Aleafia Health™

ALEAFIA HEALTH INC.
CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Canadian dollars)
For the years ended December 31, 2019 & 2018

AleafiaHealth.com

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MANAGEMENT'S RESPONSIBILITY

To the Shareholders of Aleafia Health Inc.:

The accompanying 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 be based on estimates and judgements. These 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 consolidated financial statements.

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

Manning Elliott LLP, the Company's independent auditors, have performed an independent audit of the consolidated financial statements and their report follows. The auditors have full and unrestricted access to the Audit Committee to discuss their audit and related findings.

March 18, 2020

"Geoff Benic"

Geoff Benic
Chief Executive Officer

"Benjamin Ferdinand"

Benjamin Ferdinand
Chief Financial Officer

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To the Shareholders of
Aleafia Health Inc.

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Aleafia Health Inc. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of comprehensive loss, changes in equity and cash flows for the years then ended, and the related notes, including a summary of significant accounting policies and other explanatory information (collectively referred to as the "consolidated financial statements").

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the financial statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information, which comprises the information included in the Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

Our opinion on the consolidated financial statements does not cover the other information and does not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Consolidated Financial Statements

Our responsibility is to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of the users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the Financial Statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Fernando J. Costa.

/s/ MANNING ELLIOTT LLP

CHARTERED PROFESSIONAL ACCOUNTANTS
Vancouver, British Columbia
March 18, 2020

ALEAFIA HEALTH INC.
Consolidated Statements of Financial Position
As at December 31, 2019 and December 31, 2018
(Amounts reflected in thousands of Canadian dollars)

	Notes	December 31, 2019	December 31, 2018
		$	$
ASSETS			
Current			
Cash and cash equivalents		41,247	26,407
Marketable securities		1,452	-
Trade receivable		4,847	884
Taxes receivable		6,498	1,144
Prepaid expenses		5,756	223
Prepaid deposit for supply agreement		22,756	-
Inventory	11	34,115	356
Biological assets	12	971	233
		117,642	29,248
Non-current			
Prepaid deposit for property, plant and equipment		3,612	3,749
Property, plant and equipment	6	64,338	13,780
Deferred expenses		1,036	-
Right-of-use asset	3	1,071	-
Investments	13	4,616	4,000
Intangible assets	7	81,252	34,374
Goodwill	5	188,790	12,714
		344,715	68,616
TOTAL ASSETS		462,357	97,864
LIABILITIES			
Current			
Accounts payable and accrued liabilities	9	20,131	3,281
Lease liability	3	507	-
Deferred revenue		101	214
		20,739	3,495
Non-current			
Lease liability	3	700	-
Convertible debt	14	51,009	-
Deferred tax liability	17	5,394	2,436
		57,103	2,436
TOTAL LIABILITIES		77,978	5,931
SHAREHOLDER'S EQUITY			
Share capital	8	371,744	104,455
Warrant reserve	8	44,701	748
Contributed surplus	8	35,901	14,954
Deficit		(67,831)	(28,224)
		384,515	91,933
TOTAL LIABILITIES AND EQUITY		462,357	97,864

COMMITMENTS AND CONTINGENCIES (Note 16)
Approved and authorized for issue on behalf of the board on March 18, 2020.

"*Julian Fantino*"	"*Lea Ray*"
Julian Fantino - Director	Lea Ray - Director

The accompanying notes are an integral part of these Consolidated Financial Statements

ALEAFIA HEALTH INC.
Consolidated Statements of Comprehensive (Loss) Income
Years ended December 31, 2019 and 2018
(Amounts reflected in thousands of Canadian dollars, except share and per share amounts)

	Notes	December 31, 2019	December 31, 2018
		$	$
Revenue			
Consultation services		2,861	1,549
Research services		1,861	1,152
Sale of cannabis		12,444	629
Gross revenue		17,166	3,330
Excise taxes		815	-
Net revenue		16,351	3,330
Cost of sales			
Doctor services		2,044	1,130
Inventory expensed to cost of sales		6,744	554
Gross profit before fair value adjustments		7,563	1,646
Changes in fair value of inventory sold		2,058	-
Unrealized gain on fair value of biological assets	12	(15,277)	(1,142)
Gross profit		20,782	2,788
Expense			
Wages and benefits		8,821	3,508
General and administration		16,520	5,431
Acquisition costs		5,212	1,217
Amortization and depreciation	6,7	5,912	1,659
Share-based payments	8	13,512	10,784
		49,977	22,599
Operating loss		(29,195)	(19,810)
Other (income) expense			
Interest income		(417)	(170)
Interest expense		6,376	-
Unrealized loss on marketable securities		1,796	-
Non-operating expenses		(302)	(100)
		7,453	(270)
Net loss before income taxes		(36,648)	(19,540)
Deferred income tax			
Deferred income tax (recovery)		2,959	(1,008)
Net loss and Comprehensive loss for the year		(39,607)	(18,533)
Loss per share, basic and diluted		(0.18)	(0.16)
Weighted Average Common Shares Outstanding		215,619,166	117,162,267

The accompanying notes are an integral part of these Consolidated Financial Statements

ALEAFIA HEALTH INC.
Consolidated Statements of Changes in Equity
Years ended December 31, 2019 and 2018
(Amounts reflected in thousands of Canadian dollars, except share and warrant amounts)

		Share capital		Warrant reserve				
	Notes	Number of shares		Number of warrants	Amount	Contributed surplus	Deficit	Total
		#	$	#	$	$	$	$
Balance, December 31, 2018		157,848,812	104,455	9,228,590	748	14,954	(28,224)	91,933
Shares issued from warrants exercised		1,114,046	1,813	(1,114,046)	(138)	-	-	1,675
Shares issued from options exercised		1,681,558	1,973	-	-	(1,084)	-	889
Warrants deemed issued for Emblem		-	-	40,336,129	42,775	-	-	42,775
Warrants issued for convertible debt		-	-	27,370,000	-	-	-	-
Shares issued for conversion of convertible debentures		2,094,666	2,351	-	-	-	-	2,351
Warrants expired		-	-	(17,471,757)	-	-	-	-
Share options deemed issued for Emblem		-	-	-	-	5,922	-	5,922
Shares issued for Emblem		110,823,349	252,677	-	-	-	-	252,677
Shares and warrants issued for services		4,331,255	8,475	1,915,900	1,316	-	-	9,791
Equity component of convertible debt		-	-	-	-	5,499	-	5,499
Share-based payments		-	-	-	-	10,610	-	10,610
Net loss for the year		-	-	-	-	-	(39,607)	(39,607)
Balance, December 31, 2019		277,893,686	371,744	60,264,816	44,701	35,901	(67,831)	384,515

The accompanying notes are an integral part of these Consolidated Financial Statements

ALEAFIA HEALTH INC.
Consolidated Statements of Changes in Equity (continued)
Years ended December 31, 2019 and 2018
(Amounts reflected in thousands of Canadian dollars, except share and warrant amounts)

	Share capital		Warrant reserve				
	Number of shares		Number of warrants	Amount	Contributed surplus	Deficit	Total
	#	$	#	$	$	$	$
Balance, December 31, 2017	73,670,000	12,285	-	-	8,324	(9,692)	10,917
Shares issued for cash	24,171,000	30,214	12,085,500	-	-	-	30,214
Share issue costs	-	(1,935)	-	-	-	-	(1,935)
Broker's warrants	-	(1,241)	2,005,380	1,241	-	-	-
Shares deemed to be issued on RTO	38,103,461	26,291	-	-	-	-	26,291
Warrants deemed to be issued on RTO	-	-	203,350	160	-	-	160
Options deemed to be issued on RTO	-	-	-	-	164	-	164
Warrants issued to CannTrust	-	-	500,000	287	-	-	287
Shares issued from warrants exercised	3,959,600	6,929	(3,959,600)	-	-	-	6,929
Shares issued from broker's warrants exercised	1,606,040	2,962	(1,606,040)	(939)	-	-	2,022
Shares issued from options exercised	3,838,711	6,060	-	-	(4,317)	-	1,743
Subscription receivable	-	(100)	-	-	-	-	(100)
Shares issued for Flying High	6,000,000	12,060	-	-	-	-	12,060
Shares issued for cash	5,000,000	10,000	-	-	-	-	10,000
Shares issued for services	1,500,000	930	-	-	-	-	930
Share-based payments	-	-	-	-	10,784	-	10,784
Net loss for the year	-	-	-	-	-	(18,533)	(18,533)
Balance, December 31, 2018	157,848,812	104,455	9,228,590	748	14,954	(28,224)	91,933

The accompanying notes are an integral part of these Consolidated Financial Statements

ALEAFIA HEALTH INC.
Consolidated Statements of Cash Flows
Years ended December 31, 2019 and 2018
(Amounts reflected in thousands of Canadian dollars)

	Notes	December 31, 2019	December 31, 2018
		$	$
Operating activities			
Net loss for the year		(39,607)	(18,533)
Net interest expense		2,532	-
Adjustments for non-cash items:			
Amortization and depreciation		5,912	1,659
Business advisory fees		-	1,217
Share-based consulting fees		5,838	-
Share-based compensation		13,512	10,784
Accretion of convertible debt		3,426	-
Gain on sale of land		(166)	-
Deferred income tax		2,959	(1,008)
Unrealized loss on marketable securities		1,796	-
Changes in fair value included in inventory sold		2,058	-
Unrealized gain on fair value biological assets		(15,277)	(233)
		(17,017)	(6,114)
Changes in operating assets and liabilities			
Prepaid expenses		(2,991)	(3,886)
Trade receivable		(1,477)	(1,053)
Tax receivable		(5,354)	-
Marketable securities		3,759	-
Biological assets		12,963	-
Inventory		(28,263)	(355)
Accounts payable and accrued liabilities		7,637	1,330
Deferred revenues		(113)	(220)
Net cash used in operating activities		(30,856)	(10,297)
Investing activities			
Investments		(616)	(4,000)
Cash acquired on business combination		19,624	6,917
Deferred expenses		(1,036)	-
Sale proceeds of land		8,710	-
Acquisition of property plant and equipment		(16,077)	(12,143)
Other		418	-
Net cash provided by (used in) investing activities		11,023	(9,226)
Financing activities			
Lease liability payments		(699)	-
Repayment of mortgage		-	(4,000)
Convertible debt, net of costs		33,903	10,000
Interest expense		(2,949)	-
Warrants and options exercised		4,281	10,595
Proceeds from the issuance of common stock		137	28,279
Net cash provided by financing activities		34,673	44,874
Change in cash and cash equivalents		14,840	25,350
Cash and cash equivalents, beginning of year		26,407	1,057
Cash and cash equivalents, end of year		41,247	26,407

Note 1 Nature of Operations

Aleafia Health Inc. (the "Company" or "Aleafia Health") is a publicly traded corporation existing under the laws of Ontario. Aleafia Health's head and registered office is located at 8810 Jane Street, 2nd floor, Concord, Ontario and its corporate website is www.AleafiaHealth.com.

Aleafia Health is a vertically integrated and federally licensed Canadian cannabis company offering cannabis health and wellness services and products in Canada and in international markets where it is legal to do so. The Company operates medical clinics, education centres and production facilities for the production and sale of cannabis. The Company also conducts cannabis research and development, and is involved in several joint ventures and invests in a cannabis retail and distribution businesses.

The Company's medical cannabis clinics and education centres in Canada are staffed by physicians, nurse practitioners and educators.

The Company owns three significant cannabis production facilities in Canada (two of which are currently licensed to produce cannabis), allowing the Company to cultivate cannabis and produce packaged consumer products for sale in Canada in the medical and adult-use markets and internationally.

On March 14, 2019, Aleafia Health acquired Emblem Corp. ("**Emblem**") by way of a statutory plan of arrangement under the provisions of the *Canada Business Corporations Act* (the "**Arrangement**"), pursuant to which, among other things, Aleafia Health acquired all of the issued and outstanding common shares of Emblem, following Emblem's amalgamation with Aleafia Health's wholly-owned subsidiary, 11208578 Canada Inc., to form a new wholly-owned subsidiary of the Company continuing as Emblem Corp.

Following the completion of the Arrangement, on March 19, 2019, the common shares of Aleafia Health ceased trading on the TSX Venture Exchange ("**TSXV**") and commenced trading on the TSX under its existing symbol "ALEF". Emblem's common shares were delisted from the TSXV on March 18, 2019; however the following class of Emblem warrants remain listed on the TSXV:

- "**EMC.WT.A**", exercisable at a price of $2.15 with an expiry date of November 16, 2020 issued pursuant to a warrant indenture between Emblem and Computershare Trust Company of Canada dated November 16, 2017

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

Note 2 Significant Accounting Policies

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"). These consolidated financial statements were authorized for issue in accordance with a resolution from the Board of Directors on March 18, 2020.

Basis of presentation

The consolidated financial statements have been prepared on the historical cost basis, with the exception of financial instruments which are measured at fair value, as explained in the accounting policies set out below. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information. The functional currency of the Company and its subsidiaries is the Canadian dollar.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

a) **Consolidation**

These consolidated financial statements comprise the financial statements of the Company and its Canadian subsidiaries, as presented below. Subsidiaries are those entities which the Company controls by having the power to govern the financial and operational policies of the entity. This control is generally evidenced through owning more than 50% of the voting rights or currently exercisable potential voting rights of a company's share capital. All intercompany transactions and balances have been eliminated.

		Years ended December 31,
Ownership interest	2019	2018
	%	%
Aleafia Inc.	100	100
Canabo Medical Corporation ("Canabo")	100	100
Aleafia Farms Inc. ("Aleafia Farms")	100	100
Emblem Corp. ("Emblem")	100	100
Emblem Cannabis Corporation ("ECC")	100	100
GrowWise Health Limited ("GrowWise")	100	100
Emblem Realty Limited ("Emblem Realty")	100	100
Emblem Germany GmbH	60	-
Flying High Brands Inc. ("Flying High")	51	51
CannaPacific Pty Ltd. Australia ("CannaPacific")	10	-
One Plant (Retail) Corporation ("One Plant")	10	10
Aleafia Brands Inc. (inactive)	100	100
Aleafia Retail Inc. (inactive)	100	100
2672533 Ontario Inc. (inactive)	100	100
2676063 Ontario Inc. (inactive)	100	100

Note 2 Significant Accounting Policies *(continued)*

b) **Cash and cash equivalents**

Cash in the consolidated statements of financial position is comprised of cash in banks and on hand, and short-term deposits with an original maturity of three months or less, which are readily convertible into a known amount of cash.

c) **Biological assets**

The Company measures biological assets consisting of cannabis plants at fair value less cost to sell up to the point of harvest. Unrealized gains or losses arising from the changes in fair value less cost to sell during the period are recognized in the consolidated statement of comprehensive loss. The Company capitalizes all the direct and indirect costs as incurred related to the transformation of biological assets between the initial planting to the point of harvest including labour, labour related, fertilizer, utilities and facility costs and amortization of related production equipment. Seeds are measured at fair market value. Upon harvest, the fair value adjustments including all the capitalized costs are transferred from biological assets to inventory and form the cost basis of the inventory.

The Company changed its accounting policy to capitalize all of its direct and indirect costs related to the transformation of its biological assets. The differences related to the prior periods from the change in accounting policy, in the Company's opinion, are not considered material and as a result will be made on a prospective basis.

d) **Inventory**

The Company values inventories of harvested bulk cannabis and finished goods at the lower of cost and net realizable value. Inventories of harvested cannabis are transferred from biological assets at their fair value at harvest, which becomes the initial cost. Fair value includes capitalized costs and unrealized fair value adjustments. Any subsequent post-harvest costs are capitalized to inventory to the extent that cost is less than net realizable value. Inventories of fertilizers and nutrients include costs of purchases net of vendor allowances plus other costs, such as transportation, that are directly incurred to bring the inventories to their present location and condition. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The cost of inventories is determined using the weighted average cost basis.

Inventories are written down to net realizable value when the cost of inventories is estimated to be unrecoverable due to obsolescence, damage, or declining market prices. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is apparent evidence of an increase in selling price then the amount of the write down previously recorded is reversed. Storage costs, indirect administrative overhead, and certain other selling costs related to inventories are expensed in the period incurred.

Note 2 Significant Accounting Policies *(continued)*

e) Property, plant and equipment

The Company's property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

The cost of an item of property, plant and equipment includes expenditures that are directly attributable to the acquisition or construction of the asset. The cost includes the cost of materials and direct labour, site preparation costs, installation and assembly costs, and any other costs directly attributable to bringing the assets to the location and conditions necessary for the assets to be capable of operating in the manner intended by management. The cost of property, plant and equipment also includes any applicable borrowing costs. Borrowing costs are capitalized to property, plant and equipment until such time that the constructed asset is substantially complete and ready for its intended use.

Property, plant and equipment are depreciated at the following annual rates and methods:

Computer equipment and software	30% on a declining basis
Office furniture and equipment	20% on a declining basis
Buildings	25 years on a straight-line basis
Leasehold Improvements	Straight-line over term of lease

Estimates for depreciation methods, useful lives and residual values are reviewed at each reporting period and adjusted, if appropriate.

Significant components of property, plant and equipment that are identified as having different useful lives are depreciated separately over their respective useful lives. Depreciation methods, useful lives and residual values, if applicable, are reviewed and adjusted, if appropriate, on a prospective basis at the end of each fiscal year as a change in estimate. Gains and losses on disposal of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of the property, plant and equipment and are recognized in profit or loss

f) Share-based payments

Share-based payments to employees and others providing similar services are measured at the estimated fair value of the instruments issued on the grant date and amortized over the vesting period. Share-based payments to non-employees are measured at the fair value of the goods or services received or the fair value of the equity instruments issued if it is determined the fair value of the goods or services cannot be reliably measured and are recorded at the date the goods or services are received. The amount recognized as an expense is adjusted to reflect the number of awards expected to vest. The offset to the recorded cost is to equity settled share-based payments reserve.

Consideration received on the exercise of stock options is recorded as share capital and the related equity settled share-based payments reserve is transferred to share capital. Charges for options that are forfeited before vesting are reversed from equity settled share-based payment reserve.

Note 2 Significant Accounting Policies *(continued)*

Share-based compensation expense relating to deferred share units is accrued over the vesting period of the units based on the quoted market price on the date of issuance. As these awards can be settled in cash, the expense and liability are adjusted each reporting year for changes in the underlying share price.

g) Provisions

Provisions are recognized when it is probable that the Company is required to settle an obligation (legal or constructive), as a result of a past event, and the obligation can be reliably estimated. The provision represents the Company's best estimate of the amounts required to settle the obligation at the end of the reporting year. When a provision is determined using the expected cash flow method, the carrying amount is the present value of those cash flows (when the effect of the time value of money is material). When some or all of the amounts required to settle a provision are expected to be recoverable from a third party, a receivable is recognized when it is virtually certain reimbursement is receivable and the expected reimbursement can be reliably measured.

h) Loss per share

The Company presents basic and diluted loss per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the year. Diluted loss per share does not adjust the loss attributable to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive.

i) Income taxes

Current income taxes are the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted, and includes any adjustments to tax payable or receivable in respect of previous years.

Deferred income taxes are recorded using the liability method whereby deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the statement of financial position date. Deferred tax is not recognized for temporary differences which arise on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting, nor taxable profit or loss.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

j) **Financial Instruments**

Financial assets and liabilities are initially measured at fair value. In the case of a financial asset not at fair value through profit and loss ("FVTPL") transaction costs are included. Transaction costs of financial assets are carried at FVTPL are expressed in the consolidated statements of comprehensive loss. Financial assets are subsequently measured at:

(i) FVTPL

(ii) Amortized cost

(iii) Fair value through other comprehensive income ("FVOCI")

(iv) Equity instruments designated at FVOCI; or

(v) Financial instruments designated at FVTPL

Financial liabilities are subsequently measured at:

(i) FVTPL

(ii) Amortized cost

The classification is based on whether the contractual cash flow characteristics represent "solely payment of principal and interest" as well as the business model under which the financial assets are managed. Financial liabilities held by the Company are initially measured at fair value and subsequently measured at amortized cost.

k) **Impairment of non-financial assets**

The carrying amounts of the Company's non-financial assets are reviewed for impairment at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit, or "CGU"). The recoverable amount of an asset or a CGU is the higher of its fair value, less cost to sell, and its value in use. If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is recognized immediately in profit or loss by the amount by which the carrying amount of the asset exceeds the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount and the carrying amount that would have been recorded had no impairment loss been recognized previously.

l) **Impairment of financial assets**

Financial assets, other than those classified as FVTPL, are assessed for indicators of impairment at the end of the reporting years. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

m) **Business combinations**

Acquisitions of businesses are accounted for using the acquisition method. At the acquisition date, the identifiable assets acquired, and the liabilities assumed are recognized at their fair value, except deferred tax assets or liabilities, which are recognized and measured in accordance with IAS 12 – Income Taxes. Subsequent changes in fair values are adjusted against the cost of acquisition if they qualify as measurement year adjustments. The measurement year is the year between the date of the acquisition and the date where all significant information necessary to determine the fair values is available and cannot exceed 12 months. All other subsequent changes are recognized in the consolidated statements of comprehensive loss.

The purchase price allocation process resulting from a business combination requires management to estimate the fair value of identifiable assets acquired including intangible assets and liabilities assumed including any contingently payable purchase price obligation due over time. The Company uses valuation techniques, which are generally based on forecasted future net cash flows discounted to present value. These valuations are closely linked to the assumptions used by management on the future performance of the related assets and the discount rates applied. The determination of fair value involves making estimates relating to acquired intangibles assets, property and equipment and contingent consideration. In certain situations, goodwill or a bargain purchase gain may result from a business combination. Goodwill is measured as the excess of the consideration transferred over the net amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the excess is recognized immediately in the consolidated statements of comprehensive loss as a bargain purchase gain. Acquisition related costs are recognized in the consolidated statements of comprehensive loss as incurred.

n) **Intangible assets**

Intangible assets consist mainly of Health Canada Licenses to produce and sell cannabis, power contracts, brand names and licenses, patient lists and scientific and medical research assets. Acquired Health Canada License to produce and sell cannabis, power contracts and similar assets are carried at cost less accumulated amortization and impairment. Intangible assets with indefinite lives are not amortized but are tested for impairment annually and whenever there is an indication that the intangible asset may be impaired. Any impairment of intangible assets is recognized in the statement of operation and comprehensive loss but increases in intangible asset values are not recognized.

Estimated useful lives of intangible assets are shorter of the economic life and the year the right is legally enforceable. The assets' useful lives are reviewed, and adjusted if appropriate, at each financial statement of financial position date.

At each financial position reporting date, the carrying amounts of the Company's long-lived assets, including property and equipment and intangible assets, are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any.

Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs.

Finite-lived intangible assets are recorded at cost less accumulated amortization and accumulated impairment losses. Amortization is provided on a straight-line basis over the following terms:

Health Canada licenses	25 years
OPA power contracts	14 years
Brand names and licenses	5 to 15 years
Patient lists	10 years
Scientific and medical research	7 years
Agreement	7 years
IP, R&D	indefinite
Paris license	24 years

The estimated useful life and amortization methods are reviewed at the end of each reporting year, with the effect of any changes in estimate being accounted for on a prospective basis.

o) **Goodwill**

Goodwill represents the excess of the price paid for the acquisition of an entity over the fair value of the net identifiable tangible and intangible assets and liabilities acquired on the date of acquisition less any impairment losses. Goodwill is allocated to the Cash Generating Units ("CGU") to which it relates. Goodwill is measured at historical cost and is evaluated for impairment annually and more often if events or circumstances indicate there may be impairment.

Impairment is determined for goodwill by assessing if the carrying value of a CGU, including the allocated goodwill, exceeds its recoverable amount determined as the greater of the estimated fair value less costs to sell and the value in use. Impairment losses recognized in respect of a CGU are first allocated to the carrying value of goodwill and any excess is allocated to the carrying amount of assets in the CGU. Any goodwill impairment is recorded in income in the year in which the impairment is identified. Impairment losses on goodwill are not subsequently reversed.

p) **Segment reporting**

The Company operates in one reportable segment. The Company focuses on the medical and recreational cannabis industry, which includes support services such as Canabo Clinics and GrowWise Clinics.

q) **Revenue recognition**

The Company derives revenue from 1) providing medical consultation services to patients suffering from chronic pain and disabling illnesses, 2) conducting medical research associated with the use of medical cannabis and 3) the sale of and distribution of cannabis in Canada in accordance with the *Cannabis Act* .

Revenue is recognized upon transfer of control of the promised goods and services to customers in an amount that reflects the consideration of the Company expects to receive in exchange for those goods or services. Performance obligations are satisfied, and revenue is recognized, either over time or at a point in time. Certain activities may give rise to deferred revenue, which are contract liabilities under IFRS 15 and relate to payments received in advance of performance under contracts with customers. Contract liabilities are recognized as revenue as (or when) the Company satisfies its performance obligations under the contracts.

(i) **Medical consultation**: The Company provides medical services to patients on a scheduled appointment fixed fee basis. Performance of the service is considered complete at the conclusion of the appointment and revenue is recognized at a point in time.

(ii) **Medical research:** The Company provides customers with access to non-specific patient data relating to the use of medical cannabis in the treatment of various illnesses as well as the opportunity to conduct targeted research on the impact medical cannabis may have on specific ailments. Customers are billed a subscription fee for access to data or negotiated contract amounts related to targeted research. In the case of subscription fees, revenue is recognized evenly over the subscription year and revenue from targeted research amounts are recognized based on the extent of progress towards completion of the specific performance obligations related to each individual research project.

(iii) **Sale of cannabis:** Revenue from the sale of cannabis is when the Company transfers control to the customer upon delivery or the time of the product pickup from the Company’s facilities by the customer based on the contract-by-contract basis between the Company and the customer.

r) Joint arrangements

A joint arrangement classified as such when the arrangement provides joint control to the parties. Joint control is the contractually agreed sharing of control of an arrangement which exists only when decisions about the relevant activities require unanimous consent of parties sharing control. The Company recognizes joint arrangements as either joint ventures or joint operations depending on the circumstances of each arrangement. The assets, liabilities and results of joint operations are included within the respective line items of the Consolidated Statements of Financial Position, Consolidated Statements of Comprehensive Loss, Consolidated Statements of Changes in Shareholders Equity and Consolidated Statements of Cash Flows where an arrangement is classified as a joint operation. Arrangements classified as a joint venture are accounted for using the equity method of accounting. The Company's interest in an investee is initially recorded at cost and is subsequently adjusted for the Company's share of changes in the net assets of the investee, less any impairment in the value of individual investments, and any dividends paid.

Note 2 Significant Accounting Policies *(continued)*

New accounting standards issued but not yet effective

The Company has performed an assessment of new standards issued by the IASB that are not yet effective.

The Company has assessed that the impact of adopting these accounting standards on its consolidated financial statements would not be significant.

Adoption of IFRS 16 Leases

In January 2016, the IASB issued IFRS 16 – Leases ("IFRS 16") which replaces IAS 17 – Leases and its associated interpretative guidance. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract based on whether the customer controls the asset. For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to the current finance lease accounting, with limited exceptions for short-term leases or leases of low value assets. Lessor accounting remains similar to current accounting practice. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. This standard sets out a new model for lease accounting. A lessee can choose to apply IFRS 16 using either a full retrospective approach or a modified retrospective approach. The Company has applied IFRS 16 at the date it becomes effective using a modified retrospective approach. By applying this method, the comparative information for the 2018 fiscal year has not been restated.

At the inception of a contract, the Company assesses whether a contract is or contains a lease. If so, the Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which consists of:

- The amount of the initial measurement of the lease liability
- Any lease payments made at or before the commencement date
- Any indirect costs incurred
- An estimate of costs to dismantle or remove the underlying asset or to restore the site on which the asset is located
- Any incentives received from the lessor

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term lease that have a lease term of 12 months or less and leases of low value assets. The lease payments associated with these leases are expensed on a straight-line basis over the lease term.

On January 1, 2019, the Company adopted IFRS 16 Leases ("IFRS 16") using the modified retrospective approach which does not require restatement of prior period financial information as it recognizes the cumulative effect as an adjustment to opening retained earnings and applies the standard prospectively. On adoption of IFRS 16, the Company's lease liabilities related to contracts classified as leases are measured at the discounted present value of the remaining minimum lease payments, excluding short-term and low-value leases. The right of-use assets recognized were measured at amounts equal to the present value of the lease obligations. The weighted average incremental borrowing rate used to determine the lease liability at adoption was approximately 15%. The right-of-use assets and lease liability recognized relate to the Company's premises under lease.

The cumulative effect of initially applying IFRS 16 was recognized as a $1.6 million right-of-use asset (Note 3) with a corresponding lease liability (Note 3).

Note 2 Significant Accounting Policies *(continued)*

In applying IFRS 16 for the first time, the Company used the following practical expedients permitted by the standard:

- Apply a single discount rate to a portfolio of leases with similar characteristics.
- Account for leases with a remaining term of less than 12 months as at January 1, 2019 as short-term leases.
- Account for lease payments as an expense and not recognize a right-of-use asset if the underlying asset is of low dollar value; and
- The use of hindsight in determining the lease term where the contract contains terms to extend or terminate the lease.

Upon the adoption of IFRS 16, the Company adopted the following significant accounting policy effective January 1, 2019.

Leases

A contract is a lease (or may contain a lease) if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. A lease liability is recognized at the commencement of the lease term at the present value of the lease payments that are not paid at that date. At the commencement date, a corresponding right-of-use asset is recognized at the amount of the lease liability, adjusted for lease incentives received, retirement costs and initial direct costs. Depreciation is recognized on the right-of-use asset over the lease term. Interest expense is recognized on the lease liabilities using the effective interest rate method and payments are applied against the lease liability. Payments received for the sublease of right-of-use assets are recognized as sublease revenue.

Key areas where management has made judgments, estimates, and assumptions related to the application of IFRS 16 include:

- The incremental borrowing rates are based on judgments including economic environment, term, currency, and the underlying risk inherent to the asset. The carrying balance of the right-of-use assets, lease liabilities, and the resulting interest expense and depreciation expense, may differ due to changes in the market conditions and lease term.
- Lease terms are based on assumptions regarding extension terms that allow for operational flexibility and future market conditions.

Note 3 Right-of-Use Asset and Lease Liability

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

Right-of-Use Asset

	$
Cost	
Balance, December 31, 2018	-
Recognition upon adoption of IFRS 16	1,591
Balance, December 31, 2019	1,591
Accumulated amortization	
Balance, December 31, 2018	-
Amortization	(520)
Balance, December 31, 2019	(520)
Net book value, December 31, 2018	-
Net book value, December 31, 2019	1,071

Lease Liability

	$
Balance, December 31, 2018	-
Recognition upon adoption of IFRS 16	1,591
Interest expense	315
Payments	(699)
Balance, September 30, 2019	1,207
Current portion of lease liability	507
Long-term portion of lease liability	700

The Company recognized right-of-use asset and a corresponding lease liability upon the adoption of IFRS 16 related to its premises under lease (see Note 2). Interest expense is recognized on the lease liabilities and payments are applied against the lease liability.

Note 4 Significant Accounting Estimates and Judgments

The preparation of these consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting year. Actual outcomes could differ from these estimates. These 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.

Note 4 Significant Accounting Estimates and Judgments *(continued)*

The preparation of the consolidated 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.

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 considerations

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

Business combinations

Judgment is used in determining whether an acquisition is a business combination or an asset acquisition. In a business combination, all identifiable assets, liabilities and contingent liabilities acquired are recorded at their fair values. In determining the allocation of the purchase price in a business combination, including any acquisition related contingent consideration, estimates including market based and appraisal values are used. The contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity

Research revenue

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.

Share-based compensation and warrants

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

Note 5 Business Combination and Asset Acquisition

Flying High Brands Inc.

On November 22, 2018, the Company entered into a Master Joint Venture Agreement ("the SPE Agreement") with SPE Finance LLC ("SPE") to establish a joint venture for the purpose of licensing from SPE, certain brands of cannabis and cannabis products in Canada. The joint venture was incorporated under the name Flying High Brands Inc. The Company paid $1.0 million for 30 common shares of Flying High and issued 6,000,000 common shares with a fair value $12.1 million for 480 common shares of Flying High, giving the Company 51% ownership of Flying High, with the other 49% owned by SPE. It is intended that Flying High will have multiple income streams throughout the retail value chain and will use the Company's cannabis products for those purposes.

For accounting purposes, the Company controls FHBI and as a result has consolidated its operations from the date of acquisition. The Company determined that this transaction is an asset acquisition as the assets acquired did not constitute a business as defined by IFRS 3. The purchase price of the shares was allocated to intangible assets – license. The Company also incurred acquisition costs of $0.2 million.

Emblem Corp.

On March 14, 2019, the Company completed the acquisition of Emblem pursuant to a plan of arrangement under the provisions of the Canada Business Corporation Act (the "Arrangement Agreement"). Pursuant to the Arrangement Agreement, the Company acquired all of the issued and outstanding Emblem shares in exchange for common shares of Aleafia Health, following Emblem's amalgamation with the Company's wholly owned subsidiary, 11208578 Canada Inc., to form a new wholly owned subsidiary of the Company continuing as "Emblem Corp". Pursuant to the Arrangement Agreement, Emblem shareholders were entitled to receive 0.8377 of an Aleafia Health common share for each Emblem share held prior to the Arrangement (the "Consideration") with any fractional Aleafia Health common share being rounded down to nearest whole Aleafia Health common share. The Emblem shares were delisted from the TSXV at the close of business on March 18, 2019.

Prior to the completion of the Arrangement, Emblem had outstanding three classes of warrants to purchase Emblem shares listed on TSXV. Of the the listed warrants, only the class of warrants expiring on November 16, 2020 (EMC.WT.A) remain outstanding as warrants of "Emblem Corp" that upon exercise will entitle the holder thereof to receive the Consideration.

Former options to purchase Emblem shares were replaced, pursuant to the Arrangement Agreement, with replacement Aleafia Health (on the same terms as the Emblem options), such that upon exercise with entitle the holder thereof to receive the Consideration.

The acquisition was accounted for as a business combination as the assets acquired and liabilities assumed constitute a business. The transaction was accounted for using the acquisition method of accounting whereby the assets acquired, and the liabilities assumed were recorded at their estimated fair value at the acquisition date. The Company applied various valuation techniques in order to measure the assets acquired and the liabilities assumed in the business combination.

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

At the date of acquisition, the estimated fair values of the assets and liabilities of Emblem were as follows:

Consideration	$
Common shares issued (110,823,349 shares at $2.28)	252,677
Warrants issued	42,775
Replacement share options	5,922
Total consideration	301,374

Net assets acquired	$
Net tangible assets	74,584
Emblem brand	9,025
GrowWise brand	4,428
Symbl brand	1,647
Paris license	34,000
IP, R&D	600
SDM distribution agreement	1,300
Deferred income tax liability	(285)
	125,298
Goodwill acquired	176,076
Total net assets acquired	301,374

The resulting goodwill represents the sales and growth potential of Emblem and will not be deductible for tax purposes.

Had the business combination occurred on March 14, 2019, management estimated that the revenue of the Company would have increased by approximately $9,200 (unaudited) and the net loss of the Company would have increased by approximately $11,700 (unaudited) for the year ended December 31, 2019. Emblem expenses include approximately $13,100 (unaudited) in one-time, non-recurring expenses as a result of the acquisition of Emblem by the Company, including advisory fees and termination payments.

Business Combination

On March 26, 2018, Aleafia Inc. and 2412550 Ontario Inc., an indirect subsidiary of Canabo amalgamated pursuant to a Business Combination Agreement (the "Business Combination Agreement"). Pursuant to the Business Combination Agreement, all of the shareholders of Aleafia Inc. received one common share of Canabo for each common share of Aleafia Inc. held. In addition, all of the outstanding stock options and share purchase warrants of Aleafia Inc. were exchanged for stock options and share purchase warrants of Canabo on an equivalent basis.

Following the completion of the Business Combination, Aleafia Health shareholders held approximately 71% of the total issued shares of Canabo. Canabo continues to be the listed issuer. The Transaction was treated as a Fundamental Acquisition pursuant to the policies of the TSXV and for financial reporting purposes the Business Combination was treated as a reverse-take-over.

The reverse-take-over acquisition was recognized as a business combination as Canabo's assets acquired and liabilities assumed constitute a business. The Business Combination was accounted for using the acquisition method of accounting whereby the assets acquired, and the liabilities assumed were recorded at their estimated fair value at the acquisition date.

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

Note 5 Business Combination and Asset Acquisition *(continued)*

The Company applied various valuation models and methods in order to measure the fair values of the assets acquired and liabilities assumed.

The allocation of the components of total consideration to the net assets acquired was as follows:

Consideration	**$**
Fair value of common shares issued	26,291
Fair value of stock options deemed to be issued	164
Fair value of warrants deemed to be issued	160
Total consideration	26,615

Net assets acquired	**$**
Current assets	7,841
Equipment	151
Intangible asset, Canabo brand	309
Intangible asset, patient list	12,416
Intangible asset, scientific and medical research assets	849
Current liabilities	(1,620)
Deferred income tax liability	(980)
	18,965
Goodwill acquired	7,650
Total net assets acquired	26,615

The resulting goodwill represents the sales and growth potential of Canabo and will not be deductible for tax purposes.

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

Note 6 Property, Plant & Equipment

Cost	Computer and software	Equipment and furniture	Leasehold improvements	Land	Buildings and houses	Total
	$	$	$	$	$	$
Balance, December 31, 2017	5	141	114	763	653	1,676
Business acquisition	77	71	3	-	-	151
Additions	124	2,859	-	1,050	8,110	12,143
Balance, December 31, 2018	206	3,071	117	1,813	8,764	13.970
Business acquisition	42	2,233	5,302	13,063	19,158	39,797
Additions/disposals	510	6,721	34	(7,238)	12,525	12,552
Balance, December 31, 2019	758	12,025	5,452	7,637	40,447	66,319
Accumulated Depreciation						
Balance, December 31, 2017	(1)	(14)	(6)	-	(19)	(39)
Depreciation	(74)	(22)	(26)	-	(29)	(151)
Balance, December 31, 2018	(75)	(36)	(32)	-	(48)	(190)
Depreciation	(150)	(767)	(240)	-	(634)	(1,791)
Balance, December 31, 2019	(225)	(803)	(272)	-	(682)	(1,981)
Carrying Amounts						
Balance, December 31, 2018	131	3,035	85	1,813	8,716	13,780
Balance, December 31, 2019	533	11,222	5,181	7,637	39,764	64,338

Note 7 Intangible Assets

	Grow License	Patient List	Serruya License	Emblem Brands	Paris License	Other	Total
	$	$	$	$	$	$	$
Balance, December 31, 2017	-	-	-	-	-	-	-
Additions from incorporation and acquisitions	9,770	12,416	12,260	-	-	1,457	35,903
Amortization	(412)	(955)		-	-	(162)	(1,529)
Balance, December 31, 2018	9,358	11,461	12,260	-	-	1,295	34,374
Additions (Note 4)	-	-	-	15,100	34,000	1,900	51,000
Amortization	(391)	(1,242)	(885)	(130)	(1,122)	(353)	(4,122)
Balance, December 31, 2019	**8,967**	**10,219**	**11,375**	**14,970**	**32,878**	**2,842**	**81,252**

Note 7 Intangible Assets *(continued)*

Intangible assets as presented in the schedule arose from separate arms-length transactions:

(i) the purchase of Aleafia Farms Inc.

(ii) the amalgamation with Canabo

(iii) the acquisition of Flying High

(iv) the acquisition of Emblem

The transactions and the allocation of the purchase price for Canabo, Flying High and Emblem are described in detail in Note 5.

Note 8 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, 2019, there were 277,893,686 common shares issued and outstanding.

Transactions for Year Ended December 31, 2019

- The Company issued 1,114,046 common shares for the exercise of share purchase warrants for gross proceeds of $1.7 million.
- The Company issued 2,331,255 common shares as a success fee in connection with the Emblem transaction described in Note 5 and the Company issued 2,000,000 shares to Lucas Escott in April 25, 2019 for services rendered for operations.
- On March 14, 2019 in connection with the acquisition of Emblem, the Company issued 110,823,349 common shares as a purchase consideration. The common shares had a fair value of $252.7 million and were measured using the market price of the Company's shares.
- The Company issued 1,681,558 common shares for gross proceeds of $0.3 million for the exercise of stock options.
- During the year ended December 31, 2019, convertible debt holders converted their holdings of $2.351 million of Convertible into 2,566,953 common shares of the Company.

Note 8 Share Capital *(continued)*

Transactions for the Year Ended December 31, 2018

- On March 26, 2018 Aleafia Inc. completed private placement financing by issuing 24,171,000 units ("Unit") at a price of $1.25 per share for gross proceeds of $30.2 million. Each unit consisted of one common share and one-half purchase warrant. Each whole warrant entitles the holder to purchase an additional common share of the Company at $1.75 per share for 18 months. In connection with the financing, the Company incurred cash commission and aggregate professional fees of $1.9 million and issued broker's warrants of 1,336,920 with exercise price of $1.25 per share and 668,460 with exercise price of $1.75 per share. All broker's warrants are exercisable for 18 months. The fair value of 1,336,920 broker's warrants was $0.9 million and was estimated using the Black-Scholes option pricing model applying a market price of $1.25, an exercise price of $1.25, a risk-free rate of 1%, an expected volatility of 115% and an expected dividend yield of 0%. The fair value of 668,460 broker's warrants was $0.4 million and was estimated using the Black-Scholes option pricing model applying a market price of $1.25 an exercise price of $1.75, a risk-free rate of 1%, an expected volatility of 115% and an expected dividend yield of 0%. The fair value of the warrants has been recorded as share issue costs.
- On March 26, 2018, as a result of the business amalgamation described in Note 6 the Company was deemed to have acquired all of the issued and outstanding common shares of Canabo Medical Inc. in exchange for 38,103,461 common shares of the Company. The estimated fair value of the shares at the time of the transaction is $26.3 million. Pursuant to the terms and conditions of the arrangement, certain common shares were placed in escrow and will be released over a period of time.
- The Company issued 3,959,600 common shares from subscriber warrants for gross proceeds of $6.9 million, 1,606,040 common shares from broker's warrants for gross proceeds of $2.0 million.
- The Company issued 1,500,000 common shares with a fair value of $0.9 million for consulting services.
- The Company issued 3,838,711 common shares for gross proceeds of $1.7 million from exercise of options.
- The Company issued 6,000,000 common shares with fair values of $12.1 million pursuant to terms of the investment arrangements with SPE in Flying High Brands
- The Company issued 5,000,000 common shares to Serruya for gross proceeds of $10.0 million.

Note 8 Share Capital *(continued)*

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

Warrants

The Company had following warrant activity during the years ended December 31, 2018 and 2019:

	Warrants outstanding	Weighted average exercise price	Weighted average remaining contractual life (years)
	#	$	
Outstanding and exercisable, December 31, 2017	-	-	-
Broker warrants issued	2,005,380	1.42	0.75
Subscriber warrants issued	12,085,500	1.75	0.75
Warrants issued CannTrust	500,000	0.55	1.50
Deemed to be issued on business amalgamation	203,350	0.50	-
Warrants exercised	(5,565,640)	1.59	-
Outstanding and exercisable, December 31, 2018	9,228,590	1.67	-
Warrants issued, Emblem acquisition	40,336,129	2.43	0.89
Warrants issued with convertible debt	27,370,000	1.45	2.50
Broker warrants issued	1,915,900	1.47	2.50
Warrants exercised	(1,114,046)	1.36	-
Warrants expired	(17,471,757)	1.92	-
Outstanding and exercisable, December 31, 2019	60,264,816	2.05	

At December 31, 2019, the Company had outstanding warrants entitling the holders to acquire additional common shares as follows:

Outstanding and exercisable	Expiry date	Warrants	Weighted average exercise price
		#	$
Warrants Issued by Aleafia	June 11, 2020 - June 27, 2022	29,785,900	1.54
Legacy warrants issued by Emblem	Dec 6, 2019 - Dec 6, 2021	30,478,916	2.54
Outstanding and exercisable, December 31, 2019		60,264,816	2.05

Stock Options

The Company has adopted a stock option plan, providing the Board of Directors with the discretion to issue an equivalent number of options of up to 10% 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 Company recognizes the fair values of the options granted over the vesting periods and recorded $10.7 million during the year ended December 31, 2019 (year ended December 31, 2018 - $12.5 million).

Note 8 Share Capital *(continued)*

The fair values of the stock options granted above were estimated using the Black-Scholes option pricing model with the following assumptions:

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

	2019	2018
Weighted average share price	$1.23	$1.47
Weighted average risk free interest rate	1.54%	2.21%
Weighted expected life - years	3.34	3.76 years
Weighted average expected volatility	92%	109%
Weighted expected dividends	Nil	Nil
Forfeiture rate	1.07%	0%

The following table summarizes information relating to outstanding and exercisable stock options as at December 31, 2019:

Continuity schedule	Options	Weighted average exercise price
	#	$
Options outstanding, December 31, 2018	12,651,289	1.01
Options deemed to be issued on business amalgamation	4,626,892	1.71
Options issued	11,719,495	1.07
Options cancelled & expired	(2,335,392)	1.62
Options exercised	(1,682,559)	0.52
Options outstanding, December 31, 2019	24,979,725	1.22
Vested, December 31, 2019	17,633,725	1.26
Unvested, December 31, 2019	7,346,000	1.10

The following table reconciles the stock option activity during the year ended December 31, 2018:

	Number of options	**Weighted average exercise price**
		$
Balance, Incorporation date	-	-
Granted	5,000,000	0.25
Balance, December 31, 2017	5,000,000	0.25
Options deemed to be issued on business amalgamation	1,690,000	0.63
Granted	11,050,000	1.23
Exercised	(3,838,711)	0.46
Cancelled/forfeited	(1,250,000)	1.03
Balance, December 31, 2018	12,651,289	1.01
Vested, December 31, 2018	5,018,750	0.45
Unvested, December 31, 2018	7,632,539	1.38

Note 8 Share Capital *(continued)*

Restricted Share Units ("RSU")

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

The Company has an 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 payments 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. Under the plan, a maximum of 4,000,000 common shares may be issuable. During the year the Company issued 2,000,000 RSU which vested immediately.

Note 9 Related Party Balances and Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

Key management includes directors and officers of the Company. During the years ended December 31, 2019 and 2018, the Company had the following key management compensation with the officers and directors of the Company.

	2019	2018
	$	$
Wages and Benefits	2,509	972
Accounts payable and accrued liabilities	606	27
Share based compensation	1,674	2,433

As at December 31, 2019, the amount of $0.6 million was due to directors and officers. The amounts are interest free, unsecured and payable on demand and included in the accounts payable and accrued liabilities.

Note 10 Management of Capital

The Company's objectives when managing capital are to sustain sufficient capital base so as to maintain investor, creditor 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, long-term debt and convertible debt. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares or dispose of assets or adjust the amount of cash.

Note 11 Inventory

Inventory

	$
Balance, December 31,2017	-
Transferred from biological assets	909
Inventory sold and expensed to cost of goods sold during the year	(553)
Balance, December 31,2018	356
Acquisition of Emblem	5,301
Transferred from biological assets	16,851
Inventory purchased during the year	20,409
Inventory sold and expensed to cost of goods sold during the year	(6,744)
Changes in value of inventory sold	(2,058)
Balance, December 31, 2019	34,115

Inventory is composed of the following items:

	2019	2018
	$	$
Finished goods	27,067	356
Work-in-progress	6,018	-
Supplies and consumables	1,030	-
Total inventory	34,115	356

Note 12 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 trading 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 to be 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 biological assets in future. The fair value is determined using a valuation model to estimate 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 years. As of December 31, 2019, the indoor plants at vegetative state are on average 93% complete. As of December 31, 2019, it was estimated that the Company's biological assets would yield approximately 175 kg of cannabis when harvested.

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, 2019 as required by IFRS 13 fair value measurement.

Note 12 Biological Assets *(continued)*

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

The carrying value of biological assets are as follows:

Biological assets	
	$
Balance, December 31, 2017	-
Changes in fair value less costs to sell due to biological transformation	1,142
Transferred to inventory upon harvest	(909)
Balance, December 31, 2018	233
Changes in fair value less costs to sell due to biological transformation	15,277
Acquisition of Emblem	392
Production costs capitalized to biological assets	1,920
Transferred to inventory upon harvest	(16,851)
Balance, December 31,2019	971

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

Significant assumptions	Indoor	Outdoor
Average transfer price per gram ($)	4.50	1.25
Average yield per plant (grams)	129	1000
Average stage of growth (weeks)	6	12

	Estimated KGs	Estimated total
	#	$
Biological assets transferred to inventory	11,834	16,851

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

Management has quantified the sensitivity of the inputs and determined the following:

a) **Selling price per gram**

A decrease in the average selling price per gram by 5% would result in the biological asset value decreasing by $123,117 and inventory decreasing by $12,079.

b) **Harvest yield per plant**

A decrease in the harvest yield per plant of 5% would result in the biological asset value decreasing by $39,194.

The unrealized gain for biological assets for the year ended December 31, 2019 was $15.3 million (year ended December 31, 2018 - $1.1 million).

Note 13 Investments

On November 22, 2018, the Company entered into a Master Joint Venture Agreement with SPE to establish a joint venture for the purpose of owning and managing retail stores with a focus on selling cannabis and cannabis-related products across Canada and internationally (excluding the United States of America). The intention is to create, fund and govern the operations of the joint venture in the form of a corporation to carry on business. The joint venture was incorporated under the name One Plant (Retail) Corp. The Company paid $4.0 million for the issuance of 99 common shares of One Plant and as a result owns 9.9% of its outstanding common shares. For accounting purposes, the Company classified its interest in One Plant at fair value through profit and loss and as an investment.

The Company invested in shares of $0.1 million in CannaPacific Pty Limited ("CannaPacific") in January 2019 and $0.5 million in April 2019.

For accounting purposes , the Company classified its interest in OPC and CannaPacific at fair value through profit and loss .

Note 14 Convertible Debt

Emblem Convertible Debt

On completion of the Arrangement, Aleafia Health assumed the obligations of the convertible debentures previously issued by Emblem Corp. in February 2018 pursuant to a supplemental trust indenture dated March 2019 (the "Supplemental Indenture"). These convertible debentures were originally sold at a price of $1,000 per unit for gross proceeds of $25.0 million. Under the Supplemental Indenture, the convertible debentures are subject to the following terms:

- a maturity date of February 2, 2021;
- an interest rate of 8% per annum, payable semi-annually;
- convertible at $2.3875 per share, subject to adjustment in certain events, at the option of the holder; and
- Aleafia Health may require the conversion of the full principal amount of the outstanding convertible debentures at the conversion price on 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 $4.12 for any 10 consecutive days.

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

Aleafia Convertible Debt

In June 2019, the Company issued 40,250 additional convertible debentures units (the "Aleafia Convertible Debt Unit") for gross proceeds of $40.3 million. 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 $1.55 per share until June 27, 2022 at the option of the holder; and
- The Company may require conversion of the full principal amount outstanding convertible debenture at the conversion price on 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.

Debenture debt holders converted $2.6 million debentures to 2,094,666 equity shares.

Convertible debt	
	$
Balance, December 31, 2018	-
Acquisition of Emblem	19,652
Issuance of convertible debentures	40,250
Transaction costs deferred	(3,301)
Initial present value discounts	(6,087)
Amortization of transaction costs	1,117
Amortization of present value discounts	1,966
Debentures converted into common shares	(2,587)
Balance, December 31, 2019	51,009

The following schedule illustrates the equity component of convertible debt issued by the Company on June 27, 2019:

	Allocated value	Composition	Transaction costs allocation	Carrying value
	$	%	$	$
Convertible debt	34,163	85	3,301	30,862
Equity component of convertible debt	6,087	15	588	5,499
Total	40,250	100	3,889	36,361

Note 15 Financial Instruments and Financial Risks

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

Fair Value of Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, marketable securities, trade receivable, investments, accounts payable, deferred revenue, lease liability and convertible debt.

The following table summarizes the carrying values of the Company's financial instruments by measurement category:

	2019	2018
	$	$
FVTPL (i)	47,315	30,407
Assets, amortized cost (ii)	4,983	884
Liabilities, amortized cost (iii)	71,959	3,281

(i) Cash and cash equivalents, investments and marketable securities

(ii) Trade receivable

(iii) Accounts payable, lease liability, deferred revenue and convertible debt

The Company classifies its fair value measurements in accordance with an established hierarchy that priorities 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	41,247	-	-	41,247
Marketable securities	-	-	1,452	1,452
Investments	-	4,616	-	4,616
Total	41,247	4,616	1,452	47,315

The carrying value of accounts receivable and accounts payable are a reasonable approximation of their fair value due to their short-term nature. The carrying value of the convertible debt is a reasonable approximation of its value based on the market interest rate for similar instruments as at December 31, 2019.

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 risk management are to ensure that the outcomes of risk-taking activities are consistent with Company's strategies and 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 expenses are denominated in Canadian dollars. The Company's corporate office is based in Canada and current exposure to exchange rate fluctuations is minimal.

The Company does not have any significant foreign currency denominated monetary liabilities. The principal business of the Company is the identification and evaluation of assets or a business and once identified or evaluated, to negotiate an acquisition or participation in a business subject to receipt of shareholder approval and acceptance by regulatory authorities. The Company is attracting foreign investors and in future, the Company's financial assets and liabilities will comprise of foreign currency marketable securities, convertible notes, long-term investments and promissory notes.

b) **Interest rate risk**

The Company is exposed to interest rate risk on the variable rate of interest earned on bank deposits. The fair value interest rate risk on bank deposits is insignificant as the deposits are short-term nature.

The Company has not entered any derivative instruments to manage interest rate fluctuations.

c) **Credit risk**

Credit risk is the risk of loss associated with the counterparty's inability to fulfill its payment obligations. Financial instruments that potentially subject the Company to concentrations of credit risks consist principally of cash and cash equivalents, trade and other receivables and short-term investments. The risk exposure is limited to their carrying values reflected on the statement of financial position. To minimize credit risk, the Company places these instruments with a high-quality financial institution. There are no expected credit losses as the Company does not invest in asset backed investments. Trade and other receivables mainly consist of trade account receivable and goods and services taxes (GST/HST) recoverable.

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

d) **Liquidity risk**

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. As at December 31, 2019 the Company's contractual obligations consist of accounts payable and lease liability, which has a contractual maturity date within one year. Management closely monitors the liquidity position and expects to have adequate sources of funding to finance the Company's projects and operations.

Note 16 Commitments and Contingencies

The Company has entered into arrangements for office, clinic space, cannabis supply and plant construction contracts:

Commitments	< 2 years	2-5 years	Total
	$	$	$
Cannabis supply agreement	558	-	558
Plant construction contracts	5,941	-	5,941
Long-term arrangements on office space	1,152	278	1,429
Service contracts	88	-	88
Total	7,739	278	8,017

The Company also has car lease commitments. The minimum for 2020 are $18,496, and $5,950 for 2021.

On October 8, 2019 Aleafia Health announced that Emblem had terminated its long-term supply agreement with Aphria Inc. dated September 11, 2018 in accordance with its terms as a consequence of Aphria's failure to meet its supply obligations. The matter was referred to confidential arbitration. Emblem is seeking the return, in full, of its initial deposit in addition to damages. There are currently several unresolved disputes between the parties relating to the termination to be addressed at the arbitration. Aphria has denied liability and has issued a counterclaim against Emblem and Aleafia Health for damages. The Company's deposit has been recorded as a current asset in the consolidated statement of financial position.

Certain of Emblem's former executives have been named in a claim commenced March 20, 2015 in the Ontario Superior Court of Justice that also identifies Emblem and ECC in relation to certain services provided to the Emblem parties by an individual. The parties to the claim are: Amos Tayts (Plaintiff/Defendant by Counterclaim), Gordon Fox, Harvey Shapiro, Maxim Zavet, Levy Zavet Professional Corporation, MZ Prime Holdings Ltd., White Cedar Pharmacy Corporation, Emblem Corp. (Defendants), Emblem Cannabis Corporation, Kindcann.com, Inc. (Defendants/Plaintiffs by Counterclaim), and Talya Lev-Mor (Defendant by Counterclaim). The plaintiff has claimed $10 million in damages for some unspecified combination of the value of shareholdings in Emblem of which he says he has been wrongfully deprived, the amount by which he claims Emblem has been directly or indirectly unjustly enriched as a result of his labours, and damages for breach of contract, misrepresentation and oppression. The claim is being contested and the action is currently at the discovery stage.

Note 16 Commitments and Contingencies *(continued)*

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

It is the Company's determination that the claim of $10.0 million is primarily against the founders of Emblem and not the Emblem parties. The claim for damages against the Emblem parties, specifically, is not pleaded with sufficiency particularity to allow an accurate assessment of the quantum of damages being sought against the Emblem parties. The likely measure of damages sought will either be the market value of the services the plaintiff alleges to have provided to the Emblem parties or the degree to which Emblem was enriched by those services. The Company is of the view that the amount of the claim bears no relationship to the value of the services provided. 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 Tayts on March 22, 2019 in the Ontario Superior Court of Justice against Emblem and Emblem arising out of the same facts and seeking the same damages. The claim is contested but pleadings have not yet concluded.

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.

Note 17 Income Taxes

The Company has non-capital losses carried forward of approximately $115 million available to reduce income taxes in future years which expire from 2031 to 2039.

The Company has not recognized any deferred income tax assets. The Company recognizes deferred income tax assets based on the extent to which it is probable that sufficient taxable income will be realized during the carry forward periods to utilize all deferred tax assets.

The following table reconciles the amount of income tax recoverable on application of the statutory Canadian federal and provincial income tax rates:

	2019	2018
Canadian statutory income tax rate	26.5%	26.5%
	$	$
Income tax recovery at statutory rate	(9,705)	(4,911)
Effect of income taxes of:		
Permanent differences and other	15,969	7,745
Change in deferred tax assets not recognized	(3,305)	(1,826)
Deferred income taxes (recovery)	2,959	(1,008)

Note 17 Income Taxes *(continued)*

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

The temporary differences that give rise to significant portions of the deferred tax assets and liabilities are presented below:

	2019	2018
	$	$
Non-capital loss carry forwards	30,586	5,076
Property, plant and equipment	(766)	194
Biological assets and inventory	(2,958)	-
Intangible assets	(18,448)	(11,665)
Convertible debentures	(3,088)	-
Share issue costs	2,350	522
Deferred tax assets not recognized	(13,070)	3,437
Deferred income tax liability	(5,394)	(2,436)