 2022	**1,394**

LEASE LIABILITY

	$
Balance, March 31, 2022	2,355
Termination	(5)
Interest accretion	307
Payments	(669)
Balance, December 31, 2022	**1,988**
Less lease liability, current	464
Lease Liability, non-current	1,524
Balance, December 31, 2022	**1,988**

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, March 31, 2022	722	15,949	5,632	7,737	59,956	89,996
Additions	331	1,021	-	-	261	1,613
Disposals	(4)	(194)	-	-	-	(198)
Impairment loss	-	-	-	-	(3,578)	(3,578)
Transfer to assets held for sale	-	-	-	(1,051)	(22,388)	(23,439)
Balance, December 31, 2022	1,049	16,776	5,632	6,686	34,251	64,394
Accumulated depreciation						
Balance, March 31, 2022	372	12,100	857	-	36,219	49,548
Depreciation	98	1,414	324	-	3,391	5,227
Disposals	(2)	(58)	-	-	-	(60)
Transfer to assets held for sale	-	-	-	-	(11,439)	(11,439)
Balance, December 31, 2022	468	13,456	1,181	-	28,171	43,276
Net book value						
As at March 31, 2022	350	3,849	4,775	7,737	23,737	40,448
As at December 31, 2022	**581**	**3,320**	**4,451**	**6,686**	**6,080**	**21,118**

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 nine months ended December 31, 2022, the Company recognized depreciation expense of $5,227 (December 31, 2021 – $6,821), of which $2,217 (December 31, 2021 – $2,387) was included in cost of sales, biological assets and inventory, and $3,010 (December 31, 2021 – $4,434) was included in operating expenses.

Note 6 Inventory

Inventory is comprised of the following items as at:

	December 31, 2022	March 31, 2022
	$	$
Finished goods	3,829	4,454
Work-in-progress	30,230	27,992
Supplies and consumables	3,069	2,940
Inventory provision	(14,932)	(13,722)
Total inventory	**22,196**	**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 December 31, 2022 and March 31, 2022 as required by IFRS 13 fair value measurement.

	$
Balance, March 31, 2022	1,179
Changes in fair value less costs to sell due to biological transformation	14,805
Production costs capitalized to biological assets	3,906
Transferred to inventory upon harvest	(18,834)
Balance, December 31, 2022	**1,056**

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

	December 31, 2022		**March 31, 2022**	
	Indoor	**Outdoor**	**Indoor**	**Outdoor**
Average fair value per gram ($)	2.00	0.37	0.98	0.37
Average yield per plant (grams)	244	238	60	750
Average of growth cycle (weeks)	13	20	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 at the time of planting and is recognized evenly until the point of harvest. The number of weeks in the growing cycle is between twelve and twenty weeks from propagation to harvest.

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

	December 31, 2022	December 31, 2021
	$	$
Change in fair value on growth of biological assets	4,889	2,153
Realized fair value amounts included in inventory sold	(355)	(1,780)
Fair value changes in biological assets and inventory sold	**4,534**	**373**

Note 8 Credit Facilities and Promissory Note

December 2021 Credit Facility - Current

On December 24, 2021, the Company entered into a new loan agreement that provides for a term facility of $12,000 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 amortization of the credit facility as at December 3, 2022:

	$
Balance, March 31, 2022	12,073
Interest expense	1,463
Drawdown	18,772
Repayment	(19,822)
Transfer to liabilities held for sale	(4,375)
Balance, December 31, 2022	**8,111**
Credit facility	7,752
Revolver	359
Balance, December 31, 2022	**8,111**

August 2021 Credit Facility - 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 vested 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 including the prepayment of one year of interest, from June 2022 to June 2023, in the amount of $623.

The amortization of the credit facility as at December 31, 2022:

	$
Balance, March 31, 2022	5,075
Interest accretion	659
Interest payment	(623)
Balance, December 31, 2022	**5,111**
Credit facility, current	5,111
Credit facility, non-current	-
Balance, December 31, 2022	**5,111**

Promissory Note – Non Current

On December 16, 2022, the Company issued a promissory note to receive $1,000 for general corporate purposes. The term of the loan was for two years with a fixed interest rate of 12.75% and an effective interest rate of 14.41%. The promissory note will be due and payable on December 31, 2024. The interest on the amount of the promissory note will accrue and be paid bi-monthly.

The amortization of the promissory note as at December 31, 2022 is as follows:

	$
Proceeds from issuance on December 16, 2022	1,000
Transaction costs	(35)
Interest accretion and amortization of transaction costs	6
Balance, December 31, 2022	**971**
Interest payable included in accounts payable and accrued liabilities	5
Promissory note	966
Balance, December 31, 2022	**971**

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 and 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, March 31, 2022	36,401
Interest accretion	4,076
Conversion into equity	(301)
Derecognition of June 2019 Convertible Debenture	(40,175)
Transaction costs	(636)
Issuance of New Debentures	24,128
Balance, June 30, 2022	**23,493**
Interest accretion	2,423
Balance December 31, 2022	**25,916**

The modifications to the June 2019 Convertible Debenture 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 December 31, 2022, there were 403,061,914 common shares issued and outstanding.

During the nine months ended December 31, 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 nine months ended December 31, 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 nine months ended December 31, 2022 was $1,721 (nine months ended December 31, 2021 – $2,014).

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

	Options	Weighted average exercise price
	#	$
Balance, March 31, 2022	30,335,946	0.88
Granted	28,904,000	0.09
Forfeited/cancelled	(5,323,175)	0.34
Expired	(250,000)	0.56
Balance, December 31, 2022	**53,666,771**	**0.51**
Vested	34,327,271	0.74
Unvested	19,339,500	0.10
Balance, December 31, 2022	**53,666,771**	**0.51**

The fair values of the stock options granted during the nine months ended December 31, 2022, were estimated using the Black-Scholes option pricing model with following weighted average assumptions:

Weighted average share price	$0.07
Weighted average risk-free interest rate	2.87%
Weighted expected life-years	3.2 years
Weighted average expected daily volatility	87.5%
Weighted expected dividends	0.00%
Forfeiture rate	5.59%

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 nine months ended December 31, 2022, 2,000,000 RSUs were granted (nine months December 31, 2021 – 1,274,000). The total RSU expense recognized as share-based compensation expense for the nine months ended December 31, 2022 was $362 (nine months December 31, 2021 – $238).

A summary of the RSUs granted and outstanding as at December 31, 2022, is as follows:

	#
Balance, March 31, 2022	717,917
Granted	2,000,000
Exercised/released	(436,917)
Cancelled/forfeited	(127,500)
Balance, December 31, 2022	**2,153,500**

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 shares.

A summary of the DSUs granted and outstanding as at December 31, 2022 is as follows:

	#
Balance, March 31, 2022	2,030,003
Granted	5,163,027
Balance, December 31, 2022	**7,193,030**

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, March 31, 2022	56,155,432	1.19
Issued	34,075,758	0.10
Expired	(30,960,932)	1.45
Outstanding and exercisable, December 31, 2022	**59,270,258**	**0.40**

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 nine months ended:

	December 31, 2022	December 31, 2021
	$	$
Salaries, bonuses and benefits	11,802	17,098
Share-based compensation	2,083	2,252
Termination benefits and severance costs	1,139	498
Total	**15,024**	**19,848**

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 nine months December 31, 2022, the Company recognized salaries, bonuses and benefits of $11,802 (nine months December 31, 2021 – $17,098), of which $5,169 (nine months December 31, 2021 – $6,227) was included in cost of sales and $6,633 (nine months December 31, 2021 – $10,871) was included in operating expenses.

Note 12 Key Management Compensation

Key management includes directors and key executives of the Company.

During the nine months December 31, 2022 and 2021, the Company had the following transactions with the officers and directors of the Company:

	December 31, 2022	December 31, 2021
	$	$
Wages and benefits: Management	1,037	1,468
Share based compensation: Directors	308	529
Share based compensation: Management	694	894
	2,039	**2,891**

Note 13 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 and nine months December 31, 2022 was 403,061,914 and 381,042,259 respectively (three and nine months December 31, 2021 – 331,029,471 and 330,807,544 respectively).

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, promissory note, and convertible debt. The Company manages the capital structure and adjusts it to reflect 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 nine months December 31, 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, promissory note, and convertible debt. The following table summarizes the carrying values of the Company's financial instruments by measurement category:

	December 31, 2022	**March 31, 2022**
	$	$
Fair value through profit and loss (cash, restricted cash, investments, and marketable securities)	3,047	5,150
Assets, amortized cost (trade receivables)	6,395	7,751
Liabilities, amortized cost (accounts payable, net tax payable, lease liability, credit facilities, promissory note and convertible debt)	61,611	79,903

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 December 31, 2022 and March 31, 2022:

	Level 1	Level 2	Level 3	Total
	$	$	$	$
Cash	434	-	-	434
Restricted cash	168	-	-	168
Marketable securities	49	-	-	49
Investments	-	-	2,396	2,396
Total, December 31, 2022	**651**	**-**	**2,396**	**3,047**

	Level 1	Level 2	Level 3	Total
	$	$	$	$
Cash	1,347	-	-	1,347
Restricted cash	222	-	-	222
Marketable securities	1,190	-	-	1,190
Investments	-	-	2,391	2,391
Total, March 31, 2022	**2,759**	**-**	**2,391**	**5,150**

The carrying value of trade receivables, accounts payable and net tax payable are a reasonable approximation of their fair value due to their short-term nature. The carrying value of lease liability, credit facilities, promissory note and convertible debt are a reasonable approximation of their value based on market interest rates for similar instruments as at December 31, 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 nine months December 31, 2022, there has been no change to the management of this risk.

b) Interest rate risk

The Company is exposed to interest rate risk on the variable rate of interest earned on bank deposits, the variable rate of interest applicable to the $12,000 term facility, and the drawn amount on the 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 nine months December 31, 2022, the expected credit losses of trade and other accounts receivables was assessed based on the expected loss model in compliance with IFRS 9. Individual receivables that were known to 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:

	December 31, 2022	**March 31, 2022**
	$	$
Current	4,108	6,363
0 – 30 days past due	301	250
31 – 60 days past due	128	95
61 – 90 days past due	-	69
90 + days past due	1,738	1,176
Provision for credit losses	(654)	(654)
Other receivables	774	452
Total	**6,395**	**7,751**

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 primarily originate from government agencies, national insurance companies and a credit card company.

The Company has concentration risk, as approximately 89% (March 31, 2022 – 76%) of total revenue came from three (March 31, 2022 – three) customers and approximately 68% (March 31, 2022 – 79%) of total trade accounts receivable is due from four (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 $515,760. For the nine months ended December 31, 2022, cash flow from operations is negative. Refer to note 2, Going Concern.

As at December 31, 2022, the Company has total current assets of $32,205 (March 31, 2022 – $36,835) and total current liabilities of $33,205 (March 31, 2022 – $72,995), providing for net current liability of $1,000 (March 31, 2022 – net current liability of $36,160). The significant change during the nine months December 31, 2022 is a result of the extinguishment of the June 2019 Convertible Debenture.

The Company has the following undiscounted future payments for convertible debenture, credit facilities, lease obligations, loan payable, and purchase commitments as at December 31, 2022:

	within 1 year	2 years	3 years	4 years	5 years and thereafter
	$	$	$	$	$
Convertible debenture	-	12,015	-	8,467	6,017
Credit facilities	17,597	-	-	-	-
Lease obligations	670	863	411	11	2
Promissory note	-	1,000	-	-	-
Purchase commitments	952	-	-	-	-
Total	**19,219**	**13,878**	**411**	**8,478**	**6,019**

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 is expected to proceed to trial circa 2024 if an early settlement is not achieved. 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.

On February 8, 2023, the Company received a letter from the Canada Revenue Agency ("CRA") with respect to Emblem Cannabis Corporation's previously filed Canada Emergency Wage Subsidy ("CEWS") for the period between March 15, 2020 and March 13, 2021. The CRA has audited said periods for Emblem Cannabis Corporation and has proposed a reduction to the CEWS funds provided in the amount of $3.2 million. The Company is actively reviewing the CRA's findings. Based on the Company's records and external advice, it remains of the belief that it is owed the full amount of the previously claimed and received CEWS funds. The Company is currently in the process of filing an objection to dispute the claim. At this time, it is not possible to conclude on the exact amount of the disallowed claims (if any). As such, the Company has not accrued for any potential disallowed CEWS claims in the period. The Company will continue to assess the matter as the dispute resolution progresses.

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.

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 nine months ended December 31, 2021 amounting to $7,855. 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 nine months ended December 31, 2021. The "**Restated**" columns for 2021 reflect final adjusted balances after the restatement.

	December 31, 2021	December 31, 2021	December 31, 2021
	As presented	Adjustments	Restated
	$	$	$
Consolidated Statement of Profit (Loss) and Comprehensive Profit (Loss)			
Bad debt expense	9,386	(7,855)	1,543
Net profit (loss) and comprehensive profit (loss)	(154,467)	7,855	(146,612)
Profit (loss) per share, basic and diluted	(0.46)	(0.02)	(0.44)
Consolidated Statement of Changes in Shareholders' Equity			
Balances, March 30, 2021	165,958	(8,267)	157,691
Net profit (loss) for the period	(154,467)	7,855	(146,612)
Consolidated Statement of Cash Flows			
Net profit (loss) for the period	(154,467)	7,855	(146,612)
Adjustments for non-cash items:			
Bad debt expense	9,386	(7,855)	1,543
Changes in operating working capital:			
Trade and other receivables	(14,878)	(1,075)	(15,953)
Net tax payable (receivable)	589	1,075	486

Note 18 Assets and Liabilities Held for Sale

The Grimsby greenhouse facility was wound down during the quarter and the land and building became available for sale. The facility is actively being marketed and readily available for sale. The sale of the facility is considered probable as multiple proposals have been put forth to the Company. The sale of the Grimsby greenhouse facility is expected to occur this quarter.

The Company determined that a portion of the carrying amount of its Grimsby greenhouse facility, which is classified as held for sale, was no longer recoverable. As a result of this review, the Company recognized an impairment loss of $3,578 in the statement of profit or loss.

The following table presents the major classes of assets and liabilities related to the operations of the Grimsby greenhouse:

	December 31, 2022
Land	1,051
Building	10,949
Assets held for sale	12,000
Credit facility	4,375
Liabilities held for sale	**4,375**