



**ALEAFIA HEALTH INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

For the three and nine months ended September 30, 2020

A large, jagged mountain peak covered in snow, set against a sky with a gradient from blue at the top to pink and purple at the bottom. The mountain's surface is textured with snow and dark rock patches.

[AleafiaHealth.com](http://AleafiaHealth.com)

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2020

---

This Management's Discussion and Analysis ("**MD&A**") of Aleafia Health Inc. is dated November 11, 2020 and provides an analysis of the financial operating results for the three and nine months ended September 30, 2020. Unless the context otherwise requires, "**Aleafia Health**" refers to Aleafia Health Inc. and the "**Company**" refers to Aleafia Health and its affiliates, subsidiaries and associated corporations. This MD&A should be read in conjunction with the Company's unaudited interim condensed consolidated financial statements for the three and nine months ended September 30, 2020 and notes thereto (the "**Financial Statements**"), which have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") for consolidated financial statements.

All amounts are in Canadian dollars unless otherwise specified. The MD&A has been prepared by reference to the MD&A disclosure requirements established under National Instrument 51-102 "Continuous Disclosure Obligations" ("**NI 51-102**") of the Canadian Securities Administrators. This MD&A, the Company's interim Financial Statements, the most recent annual consolidated financial statements for the year ended December 31, 2019, the Company's Annual Information Form ("**AIF**") and press releases have been filed on SEDAR. Additional Information is also available on the Company's website at [www.AleafiaHealth.com](http://www.AleafiaHealth.com). The common shares of the Company are traded on the Toronto Stock Exchange ("**TSX**") under the symbol "AH". The Company also has a class of convertible debentures (AH.DB) and two classes of warrants (AH.WT),(AH.WT.A) trading on the TSX.

## COMPANY OVERVIEW

Aleafia Health is a publicly traded corporation existing 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](http://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, and have provided medical cannabis therapy to more than 75,000 patients to date. The Company owns three significant cannabis production facilities in Canada (all three 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 Corp.**") 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 Corp., following its 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 the symbol "ALEF", which was subsequently changed to "AH" on May 27, 2020. The Company also has a class of convertible debentures (AH.DB) and two classes of warrants (ALEF.WT), (AH.WT.A) trading on the TSX. Emblem Corp.'s common shares were delisted from the TSXV on March 18, 2019; however, the following class of Emblem Corp. warrants remain listed on the TSXV as at the date hereof:

- "**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 Corp. and Computershare Trust Company of Canada dated as of November 16, 2017 as supplemented by a supplemental warrant indenture between Emblem Corp., Aleafia Health and Computershare Trust Company of Canada made as of March 14, 2019.



## FINANCIAL AND OPERATIONAL RESULTS

### Quarterly Condensed Income (Loss) Statement

(\$,000s)	Three months ended		Nine months ended	
	Sep 30, 2020	Sep 30, 2019	Sep 30, 2020	Sep 30, 2019
Net revenue	4,968	4,958	29,339	10,323
Cannabis net revenue <sup>(1)(3)</sup>	4,245	3,825	26,966	6,777
Consolidated cost of sales	4,261	2,679	13,055	7,261
Gross profit before fair value ("FV") adjustments on net revenue	707	2,279	16,284	3,062
Gross margin before FV adjustments on net revenue <sup>(1)</sup>	14 %	46 %	56 %	30 %
Selling, general & administrative expenses ("SG&A")	6,736	5,209	21,340	24,629
Gross profit	(10,001)	12,397	(1,743)	15,240
Adjusted EBITDA <sup>(1)(2)</sup>	(5,652)	(2,498)	3,772	(18,811)
<b>Net income (loss)</b>	<b>(19,761)</b>	<b>1,859</b>	<b>(29,937)</b>	<b>(29,848)</b>

1. See "Cautionary Statements Regarding Certain non-IFRS Measures" section for term definition.
2. See "Adjusted EBITDA" section for reconciliation to IFRS equivalent.
3. See "Revenue" section for reconciliation to IFRS equivalent.

### QUARTERLY FINANCIAL HIGHLIGHTS

(\$,000s)	Three months ended		Nine months ended	
	Sep 30, 2020	Sep 30, 2019	Sep 30, 2020	Sep 30, 2019
Cannabis net revenue <sup>(1)(2)</sup>	4,245	3,825	26,966	6,777
Net medical cannabis revenue <sup>(1)(2)</sup>	1,909	1,450	5,236	2,630
Net adult use cannabis revenue <sup>(1)(2)</sup>	234	2,152	1,810	3,562
Net bulk wholesale cannabis revenue <sup>(1)(2)</sup>	2,101	224	19,920	585
<b>Balance Sheet</b>				
Cannabis inventory & biological assets <sup>(3)</sup>	36,689	21,474	-	-
Cash, cash equivalents and marketable securities	43,342	57,172	-	-
Other current assets	20,970	15,637	-	-
Accounts payable	25,348	10,246	-	-
Working capital	51,441	83,411	-	-
Property, plant & equipment	77,611	62,128	-	-
Total assets	454,737	457,337	-	-
Total liabilities	83,959	64,305	-	-
<b>Operational results - Cannabis</b>				
Active, registered patients	17,526	10,298	-	-
Average net selling price of medical <sup>(1)</sup>	\$ 7.91	\$ 10.61	\$ 7.94	\$ 11.46
Average net selling price of adult-use <sup>(1)</sup>	\$ 4.92	\$ 8.06	\$ 5.56	\$ 7.59
Average net selling price of wholesale <sup>(1)</sup>	\$ 3.85	\$ 7.08	\$ 2.61	\$ 2.98
Kilograms sold	835	435	7,537	410

1. See "Cautionary Statements Regarding Certain non-IFRS Measures" section for term definition.
2. See "Revenue" section for reconciliation to IFRS equivalent.
3. Represents combined biological assets and cannabis inventory.

## PRODUCTION

A key competitive advantage for the Company is the strength of its closed loop production ecosystem, across its three facilities.

On an annualized basis, the Company can cultivate up to 128,500 kgs of dried cannabis flower at its licensed and operational facilities and extract 115,000 kgs.

Facility	Cultivation Capacity KGs (Current annual)	Extraction Capacity KGs (Current annual)
Port Perry Facility	102,000	
Paris Facility	1,500	115,000
Niagara Facility	25,000	-
Total Capacity	128,500	115,000

### Paris Facility

The licensed and operational Paris Facility (the “**Paris Facility**”) features cultivation rooms and handles all extraction, packaging and order fulfillment for the Company’s medical, adult-use and international sales. The indoor cultivation at the Paris Facility is primarily used for premium dried flower products.

The expansion of the Paris Facility (“**Paris Phase II**”), licensed in Q2 2020, is entirely dedicated to the extraction, production, packaging and distribution of high-margin, value-added cannabis health and wellness products. The expansion allows the Company to process and package all flower cultivated at its Port Perry Facility (the “**Port Perry Facility**”) outdoor cultivation site and its Niagara Facility (the “**Niagara Facility**”). The Paris Phase II expansion increased the Company’s licensed extraction, packaging and processing area from 2,500 sq. ft. to 20,000 sq. ft. It features multiple automated packaging lines and rooms dedicated to the production of new product formats, along with in-house quality control analytical testing. Currently, the Company’s machinery at the Paris Facility allows for annualized extraction of 50,000 kgs of dried cannabis flower, and is capable of extracting 115,000 kgs at full capacity, as needed.

The expansion is purpose-built to meet European Union Good Manufacturing Practices (“**EU-GMP**”), which represents the highest standard of pharmaceutical-grade production in the world, and as a result provides the greatest possible access to global markets. Members of Aleafia Health’s senior management have previously led the build-out, certification and operation of multiple EU-GMP pharmaceutical production facilities.

As previously announced in May 2020, the Company’s indirect subsidiary, Aleafia Germany GmbH, submitted its application to German regulators for EU-GMP certification.

As part of the certification process, an in-person inspection from Germany-based regulatory authorities is scheduled to occur at the Paris Facility in December 2020. To prepare for the inspection date, the Company began gradually implementing EU-GMP compliant processes for the manufacture of oil drop products (extracts), and expects that the Paris Facility will be operating in a EU-GMP compliant manner by November 2020. While inspection authorities have not communicated any indication of a delay in the inspection timeline, the Company believes that it may be delayed to Q1 2021 due to Covid-19 related travel concerns.

### Port Perry Facility

The Company’s Port Perry Facility features a 7,000 sq. ft. indoor cannabis cultivation facility, along with an 86-acre outdoor cannabis cultivation site. The Company pursued outdoor cultivation due to significantly lower facility capital costs and operating costs relative to indoor and greenhouse cultivation.

An expansion licence amendment was secured on May 12, 2020 increasing the Port Perry Facility's licensed cultivation area from 26 acres to 86 acres. Approximately 50,000 cannabis plants were planted for the 2020 outdoor crop, utilizing 66 acres. Construction of an additional 30,000 sq. ft. of indoor drying and storage buildings and site-wide underground irrigation at the Port Perry Facility was completed during Q2 2020. An amendment authorizing operations in the new drying and storage buildings was received in October 2020. See "*Key Developments Subsequent to September 30, 2020*" for further discussion of the 2020 outdoor harvest results.

### **Niagara Facility**

The Niagara Facility features a highly advanced, automated, moving container bench system, which allows for a perpetual, year-round harvest. Capital investments made in automated cultivation and quality assurance systems assist in reducing both costs and execution risk. Upon initial licensing, it was primarily used as a staging ground for the 2020 outdoor cultivation at the Company's Port Perry Facility. Starter plants were grown on-site and transported to Port Perry at the beginning of the outdoor cultivation season, significantly reducing planting-to-harvest lead times.

Since the completion of the outdoor propagation crop, the Niagara Facility is now being used for normal course cannabis production, with the first of perpetual, daily harvests completed in September 2020. The Niagara Facility will provide the Company with a stable, consistent inventory of high-quality dried flower products.

The Niagara Facility's perpetual harvest offsets seasonal fluctuations in inventory inherent in outdoor cultivation and will ensure consistent, standardized input material for medical and adult-use sales channels. Its licence was granted on March 13, 2020, expires on March 13, 2023 and authorizes cannabis cultivation, propagation, harvesting and sales in "Building 1". The entire 160,000 sq. ft. facility is now licensed and operational .

### **Distribution Centre**

During Q1 2020, the Company entered into a lease agreement for a warehouse facility (the "**Distribution Centre**"), located in Vaughan, Ontario. Retrofitting of the Distribution Centre to meet Health Canada requirements was completed, and a cannabis processing (for warehousing) and medical sales licence applications were submitted to Health Canada during Q2 2020. The Distribution Centre is intended to serve as the Company's logistics hub, handling all order fulfillment and storage. It also serves as the Company's registered corporate head office, where the majority of the Company's executive management is based.

Strategically located in the Greater Toronto Area and in close proximity to the Toronto Pearson Airport, licensing of the facility will allow the Company to significantly improve delivery times for its AssureHome Delivery medical cannabis delivery service and expand its geographic service area to other major metropolitan areas. Following initial Health Canada licensing, the Company also intends to apply for a subsequent licence amendment to allow packaging lines to be operated at the facility.

## **COVID-19 & BUSINESS OPERATIONS**

On April 17, 2020, the Company provided a comprehensive corporate update on business operations, including changes in operations due to the COVID-19 pandemic. The most significant change in operations to date has been the temporary closure of the bricks and mortar offices of the Company's national network of cannabis clinics and education centres since March 16, 2020. Immediately following the closure of the physical clinic locations, all patient consultations were completed virtually, and all clinic administrative staff, medical professionals and customer service worked from home.

In accordance with provincial and local rules surrounding reopening, the Company has since commenced the phased re-opening of certain clinic locations. Since July, some staff are now working in clinics, but patients continue to primarily receive their consultations virtually. All locations are equipped with the appropriate personal protective equipment, cleaning materials and signage, with staff following Company-wide standard operating procedures to ensure safety and security.

Cannabis productions was deemed an essential service by the Government of Ontario, and as a result all three of the Company's production facilities have remained open with no material adverse effect on operations.

## PRODUCTS & STRATEGY

The Company currently produces a series of products including dried flower, pre-rolls, vape cartridges, oil drops, oil capsules and oral sprays, and expects to introduce a diverse portfolio of new product formats in the second half of 2020. Leveraging its advantage in cultivating cannabis at low cost, the Company aims to couple low-cost cultivation with high margin, unique product formats tailored to the various need-states of health and wellness focused consumers.

### Expansion of Cannabis 1.0 Portfolio

The Company's core portfolio of Cannabis 1.0 products includes dried flower, oils, capsules and sprays. Beginning in Q4 2020, the Company intends to commence a significant expansion of product SKUs in core categories, leveraging the additional production capacity made available through the Health Canada licences and licence amendments granted at all three production facilities.

#### *Dried Flower at Scale with New Cultivars*

Expanding upon its signature strains, the Company has acquired a roster of new cultivars not yet available in the legal market. They are now in production at the Niagara Facility. Leveraging the greater scale of cultivation at Niagara, the Company will begin introducing a broader assortment of dried flower SKUs to align with the demand of key consumer segments. This will include certain premium strains available exclusively to the Company, along with a competitively priced roster of pre-rolls SKUs.

#### *Cannabis Oils*

Emblem Cannabis Corporation ("**Emblem**") commenced sales of cannabis oil products to authorized patients in December 2017. Cannabis oil is packaged with an oral syringe to ensure consistency and accuracy in dosage, allowing patients to better titrate and administer each dose consistently.

#### *Oral Sprays*

In September 2018, Emblem launched its first oral metered-dose spray, Emblem Atmosphere, which is developed using medium-chain triglycerides oil, a pharmaceutical-grade carrier oil derived from coconuts that is flavour-neutral, odourless and shelf-stable. The oral sprays are intended to be administered sublingually, with each spray delivering 0.1 millilitres of oil, or roughly 2 milligrams of active ingredients. Emblem Atmosphere is currently available in a 15-millilitre spray bottle, with approximately 150 sprays per bottle.

#### *Oil-filled Capsules*

Capsules deliver consistent and accurate dosages which allow physicians and patients to more accurately titrate cannabis intake. The Company expects that oil-filled capsules will to some extent, displace simple oils but that, in the aggregate, capsules will be accretive to the total cannabis oils market. Emblem commenced production of oil-filled capsules and commenced sales in Q4 of 2018.

### New Cannabis 2.0 Formats

The Company believes that maintaining a diverse portfolio of high-quality, differentiated product formats is an important element in its long-term success. Leveraging its substantial investments in the Paris Facility, the Company intends to produce a wide variety of new Cannabis 2.0 formats for sale in the Canadian adult-use and medical markets, and globally where legally permitted.

Following the launch of universal 510 vape cartridges, the Company intends to release cannabis infused sublingual strips and confectionery edibles in the form of soft chews & lozenges, and other new formats. To reduce lead times and research and development costs, the Company is leveraging the expertise, formulations and intellectual property of strategic partners.

### ***Cannabis-Infused Sublingual Strips***

Recognizing the importance of consistent and precise dosing and discrete and reliable delivery methods, the Company is currently in the process of bringing cannabis infused sublingual strips to the Canadian medical and adult-use markets. To accelerate this process and recognizing the financial costs and time associated with developing new product formats, during Q1 2020 Emblem reached a definitive licensing agreement with Kinstate Inc., to bring their award-winning, cannabis-infused sublingual strips brand and underlying technology to the Canadian market. The agreement provides the Company with the exclusive Canadian rights to manufacture, market and sell the brand, Kin Slips, along with rights to use the associated proprietary formulations and manufacturing methodology.

### ***Universal 510 Vape Cartridges***

Sold under the Symbl adult-use and Emblem medical brands, the vapes are inspired by Aleafia Health's signature cultivars. The custom-made, unique terpene blends deliver robust flavours and consistent effects. They contain CO<sub>2</sub>-extracted distillate mixed with a custom blend of botanically sourced terpenes. No fillers or artificial flavours are used, offering consumers and patients an authentic experience.

## **REVENUE**

The Company generates revenue primarily from the sale of cannabis products and by providing patients with physician-led cannabinoid therapy and education. Following the acquisition of Emblem Corp., the Company commenced sales to the Canadian adult-use and medical cannabis markets. The Company also generates cannabis sales through Canadian and international bulk wholesale transactions to other businesses that are authorized at law to sell cannabis.

For the three and nine months ended September 30, 2020 (“**Q3 2020**”) net revenue was \$5.0 million and \$29.3 million, flat and an increase of 184%, respectively, over same periods in the prior year. The increase over the nine month period was primarily derived from a \$20.2 million increase in cannabis net revenue.

### **Cannabis Net Revenue**

(\$,000s)	Three months ended		Nine months ended	
	Sep 30, 2020	Sep 30, 2019	Sep 30, 2020	Sep 30, 2019
Gross sale of cannabis revenue	4,434	4,157	27,637	7,220
Excise taxes	189	332	671	443
<b>Cannabis net revenue</b>	<b>4,245</b>	<b>3,825</b>	<b>26,966</b>	<b>6,777</b>

For the three and nine months ended September 30, 2020, cannabis net revenue was \$4.2 million and \$27.0 million, an increase of 11% and 298%, respectively, over the same periods in the prior year. The annual increase was primarily derived from a \$19.3 million increase in bulk wholesale revenue, and a \$51.4 million increase in medical cannabis revenue.

As previously disclosed in the Company's MD&A for the quarters ended March 31, 2020 and June 30, 2020, sale of cannabis net revenue may fluctuate due to the seasonal nature of outdoor cultivation, which was the primary reason for a sequential decline in cannabis net revenue during Q3 2020. However, the Company's exposure to seasonality is reduced with the recent licensing of the Niagara Facility and Paris Phase II expansion, that together support consistent, standardized input material, processing and packaging capacity for medical and adult-use sales channels.

The Company expects to see net cannabis revenue in the medical, adult-use and wholesale channels increase sequentially in Q4 2020. By Q1 2021, the Company expects that the sale of packaged cannabis products in the medical and adult-use sales channels will represent a majority of the Company's total cannabis revenue.



## Adult-use Cannabis Net Revenue & Net Revenue Per Gram

Net adult-use cannabis revenue for the three and nine months ended September 30, 2020 was \$0.2 million and \$1.8 million, respectively, compared to \$2.2 million and \$3.6 million for the same periods in the prior year. The decline was due primarily to a lack of dried flower products which represents the largest product category in the adult-use market. As disclosed previously adult-use revenues have been negatively impacted by a lack of inventory for certain dried flower products. As a result, adult-use revenues are generated almost entirely from oil-based products. The Company's roster of products available for the sale in the adult-use market will increase significantly during Q4 2020 and Q1 2021, with new formats being launched and a significant expansion of the dried flower portfolio, produced at greater scale.

Adult-use net revenue per gram equivalent sold was \$4.92, a decline from \$8.06 in the previous year. The decline was primarily due to an industry-wide trend of declining average selling prices in the adult-use market in Canada. The Company has also adopted a strategy of offering high-quality products at competitive price points to increase sales volume.

## Medical Cannabis Net Revenue & Net Revenue Per Gram

Domestic net medical cannabis revenue for the three and nine months ended September 30, 2020 was \$1.9 million and \$5.2 million, an increase of 32% and 99%, respectively, over the same periods in the prior year. The increase was primarily due to improved product availability of top-selling SKUs and a continued increase in the Company's total number of active, registered patients.

Medical net revenue per gram equivalent sold was \$7.91, compared to \$10.61 in the previous year. A decline in the price of dried flower sold was offset by an increase in volume sold of higher-margin product SKUs, including capsules and sprays.

## Bulk Wholesale Net Revenue & Revenue Per Gram

Net bulk wholesale revenue received from sales to cannabis licensed producers (each an "LP") for the three and nine months ended September 30, 2020 was \$2.1 million and \$19.9 million, respectively, compared to \$0.2 million and \$0.6 in the prior year. The increase was primarily due to the sale of flower harvested at the Port Perry Facility's outdoor cultivation site to other LPs.

Bulk wholesale net revenue per gram equivalent sold was \$3.85, compared to \$7.08 in the previous year. The decline was due to a significant decline of wholesale cannabis selling prices in Canada.

## Clinic Revenue

(\$,000s)	Three months ended		Nine months ended	
	Sep 30, 2020	Sep 30, 2019	Sep 30, 2020	Sep 30, 2019
Consultation services	474	715	1,414	2,141
Research	249	418	959	1,405
<b>Total clinic revenue</b>	<b>723</b>	<b>1,133</b>	<b>2,373</b>	<b>3,546</b>

Clinic revenue for the three and nine months ended September 30, 2020 was \$0.7 million and \$2.4 million, a decline of 36% and 33%, respectively, over the same periods in the prior year. This was primarily due to a decline in the number of billable patient visits, as the Company shifted its clinic operating model to conducting virtual only patient consultations during the COVID-19 pandemic. Despite the decrease in billable patient visits, the number of active registered patients with Emblem has increased significantly to 17,526, at September 30, 2020, an increase of 70%, over the previous year.

## Net Income & Adjusted EBITDA

(\$,000s)	Three months ended		Nine months ended	
	Sep 30, 2020	Sep 30, 2019	Sep 30, 2020	Sep 30, 2019
<b>Net income (loss)</b>	(19,761)	1,859	(29,937)	(29,848)
Current income tax expense (recovery)	(1,400)	-	-	-
Deferred income tax expense (recovery)	(2,994)	-	(5,394)	(658)
Share-based payments	648	411	2,108	12,582
Business transaction costs	816	403	3,322	3,582
Amortization and depreciation	3,273	2,840	7,515	3,712
Interest expense	3,062	2,405	8,538	4,298
Fair value changes in biological assets and changes in inventory sold	10,708	(10,118)	18,027	(12,178)
Non-operating income	(4)	(298)	(407)	(301)
<b>Adjusted EBITDA<sup>(1)</sup></b>	<b>(5,652)</b>	<b>(2,498)</b>	<b>3,772</b>	<b>(18,811)</b>

1. See "Cautionary Statements Regarding Certain non-IFRS Measures" section for term definition.

The Company has reported negative adjusted EBITDA of \$5.7 million for the three months ended September 30, 2020 and positive adjusted EBITDA of \$3.8 million for the nine months ended, compared to a loss of \$2.5 million and \$18.8 million, respectively, for the same periods in 2019. The substantial difference in adjusted EBITDA reported over the course of 2020 is primarily due to the seasonality of outdoor cultivation, with bulk wholesale revenue of outdoor grown flower declining over the course year, resulting in a lower gross profit.

Net loss for the three and nine months ended September 30, 2020 was \$19.8 million and \$29.9 million, compared to positive net income of \$1.9 million and a loss of \$29.8 million in the same periods in 2019. The net loss was primarily due to the non-cash \$14.3 million adjustment of saleable inventory to net realizable value during the quarter (see "Liquidity and Capital Resources" section for further discussion).

## Gross Profit & Gross Margin on Cannabis Net Revenue

The Company's gross margin and gross profit by market type are set out in the following tables:

(\$,000s)	Medical Cannabis	Adult-use Cannabis	Bulk Wholesale Cannabis	Total
<b>Three months ended September 30, 2020</b>				
Gross revenue	2,063	270	2,101	4,434
Excise taxes	154	36	-	189
Net cannabis revenue	1,909	234	2,101	4,245
Cost of goods sold	1,417	186	2,286	3,889
Gross profit (loss) before FV adjustments <sup>(1)</sup>	492	48	(185)	356
Gross margin before FV adjustments <sup>(1)</sup>	26 %	21 %	(9)%	8 %
<b>Three months ended September 30, 2019</b>				
Gross revenue	1,534	2,382	241	4,157
Excise taxes	84	230	18	332
Net cannabis revenue	1,450	2,152	223	3,825
Cost of goods sold	809	1,247	126	2,182
Gross profit before FV adjustments <sup>(1)</sup>	641	905	97	1,643
Gross margin before FV adjustments <sup>(1)</sup>	44 %	42 %	43 %	43 %

1. See "Cautionary Statements Regarding Certain non-IFRS Measures" section for term definition.

(\$,000s)	Medical Cannabis	Adult-use Cannabis	Bulk Wholesale Cannabis	Total
<b>Nine months ended September 30, 2020</b>				
Gross revenue	5,668	2,050	19,919	27,637
Excise taxes	432	239	-	671
Net cannabis revenue	5,236	1,811	19,919	26,966
Cost of goods sold	3,029	1,230	7,716	11,975
Gross profit before FV adjustments <sup>(1)</sup>	2,207	581	12,203	14,991
Gross margin before FV adjustments <sup>(1)</sup>	42 %	32 %	61 %	56 %
<b>Nine months ended September 30, 2019</b>				
Gross revenue	2,788	3,847	585	7,220
Excise taxes	158	285	-	443
Net cannabis revenue	2,630	3,562	585	6,777
Cost of goods sold	2,756	2,557	443	5,756
Gross profit (loss) before FV adjustments <sup>(1)</sup>	(126)	1,005	142	1,021
Gross margin before FV adjustments <sup>(1)</sup>	(5)%	28 %	24 %	15 %

1. See "Cautionary Statements Regarding Certain non-IFRS Measures" section for term definition.

Gross profit before FV adjustments on net cannabis revenue was \$0.4 million and \$15.0 million for the three and nine months ended September 30, 2020, respectively, compared to \$1.6 million and \$1.0 million for the same periods in 2019. Gross margin before FV adjustments on net cannabis revenue for the three and nine months ended September 30, 2020 was 8% and 56%, respectively, compared to gross margin of 43% and 26% for the same periods last year.

### Medical cannabis gross profit

Medical cannabis gross profit before FV adjustments was \$0.5 million and \$2.2 million for the three and nine months ended September 30, 2020, respectively, compared to \$0.6 million and a \$0.1 million loss during the same periods last year. Gross margin before FV adjustments was 26% and 42%, compared to 44% and -5% in the prior year, respectively. The Company realized an increase in sales volume due to an improved product mix and certain changes to pricing that are more competitive, which resulted in a lower gross margin during the quarter. In addition, the Company sold dried flower products utilizing flower purchased from other LPs that reduced margins due to its higher cost per gram, relative to dried flower produced by the Company at its own production facilities. In 2021, the Company intends to produce substantially all of dried flower products for the medical cannabis market in-house

### Adult-use cannabis gross profit

Adult-use gross profit before FV adjustments was \$48,000 and \$0.6 million for the three and nine months ended September 30, 2020, respectively, compared to \$0.9 million and \$1.0 million for the same periods last year. Gross margin before FV adjustments was 21% and 32%, compared to 42% and 28% in the prior year, respectively. The decline in gross margin was primarily due to a significant price reduction enacted during the reporting period to ensure competitive pricing of the Company's product portfolio.

### Wholesale bulk cannabis gross profit

Wholesale bulk gross loss before FV adjustments was -\$0.2 million, and a gross profit of \$12.2 million for the three and nine months ended September 30, 2020, respectively, compared to \$0.1 million gross profit in both of the same periods in the previous year. Gross margin before FV adjustments during Q3 2020 was negative 9%, compared to 43% in the previous quarter. The negative gross margin is attributable to the Company selling excess CBD distillate originally intended for use in vape cartridges, but which was no longer required due to a greater focus on THC dominant vape SKUs.

## Operating Expenses

(\$,000s)	Three months ended		Nine months ended	
	Sep 30, 2020	Sep 30, 2019	Sep 30, 2020	Sep 30, 2019
Wages and benefits	1,917	2,485	7,514	6,497
General and administrative	4,003	2,321	10,504	14,550
Business transaction costs	816	403	3,322	3,582
Bad debt expense	500	-	904	-
Amortization and depreciation	3,273	2,840	7,515	3,712
Share-based payments	648	411	2,108	12,582
<b>Total</b>	<b>11,157</b>	<b>8,460</b>	<b>31,867</b>	<b>40,923</b>

Operating expenses for the three and nine months ended September 30, 2020 were \$11.2 million and \$31.9 million, respectively, compared to \$8.5 million and \$40.9 million for the same periods last year. This was primarily due a decline in share-based payments, and partially offset by operational expansions at its three production facilities, all of which received Health Canada regulatory approval during 2020.

## KEY DEVELOPMENTS DURING THE THREE MONTHS ENDED SEPTEMBER 30, 2020

### a) Launch of AssureHome Delivery Same-Day Service

On July 29, 2020 the Company announced that it would offer same-day delivery through AssureHome Delivery, a direct-to-door delivery service for medical cannabis products. Providing patients with fast and complementary service, it is available exclusively to Emblem patients, in the Greater Toronto Area and surrounding communities. Medical cannabis orders received before noon on any business day are shipped and delivered the same day by dedicated couriers.

### b) Appointment of Pharmaceutical Executive Tricia Symmes as Chief Commercial Officer

During the reporting period, Aleafia Health announced the appointment of pharmaceutical executive Tricia Symmes as Chief Commercial Officer, effective August 27, 2020. Symmes brings over 20 years of experience as a senior executive in the pharmaceutical, consumer packaged goods, and cannabis industries. Reporting to Aleafia Health CEO Geoffrey Benic, she will lead the development and execution of the Company's product launches, sales, marketing and corporate development initiatives in the adult-use, medical and international cannabis markets.

### c) Regulatory Approval to Commence Cannabis Sales in Germany

On September 1, 2020, the Company announced that its indirect subsidiary, Aleafia Health Germany GmbH ("Aleafia Germany") will commence distributing medical cannabis products to German pharmacies following the successful receipt of regulatory approvals. Aleafia Germany received a controlled drug licence from the Federal Institute for Drugs and Medical Devices and a European Union Good Distribution Practice certification from the Cologne district government. Together, these approvals authorize Aleafia Germany to purchase and distribute medical cannabis products within Germany from its cannabis distribution centre ("DC") in Aachen Brand. Aleafia Germany commenced cannabis sales in September.

### d) Launch of Cannabis 2.0 Portfolio with 510 Vape Cartridges

On September 29, 2020, Aleafia Health announced the launch of its first Cannabis 2.0 product, 510 vape cartridges. The vapes are inspired by Aleafia Health's signature cultivars. The custom-made, unique terpene blends deliver robust flavours and are intended to provide a more consistent effect. They contain CO<sub>2</sub>-extracted distillate mixed with a custom blend of botanically sourced terpenes. No fillers or artificial flavours are used, offering consumers and patients an authentic experience. Vape shipments to Emblem medical patients and provincial wholesalers commenced subsequent to the reporting period.

## KEY DEVELOPMENTS SUBSEQUENT TO SEPTEMBER 30, 2020

### a) 2020 Preliminary Outdoor Grow Results



On November 6, 2020, the Company reported its Port Perry Facility's preliminary outdoor cannabis harvest results, where 50,000 plants have yielded approximately 31,200 kgs of dried cannabis flower at a cash cost per gram to harvest of \$0.10. Included in the total yield is 7,200 kgs of THC-dominant dried flower, much of which will be used to accelerate the expansion of the Company's adult-use product portfolio. Preliminary test results indicate that cannabinoid content is again comparable to the results of identical cultivars grown indoor. While these results are extremely encouraging, the Company cautions that, as with the previous year's harvest, potency and quality control tests for the entire crop will not be completed for another two to three weeks following the announcement.

## b) Disposition of Shares Held in Aphria Inc.

On June 25, 2020, the Company announced that Emblem and Aleafia Health entered into a settlement agreement (the "Settlement Agreement") with Aphria Inc. ("Aphria") to resolve their outstanding dispute in respect of the termination of the parties' wholesale cannabis supply agreement. Under the terms of the Settlement Agreement, Emblem received common shares of Aphria with an aggregate market value of \$10.0 million. During, and subsequent to the reporting period, the Company disposed of the Aphria shares, for cash proceeds of approximately \$11.5 million.

## HISTORICAL FINANCIAL RESULTS

Three months ended				
(\$,000s)	Sep 30, 2020	Jun 30, 2020	Mar 31, 2020	Dec 31, 2019
Net revenue	4,968	9,775	14,596	6,028
Net cannabis revenue	4,245	8,995	13,726	4,852
Gross profit before FV adjustments on cannabis net revenue	356	3,502	12,074	3,864
Gross margin before FV adjustments on cannabis net revenue	8 %	36 %	83 %	80 %
SG&A expenses	6,736	8,500	6,102	5,924
Net (loss) income	(19,761)	(4,020)	(6,165)	(9,759)
Basic and diluted earnings (loss) per share	(0.06)	(0.01)	(0.02)	(0.04)
<b>Balance Sheet</b>				
Working capital	51,441	74,666	67,686	96,903
Cannabis inventory & biological assets	36,689	39,050	29,518	35,086
Cash and cash equivalents	34,559	45,399	33,380	41,247

Three months ended				
(\$,000s)	Sep 30, 2019	Jun 30, 2019	Mar 31, 2019	Dec 31, 2018
Net revenue	4,958	3,839	1,525	644
Net cannabis revenue	3,825	2,420	531	200
Gross profit before FV adjustments on cannabis net revenue	1,643	170	(794)	(354)
Gross margin before FV adjustments on cannabis net revenue	43 %	7 %	(150)%	(177)%
SG&A expenses	5,209	7,855	11,566	4,140
Net (loss) income	1,859	(11,477)	(20,230)	(11,958)
Basic and diluted earnings (loss) per share	0.01	(0.04)	(0.12)	(0.10)
<b>Balance Sheet</b>				
Working capital	83,411	75,935	51,267	25,753
Cannabis inventory & biological assets	21,474	7,217	5,564	590
Cash and cash equivalents	57,172	57,977	36,836	26,407

## LIQUIDITY AND CAPITAL RESOURCES

(\$,000s)	Sep 30, 2020	Dec 31, 2019
Cash and cash equivalents	34,559	41,247
Marketable securities	8,783	1,452
Current assets	101,001	117,642
Current liabilities	49,560	20,740
Working capital	51,441	96,902
Total assets	454,737	462,357
Total liabilities	83,959	77,843
<b>Capitalization</b>		
Lease liability	3,324	1,207
Convertible debt	55,232	51,009
Total debt	58,556	52,216
Total equity	370,778	384,514
Total capitalization	429,334	436,730

The Company's objectives when managing its liquidity and capital resources are to ensure sufficient liquidity to support its financial obligations and execute its operating and strategic plans while maintaining healthy liquidity reserves and access to capital for at least the next twelve months.

At September 30, 2020, the Company had working capital of \$51.4 million, compared to \$96.9 million at December 31, 2019. During the reporting period, the Company enacted a \$14.3 million write-down to net realizable value of saleable inventory to reflect a significant decline in wholesale prices.

Cash, cash equivalents and marketable securities increased to \$43.3 million from \$42.7 million at December 31, 2019, due to the settlement with Aphria and bought deal financing. Management believes that its current cash and cash equivalents and working capital are sufficient to support the launch of new product formats, general operations and obligations over the next 12 months, however the Company may elect to raise further capital as needed.

### Contractual obligations & capital expenditures

As of September 30, 2020, the Company had the following contractual obligations:

(\$,000s)	< 2 years	2-5 years	Total
Plant construction contracts	1,000		1,000
Long-term arrangement on facilities	1,854	2,851	4,705
Car lease	9	-	9
Total	2,863	2,851	5,714

Existing contractual obligations include \$1.0 million committed to plant construction contracts. These are almost all commitments to obtain production machinery required to manufacture additional product formats. Capital expenditures on property, plant and equipment ("PPE") declined significantly during Q3 2020. The majority of capital expenditures during the quarter are attributable to a \$2.5 million payment to the general contractor responsible for the Paris Facility expansion upon completion of the project in May 2020. With capital expenditures largely completed, the Company should have greater flexibility in operations and reduced balance sheet risk. The increase in long-term arrangements on facilities was due to the Company entering into a lease agreement for the Distribution Centre.

### 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.

### 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.

In fiscal year 2019 certain debenture debt holders converted \$2.6 million debentures to 2,094,666 equity shares. A condensed consolidated cash flow statement of the Company is summarized below:

(\$,000s)	Sep 30, 2020	Sep 30, 2019
Cash balance, beginning of period	41,247	26,407
Cash from (used in) operating activities	(1,408)	(29,344)
Cash used in investing activities	(17,901)	15,848
Cash provided by financing activities	12,621	38,676
Cash balance, end of period	34,559	51,587

The Company’s cash flow from operations consists of revenue generated from consultation, research services and sale of cannabis.

For the nine months ended September 30, 2020, cash flow used in operations was \$1.4 million, compared to \$29.3 in the prior year. The improvement was due to increased revenue generated by the sale of cannabis, improved gross margins and a gain on the settlement with Aphria. Cash used in investing activities was \$17.9 million, primarily due expenditures on PPE, with significant capital projects completed at all four of the Company's facilities during the reporting period. This included the payment of construction holdbacks for already completed work at the Paris Facility, additional infrastructure at the Port Perry Facility to manage the 2020 outdoor cultivation harvest, along with the purchase of planting and harvesting equipment. Investments were also made in new production machinery, primarily for new cannabis product formats, and for the completion of the Niagara Facility. Cash provided by financing activities of \$12.6 million was primarily due to the Company’s bought deal financing which closed during Q2 2020.

## **Contingencies**

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 Emblem Corp. 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 Corp. of which he says he has been wrongfully deprived, the amount by which he claims Emblem Corp. 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.

It is the Company's determination that the claim of \$10.0 million is primarily against the founders of Emblem Corp. 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 Corp. 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 Corp. arising out of the same facts and seeking the same damages. The claim is contested but pleadings have not yet concluded.

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 and Aleafia Health. The claim alleges that the THC and CBD levels in the products manufactured and/or sold by the defendants differed from what was represented on packaging, specifically alleging that THC and CBD levels were found to be significantly higher than indicated in some products while others may have had significantly lower levels.

The action is seeking \$500 million (or such other amount as may be proven at trial) for all Canadians who purchased medicinal cannabis products on or after June 16, 2010 as well as Canadians who legally purchased cannabis for recreational purposes on or after October 17, 2018. The claim also seeks \$5,000,000 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 and has not been certified as a class proceeding. Based on the information available, the Company appears to have good defences to the claim and intends to vigorously defend the claim. The \$500 million claimed in damages is asserted against all of the defendants and does not appear to be grounded in an analysis of the potential liability, if any, that the Company may have, assuming the allegations in the claim were proven to be true. Accordingly, at this stage no contingency has been provided for in respect of this claim.

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.

## **Off-balance sheet arrangements**

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



## RELATED PARTY TRANSACTIONS

(\$,000s)	Three months ended		Nine months ended	
	Sep 30, 2020	Sep 30, 2019	Sep 30, 2020	Sep 30, 2019
Management compensation	534	641	1,457	1,550
Director fees	-	-	105	944
Accounts payable and accrued liabilities	107	40	187	570
Share-based compensation	917	490	2,222	923

Included in management compensation is wages and benefits for nine members of the Company's management team.

## FINANCIAL INSTRUMENTS

The table below summarizes the categories under IAS 39 and the new measurement under IFRS 9 for the financial assets and financial liabilities:

(\$,000s)	Sep 30, 2020	Dec 31, 2019
FVPTL <sup>(1)</sup>	48,865	47,315
Assets, amortized cost <sup>(2)</sup>	10,667	4,847
Liabilities, amortized cost <sup>(3)</sup>	83,959	72,449

- Cash and cash equivalents, investments and marketable securities.
- Trade receivable
- Accounts payable, lease liability, deferred revenue and convertible debt.

The Company classifies its fair value measurements in accordance with an established hierarchy that prioritizes the inputs in valuation techniques used to measure fair value as follows:

- Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities
- Level 2 - Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, and
- Level 3 - Inputs that are not based on observable market data.

The following table sets forth the Company's financial assets measured at fair value on a recurring basis by Level within the fair value hierarchy:

Fair value measurements using (\$,000s)	Quoted prices in active markets for identical instruments (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Cash	34,559	-	-	34,559
Marketable securities	7,275	-	1,508	8,783
Investments		5,523		5,523
Total	41,834	5,523	1,508	48,865

## Financial Instruments Risk Management

Effective risk management is fundamental to the success of the organization and is recognized as key in the Company's overall approach to strategy management. The primary goals of the 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 following potential financial risk categories, in addition to those set out under the “*Risk Factors*” section of this MD&A:

**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 Company is attracting foreign investments and in future, the Company’s financial assets and liabilities may 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 the 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.

**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 September 30, 2020 the Company’s contractual obligations consist of accounts payable and accrued liabilities, convertible debt 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.

## SUMMARY OF OUTSTANDING SHARE DATA

The following table sets forth the Company’s outstanding share data as of the date of this MD&A:

Securities	Units Outstanding November 11, 2020
Issued and outstanding common shares	301,269,686
Stock options	25,186,402
Warrants	57,571,253
Convertible debentures	62,309

## CRITICAL ACCOUNTING ESTIMATES

The preparation of the Company’s consolidated Financial Statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the Financial Statements and reported amounts of expenses during the reporting year. Actual outcomes could differ from these estimates. The Financial Statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the Financial Statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the year in which the estimate is revised and future years if the revision affects both current and future years. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The preparation of the Financial Statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

### **Biological assets and inventory**

In calculating the value of 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 plants. 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 its 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 Aleafia Health'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 Aleafia Health's stock price, the value of the common share, and the risk-free interest rate.

## **DISCLOSURE AND INTERNAL CONTROLS**

### **Disclosure Controls and Procedures**

Aleafia Health's disclosure controls and procedures (DCP), as defined in National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings (NI 52-109) are designed to provide reasonable assurance that information required to be disclosed in our filings is recorded, processed, summarized and reported within the time periods specified in securities legislation. They are also designed to provide reasonable assurance that all information required to be disclosed in these filings is accumulated and communicated to management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO) as appropriate, to allow timely decisions regarding public disclosure. Our management, including the CEO and CFO, conducted an evaluation of the effectiveness of the DCP as of December 31, 2019 and concluded that the DCP were effective as of December 31, 2019.

## **Internal Control over Financial Reporting**

Management is responsible for establishing and maintaining adequate internal control over financial reporting (ICFR), as defined in NI 52-109. ICFR means a process designed by or under the supervision of the CEO and CFO, and effected by our board of directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Financial Statements for external purposes in accordance with IFRS, and includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the Company's financial position;
- are designed to provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- are designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the Financial Statements.

All internal control systems have inherent limitations and therefore our ICFR can only provide reasonable assurance and may not prevent or detect misstatements due to error or fraud. Our management, including the CEO and CFO, conducted an evaluation of the effectiveness of our ICFR as of December 31, 2019 and concluded that our ICFR were effective as of December 31, 2019.

## **Changes in Internal Control over Financial Reporting**

There were no changes to ICFR during the quarter ended September 30, 2020 that materially affected, or are reasonably likely to materially affect, our ICFR.

## **RISK FACTORS**

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

### **Regulatory and Legal Risks**

#### ***Compliance with Laws***

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

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



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

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

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

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

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

### ***Changes in Laws, Regulations and Guidelines***

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

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

Since cannabis remains illegal under U.S. federal law (other than recent the recent hemp legalization) any engagement in cannabis-related activities may lead to heightened scrutiny by regulatory bodies and other authorities that could negatively impact the Company and/or its personnel.

The impact of these new laws, regulations and guidelines on the business of the Company, including increased costs of compliance and other potential risks, cannot be fully predicted; accordingly, the Company may experience adverse effects.

### ***Reliance on Licences and Permits***

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

The Port Perry Licence will expire on October 13, 2020 and the Paris Licence will expire on July 26, 2022. Although management believes it will meet the requirements of the *Cannabis Act*, for extension of the Licences, there can be no guarantee that Health Canada will extend or renew the Licences or, if it is extended or renewed, that it will be extended or renewed on the same or similar terms. Should Health Canada not extend or renew the Licences, or should it renew the Licences on different terms or not provide the amendments as requested for anticipated capacity increases, the business, financial condition and results of the operations of the Company will be materially adversely affected.

The Company is dependent upon its Licences for its ability to grow, store and sell cannabis and other products derived therefrom at the Port Perry and Paris Facilities. The Licences are subject to ongoing compliance, reporting requirements and renewal.

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

### ***Regulatory or Agency Proceedings, Investigations and Audits***

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

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

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

### ***Reliance on Facilities***

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

Adverse changes or developments affecting the Port Perry Facility, Paris Facility or Niagara Facility, including but not limited to a force majeure event or a breach of security, could have a material adverse effect on the Company's business, financial condition and prospects. Any breach of the security measures and other production facility requirements, including any failure to comply with recommendations or requirements arising from inspections by Health Canada, could also have an impact on the Company's ability to continue operating under its existing licence or the prospect of renewing the licence or could result in a revocation of the licence. In addition, the Company has made an application for an expanded outdoor grow licence at the Port Perry Facility. While the Company expects, with the addition of this licence, that the Port Perry Facility has the potential to significantly increase the Company's cultivation and growing capacity, no assurance can be given that this will be the case.

### ***GMP Certification***

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

### ***Constraints on Marketing Activities***

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

### ***Intellectual Property***

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

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

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

To protect the Company's intellectual property, it may become involved in litigation, which could result in substantial expenses, divert the attention of management, cause significant delays, materially disrupt the conduct of business or adversely affect the business, financial condition and results of operations.

In addition, other parties may claim that the Company's products infringe on their proprietary or patent protected rights. Such claims, whether or not meritorious, may result in the expenditure of significant financial and managerial resources and legal fees, result in injunctions or temporary restraining orders or require the payment of damages.

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

## **Operating Risks**

### ***The Cannabis Industry in Canada***

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

### ***Operating in a New and Evolving Industry***

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

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

### ***Reliance on Third Party Suppliers, Manufacturers and Contractors***

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

### ***Third Party Transportation***

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

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

### ***Reputational Risk to Third Parties***

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

### ***Supply Shortages and Overages***

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



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

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

### ***Disruption of Supply Chain***

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

- i. extraordinary weather conditions or natural disasters such as hurricanes, tornadoes, floods, fires, extreme heat, earthquakes, etc.;
- ii. a local, regional, national or international outbreak of a contagious disease, including the COVID-19 coronavirus, Middle East Respiratory Syndrome, Severe Acute Respiratory Syndrome, H1N1 influenza virus, avian flu, or any other similar illness could result in a general or acute decline in economic activity (see also, "*Public Health Crises, including COVID-19*");
- iii. political instability, social and labour unrest, war or terrorism; or
- iv. interruptions in the availability of basic commercial and social services and infrastructure including power and water shortages, and shipping and freight forwarding services including via air, sea, rail and road.

### ***Public Health Crises, including COVID-19***

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

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

### ***Effectiveness of Quality Control Systems***

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

### ***Development of New Products and Technologies***

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

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

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

### ***Reliance on Skilled Workers and Equipment***

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

### ***Attraction and Retention of Key Personnel***

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

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

## **Financial Risks**

### ***Compliance with TSX Requirements***

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

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

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

### ***No Assurance That Listing Standards of TSX Will Continue to be Met***

Aleafia Health must meet continuing listing standards to maintain the listing of the common shares on the TSX. If Aleafia Health fails to comply with listing standards and the TSX delists the common shares, Aleafia Health and its shareholders could face significant material adverse consequences, including but not limited to:

- i. a limited availability of market quotations for the common shares;
- ii. reduced liquidity for the common shares;
- iii. a determination that the common shares are “penny stock,” which would require brokers trading in the common shares to adhere to more stringent rules and possibly result in a reduced level of trading activity in the secondary trading market for the common shares;
- iv. a limited amount of news about the Company and analyst coverage; and
- v. a decreased ability for Aleafia Health to issue additional equity securities or obtain additional equity or debt financing in the future.

### ***Volatile Market Price of the Common Shares***

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

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

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

### ***Obligations as a Public Company***

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

### ***Dilution***

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

### ***Ability to Establish and Maintain Bank Accounts***

While the Company does not anticipate any banking restrictions at this time, there is a risk that banking institutions may not accept payments related to the cannabis industry. Such risks could increase costs for the Company. In the event financial service providers do not accept accounts or transactions related to the cannabis industry, it is possible that the Company will be required to seek alternative payment solutions. If the industry were to move towards alternative payment solutions, the Company would have to adopt policies and protocols to manage its volatility and exchange rate risk exposures. The Company’s inability to manage such risks may adversely affect the Company’s operations and financial performance.

### ***Cash Flow from Operations***

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

### ***Additional Financing and Restrictions***

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

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

### ***Joint Venture Vehicles***

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

### ***Ability to Achieve or Maintain Profitability***

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

### ***Wholesale Price of Cannabis Volatility***

The Company's revenues are in a large part derived from the production, sale, and distribution of cannabis. The cost of production, sale, and distribution of cannabis is dependent on a number of key inputs and their related costs, including equipment and supplies, labour and raw materials related to the Company's growing operations, as well other overhead costs such as electricity, water, and utilities. Any significant interruption or negative change in the availability or economics of the supply chain for key inputs could materially impact the Company's financial condition and operating results. Any inability to secure required supplies and services or to do so on appropriate terms could have a materially adverse impact on the Company's business, financial condition, results of operations and prospects. There is currently no established market price for cannabis and the price of cannabis is affected by numerous factors beyond the Company's control. Any price decline may have a material adverse effect on the Company's business, financial condition and operations.

The Company's operating income may be significantly and adversely affected by a decline in the price of cannabis and will be sensitive to changes in the price of cannabis and the overall condition of the cannabis industry, as the Company's profitability is directly related to the price of cannabis. Any price decline may have a material adverse effect on the Company.

### ***Impact of the Illicit Supply of Cannabis***

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

- i. offer products with higher concentrations of active ingredients that are either expressly prohibited or impracticable to produce under current Canadian regulations;
- ii. use delivery methods, including certain edibles, concentrates and extract vaporizers, that we are currently prohibited from offering to individuals in Canada;
- iii. use marketing and branding strategies that are restricted under the *Cannabis Act* and *Cannabis Regulations*; and
- iv. make claims not permissible under the *Cannabis Act* and other regulatory regimes.

As these illicit market participants do not comply with the regulations governing the medical and adult-use cannabis industry in Canada, their operations may also have significantly lower costs.

As a result of the competition presented by the illicit market for cannabis, any unwillingness by consumers currently utilizing these unlicensed distribution channels to begin purchasing from LPs for any reason or any inability or unwillingness of law enforcement authorities to enforce laws prohibiting the unlicensed cultivation and sale of cannabis and cannabis-based products could:

- i. result in the perpetuation of the illicit market for cannabis;
- ii. adversely affect the Company's market share; and
- iii. adversely impact the public perception of cannabis use and LPs, all of which could have a materially adverse impact on the Company's business, operations and financial condition.

### ***Vulnerability to Rising Energy Costs***

The Company's cannabis growing operations will consume considerable energy, which will make the Company vulnerable to rising energy costs. Accordingly, rising or volatile energy costs may adversely impact the business of the Company and its ability to operate profitably.

### ***Employee Health and Safety Regulations***

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

### **Environmental Risks**

#### ***Environmental Regulations and Risks***

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

### ***Risks Inherent in an Agricultural Business***

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

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

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

### **Other Risks**

#### ***Competition***

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

- i. have significantly greater financial, technical, marketing and other resources;
- ii. be able to devote greater resources to the development, promotion, sale and support of their products and services; and
- iii. have more extensive customer bases and broader customer relationships.
- iv.

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

#### ***Unfavourable Publicity or Consumer Perceptions***

The Company believes the cannabis industry is highly dependent upon consumer perception regarding the safety, efficacy and quality of cannabis. Consumer perception of the Company's products can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding the consumption of cannabis products. There can be no assurance that future scientific research, findings, regulatory proceedings, litigation, media attention or publicity will be favourable to the medical or recreational cannabis market or any particular product, or consistent with earlier publicity. Future research reports, findings, regulatory proceedings, litigation, media attention or other publicity that are perceived as less favourable than, or that question, earlier research reports, findings or publicity could have a material adverse effect on the demand for the Company's products and the business, results of operations, financial condition and cash flows of the Company.

Adverse publicity reports or other media attention regarding the safety, efficacy and quality of cannabis in general, or the Company's products specifically, or associating the consumption of cannabis with illness or other negative effects or events, could have a material adverse effect on the Company's business, financial condition and results of operations. Such adverse publicity reports or other media attention could arise even if the adverse effects associated with such products resulted from consumers' failure to consume such products appropriately or as directed.



### ***New Industry and Market***

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

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

### ***Product Liability***

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

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

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

### ***Product Recalls***

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

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

### ***Managing Growth***

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

In order to manage growth and changes in strategy effectively, the Company must

- i. maintain adequate systems to meet customer demand;
- ii. expand sales and marketing, distribution capabilities and administrative functions; and
- iii. attract and retain qualified employees, including in respect of its management team.

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

### ***Fraudulent or Illegal Activities by Employees, Contractors or Consultants***

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

- i. government regulations;
- ii. manufacturing standards;
- iii. federal and provincial healthcare fraud and abuse laws and regulations; or
- iv. laws that require the true, complete and accurate reporting of financial information or data.

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

### ***Insurance Coverage***

The Company has insurance to protect its assets, operations, directors and employees. While the Company believes the insurance coverage addresses all material risks to which it is exposed and is adequate and customary in the current state of operations, such insurance is subject to coverage limits and exclusions and may not be available for the risks and hazards to which the Company is exposed.

In addition, no assurance can be given that such insurance will be adequate to cover the Company's liabilities or will be generally available in the future or, if available, that premiums will be commercially justifiable. If the Company were to incur substantial liability and such damages were not covered by insurance or were in excess of policy limits, or if the Company were to incur such liability at a time when it is not able to obtain liability insurance, the business, results of operations and financial condition could be materially adversely affected.

### ***Litigation***

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

### ***Conflicts of Interest***

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

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

### ***Information Technology Systems and Cyber-Attacks***

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

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

### ***U.S. Border Crossing***

Cannabis remains illegal under U.S. federal law and those employed at or investing in legal and licensed Canadian cannabis companies could face detention, denial of entry or lifetime bans from the U.S. for their business associations with cannabis businesses. Entry happens at the sole discretion of the U.S. customs and border protection officers, who have wide latitude to ask questions to determine the admissibility of a foreign national.

The Government of Canada has warned travellers on its website that previous use of cannabis, or any substance prohibited by U.S. federal laws, could mean denial of entry to the U.S. Canadian travellers attempting to enter the U.S. for reasons related to the cannabis industry may be deemed inadmissible, and business or financial involvement in the legal cannabis industry in Canada or in the U.S. could be sufficient cause for US Customs Officers to deny entry.

## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

Except for the historical statements contained herein, this Management's Discussion and Analysis contains forward-looking statements or information (collectively "**forward-looking statements**") which are based upon the Company's current internal expectations, estimates, projections, assumptions and beliefs. In some cases, these forward-looking statements can be identified by words or phrases such as "may", "believes", "expects", "will", "intends", "projects", "anticipates", "estimates", "continues", "plans", "aim", "seek" or the negative of these terms, or other similar expressions intended to identify forward-looking statements. The Company has based these forward-looking statements on current expectations and projections about future events and financial trends that they believe may affect the Company's financial condition, results of operations, business strategy and financial needs. Forward-looking statements relating to the Company include, among other things, statements relating to:

- the Company's business objectives and milestones and the anticipated timing of execution;
- the performance of the Company's business and operations;
- the intention to expand the business, operations and potential activities of the Company;
- the methods used by the Company to deliver cannabis;
- the projected increase in production capacity;
- the competitive conditions of the cannabis industry;
- the competitive and business strategies of the Company;
- the Company's anticipated operating cash requirements and future financing needs;
- the anticipated future gross revenues and profit margins of the Company's operations;
- the Company's expectations regarding its revenue, expenses and operations;
- the Company's intention to build brands and develop cannabis products targeted to specific segments of the market;
- the ongoing and proposed expansion of the Company's facilities, products or services, including associated costs and any applicable Health Canada licensing;
- the current political, legal and regulatory landscape surrounding medical and recreational cannabis and expected developments in any jurisdiction in which the Company operates or may operate;
- the receipt of any regulatory and stock exchange approvals required at any given time;
- the applicable laws, regulations and any amendments thereof;
- expectations with respect to the advancement and adoption of new product lines and ingredients;
- expectations with respect to future production costs and capacity;
- expectations with respect to the renewal and/or extension of the Company's permits and licenses;
- the ability to protect, maintain and enforce the Company's intellectual property rights;
- the ability to successfully leverage current and future strategic partnerships and alliances;
- the ability to attract and retain personnel;
- anticipated labour and materials costs;
- the Company's competitive condition and expectations regarding competition, including pricing and demand expectations and the regulatory environment in which the Company operates; and
- anticipated trends and challenges in the Company's business and the markets and jurisdictions in which the Company operates or may operate.

Forward-looking statements are based on certain key assumptions and analyses made by the Company in light of its experience and perception of historical trends, current conditions and expected future developments and other factors the Company believes are appropriate and are subject to risks and uncertainties. Although management believes that the assumptions underlying these statements are reasonable, they may prove to be incorrect. Given these risks, uncertainties and assumptions, shareholders and prospective purchasers of the Company's securities should not place undue reliance on these forward-looking statements. The above list of forward-looking statements is not exhaustive and whether actual results, performance or achievements will conform to the Company's expectations and predictions is subject to a number of known and unknown risks, uncertainties, assumptions and other factors.

Further, any forward-looking statement speaks only as of the date on which such statement is made, and, except as required by applicable law, the Company undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events.

Certain of the forward-looking statements contained herein concerning medical marijuana, the general expectations of the Company related thereto, and the Company's business and operations are based on estimates prepared by the Company using data from publicly available governmental sources, as well as from market research and industry analysis and on assumptions based on data and knowledge of this industry which the Company believes to be reasonable. However, although generally indicative of relative market positions, market shares and performance characteristics, such data is inherently imprecise. While the Company is not aware of any misstatement regarding any industry or government data presented herein, the current medical marijuana industry involves risks and uncertainties and are subject to change based on various factors. It is not possible for management to predict all such factors and to assess in advance the impact of each such factor on the Company's business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statement. Readers are cautioned that actual future results may differ materially from management's current expectations and the forward-looking statements contained in this MD&A are expressly qualified in their entirety by this cautionary statement. For a description of material factors that could cause the Company's actual results to differ materially from the forward-looking statements in this MD&A, please see "*Risks Factors*" in the Company's annual information form available on the Company's profile at .

## **CAUTIONARY STATEMENT REGARDING NON-IFRS MEASURES**

This MD&A contains non-IFRS financial performance measures which the Company believes provides users with relevant information regarding operation performance. These measures are not recognized or defined under IFRS, and as a result, they may not be comparable to the data presented by competitors. These non-IFRS measures include, but are not limited to:

- Adjusted EBITDA is calculated as net income (loss), excluding (i) amortization and depreciation, (ii) changes in fair value of inventory sold, (iii) fair value changes in biological assets and changes in inventory sold, (iv) share-based payments, (v) one-time business transaction fees, (vi) taxes, (vii) non-operating expenses (income), and (viii) interest expenses. Adjusted EBITDA is widely used by industry participants and analysts to measure company performance.
- Average net selling price of cannabis is calculated as cannabis net revenue divided by the total quantity of grams and grams equivalents sold during the reporting period.
  - Average net selling price of medical cannabis is medical cannabis net revenue divided by the total quantity of grams and grams equivalents sold in the medical market during the reporting period.
  - Average net selling price of adult-use cannabis is adult-use cannabis net revenue divided by the total quantity of grams and grams equivalents sold in the adult-use market during the reporting period.
  - Average net selling price of bulk wholesale cannabis is bulk wholesale cannabis net revenue divided by the total quantity of grams and grams equivalent sold to other LPs during the reporting period.
- Cannabis net revenue is sale of cannabis revenue less excise taxes
  - Medical cannabis net revenue is net cannabis revenue for Canadian and international medical sales.
  - Adult-use cannabis net revenue is net cannabis revenue for Canadian adult-use (recreational) sales.

- Wholesale bulk cannabis net revenue is net cannabis revenue in sales to other LPs.
- Gross profit before FV adjustments on cannabis revenue is calculated as cannabis net revenue, less (i) inventory expenses to cost of sales, and (ii) doctor services.
- Gross margin before FV adjustments on cannabis net revenue is calculated as gross profit before FV adjustments on cannabis net revenue, divided by cannabis net revenue. Gross profit and gross margin before FV adjustments on cannabis revenue are further broken down by consumer market:
  - Gross profit and gross margin before FV adjustments on medical cannabis revenue is gross profit and gross margin before FV adjustments on Canadian medical sales only.
  - Gross profit and gross margin before FV adjustments on adult-use cannabis revenue is gross profit and gross margin before FV adjustments on adult-use sales only
  - Gross profit and gross margin before FV adjustments on wholesale bulk revenue is gross profit and gross margin before FV adjustments on wholesale bulk sales only