Aleafia Health™

ALEAFIA HEALTH INC.
CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Canadian dollars)
For the years ended December 31, 2020 & 2019

AleafiaHealth.com

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MANAGEMENT'S RESPONSIBILITY

To the Shareholders of Aleafia Health Inc.:

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

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

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

"Geoffrey Benic"

Geoff Benic
Chief Executive Officer

"Benjamin Ferdinand"

Benjamin Ferdinand
Financial Officer

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and Directors of Aleafia Health Inc.

Opinion

We have audited the consolidated financial statements of Aleafia Health Inc. and its subsidiaries (the "Company") which comprise the consolidated statements of financial position as at December 31, 2020 and 2019, and the consolidated statements of comprehensive loss, changes in equity and cash flows for the years then ended, and the related notes comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2020. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The key audit matters to be communicated in our auditors' report are as follows:

Impairment of goodwill and intangible assets

We draw attention to Notes 3(b),4 and 7 to the consolidated financial statements. Goodwill and indefinite lived intangible assets are not amortized but are reviewed for impairment annually or more frequently when events or changes in circumstances indicate that the carrying amount of the cash generating unit ("CGU") exceeds its recoverable amount. Intangible assets with finite lives are reviewed for impairment when events or changes in circumstances indicate that the carrying amount exceeds its recoverable amount. During the year ended December 31, 2020, the Company recorded an impairment charge of $177 million for goodwill and $22 million for its intangible assets. Estimating the recoverable amount of a CGU and an intangible asset is complex and is subject to significant judgment in relation to assumptions used by management. Significant assumptions used by management to estimate the recoverable amount include growth and discount rates, as well as future revenues and gross margins.
We identified the evaluation of the impairment of goodwill and intangible assets as a key audit matter as significant auditor judgment and the involvement of professionals with specialized skill and knowledge were required to evaluate the Company's methods and use of estimates, assumptions and judgements in estimating the recoverable amount of the CGU and intangible assets.

Our audit response to the key audit matter was as follows:

- We obtained an understanding of the controls and control activities in place related to the determination and management's review of significant assumptions used in the calculation.
- We performed sensitivity testing to consider the impact of changes in certain assumptions on the estimate of recoverable amount.
- With the assistance of our internal valuation specialist:
  - We evaluated whether the valuation techniques used in estimating the recoverable amounts were appropriate.
  - We compared the discount rate used to the weighted average cost of capital and to a range developed using publicly available information for comparable companies.
- We compared growth rates used by management to historical information, approved budgets, the Company's production capacity as well as industry standards.

Valuation of biological assets and cannabis inventory

We draw attention to Notes 3(a), 11 and 12 to the consolidated financial statements. Biological assets are measured at fair value less cost to sell at the stage of completion. The Company values inventories of harvested bulk cannabis and finished goods at the lower of cost and net realizable value.
In estimating the fair value of the biological assets, management is required to make a number of estimates, including estimating the stage of growth of the cannabis up to the point of harvest, average yield per plant, harvesting costs, selling costs, selling price, and the allocation of indirect costs, which form part of the standard cost per gram to complete production. 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.

We identified the assessment of the measurement of the fair value of biological assets and net realizable value of cannabis inventory as a key audit matter as a high degree of auditor judgment was required to evaluate the significant assumptions and estimates made by management.

Our audit response to the key audit matter was as follows:

- We performed sensitivity analyses over the Company's significant assumptions used to determine the fair value of biological assets to assess the impact of changes in those assumptions on the Company's determination of fair value.
- We tested the stage of growth by observing the plants at year-end.
- We tested the average expected yield per plant by comparing actual results of the current year to historical results of operations.
- We tested the average selling price per gram by comparing to estimates used by management to actual sales prices per gram in actual sales transaction during and subsequent to year-end.
- We also tested the net realizable value of inventory by comparing the carrying value of inventory to the prices in sales near and subsequent to year-end.

Recognition of revenue

We draw attention to Note 2(q) to the consolidated financial statements. The Company recognizes revenue from the sale of cannabis when control of the product transfers to the customer, which is typically when the product is delivered or the time the product is received by the customer. From time-to-time, the Company enters into agreements that transfer control of the product to the customer, but the product is not delivered until a later date. Management is required to exercise a significant amount of judgment in making the determination as to whether the revenue recognition criteria have been met.

We identified the recognition of revenue for these types of sales as a key audit matter as a high degree of auditor judgment was required to evaluate whether the revenue recognition criteria were met.

Our audit response to this key audit matter was as follows:

- We examined each of the contracts with customers.
- We confirmed the key terms of the contracts with customers and the reason for the transaction.
- We obtained confirmations from customers as to the amount of revenue earned from them under these agreements
- On a test basis we observed inventory that was the subject of these agreements and examined evidence of delivery subsequent to year end.

Other Information

Management is responsible for the other information, which comprises the information included in the Company's Management Discussion & Analysis to be filed with the relevant Canadian securities commissions.

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

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

/S/ MANNING ELLIOTT LLP

CHARTERED PROFESSIONAL ACCOUNTANTS

Vancouver, British Columbia
March 24, 2021

ALEAFIA HEALTH INC.

Consolidated Statements of Financial Position

As at December 31, 2020 and December 31, 2019 (Amounts reflected in thousands of Canadian dollars)

	Note	2020	2019
ASSETS			
Current			
Cash and cash equivalents		$ 30,529	$ 41,247
Marketable securities		-	1,452
Trade and other receivables		13,041	4,847
Tax receivables		4,537	6,498
Prepaid expenses		5,063	5,756
Prepaid expenses for supply agreement		-	22,756
Inventory	11	27,242	34,115
Biological assets	12	2,511	971
		82,923	117,642
Non-current			
Prepaid deposit for property, plant, and equipment		-	3,612
Property, plant, and equipment	6	78,469	64,338
Deferred expenses		460	1,036
Right-of-use assets	5	2,782	1,071
Investments	13	6,620	4,616
Intangible assets	7	54,715	81,252
Goodwill	4	11,314	188,790
		154,360	344,715
TOTAL ASSETS		$ 237,283	$ 462,357
LIABILITIES			
Current			
Accounts payable and accrued liabilities	9	$ 20,166	$ 20,131
Lease liability	5	441	507
Convertible debt	14	24,361	-
Deferred revenue		73	101
		45,041	20,739
Non-current			
Lease liability	5	2,726	700
Convertible debt	14	32,441	51,009
Deferred tax liability	19	2,854	5,394
		38,021	57,103
TOTAL LIABILITIES		83,062	77,842
SHAREHOLDERS' EQUITY			
Share capital	8	384,265	371,744
Contributed surplus	8	85,025	80,602
Deficit		(315,069)	(67,831)
		154,221	384,515
TOTAL LIABILITIES AND EQUITY		$ 237,283	$ 462,357

COMMITMENTS AND CONTINGENCIES (Note 16)

SUBSEQUENT EVENTS (Note 18)

Approved and Authorized for issue on behalf of the board on March 24, 2021.

"*Daniel Milliard*" — Daniel Milliard - Director

"*Lea Ray*" — Lea Ray - Director

ALEAFIA HEALTH INC.
Consolidated Statements of Comprehensive Loss
Years ended December 31, 2020 and 2019
(Amounts reflected in thousands of Canadian dollars, except share and per share amounts)

	Notes	2020	2019
Revenue			
Sale of cannabis		$ 42,219	$ 12,444
Consultation services		1,884	2,861
Research		1,570	1,861
		45,673	17,166
Excise taxes		1,131	815
		44,542	16,351
Cost of sales			
Doctor services		1,691	2,044
Inventory expensed to cost of sales		19,328	6,744
Gross profit before fair value adjustment		23,523	7,563
Fair value changes in biological assets and changes in inventory sold and other	11	(29,133)	13,219
Gross profit		(5,610)	20,782
Expenses			
Wages and benefits		8,017	8,821
General and administrative		17,086	16,520
Professional fees		4,146	-
Business transaction costs		-	5,212
Bad debt expense		1,892	-
Amortization and depreciation		8,058	5,912
Share-based payments		2,690	13,512
		41,889	49,977
Operating loss		(47,499)	(29,195)
Other (income) expense			
Interest expense		11,636	5,959
Realized gain on settlement		(6,344)	-
Unrealized (gain) loss on investments at FVTPL		(943)	1,796
Realized (gain) loss on investments at FVTPL		(1,181)	-
Goodwill write-down	4	177,476	-
Intangible assets write-down	7	22,116	-
Non-operating income		(481)	(302)
		202,279	7,453
Net loss before income taxes		(249,778)	(36,648)
Income tax			
Deferred income tax expense (recovery)		(2,540)	2,959
Net loss and comprehensive loss		$ (247,238)	$ (39,607)
Loss per share, basic and diluted		$ (0.85)	$ (0.18)
Weighted average common shares outstanding		291,589,929	215,619,166

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

ALEAFIA HEALTH INC.

Consolidated Statements of Changes in Equity

Years ended December 31, 2020 and 2019

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

	Common shares				
	Number of Shares	Amount	Contributed Surplus	Deficit	Total
	#	$	$	$	$
Balances, December 31, 2019	**277,893,686**	**371,744**	**80,602**	**(67,831)**	**384,515**
Issuance of common stock	23,000,000	13,110	1,840	-	14,950
Share issuance costs	-	(1,224)	434	-	(790)
Shares issued from warrants and stock options exercised	376,000	635	(541)	-	94
Share-based payments	-	-	2,690	-	2,690
Net loss for the year	-	-	-	(247,238)	(247,238)
Balances, December 31, 2020	**301,269,686**	**384,265**	**85,025**	**(315,069)**	**154,221**

	Common shares				
	Number of Shares	Amount	Contributed Surplus	Deficit	Total
	#	$	$	$	$
Balances, December 31, 2018	**157,848,812**	**104,455**	**15,702**	**(28,224)**	**91,933**
Shares issued from warrants exercised	1,114,046	1,813	(138)	-	1,675
Shares issued from options exercised	1,681,558	1,973	(1,084)	-	889
Warrants deemed issued for Emblem	-	-	42,775	-	42,775
Shares issued for conversion of convertible debentures	2,094,666	2,351	-	-	2,351
Shares/Options issued for Emblem	110,823,349	252,677	5,922	-	258,599
Shares/Warrants issued for services	2,331,255	5,315	1,316	-	6,631
Equity component of Convertible Debt	-	-	5,499	-	5,499
Shares issued for services	2,000,000	3,160	-	-	3,160
Share-based payments	-	-	10,610	-	10,610
Net loss for the year	-	-	-	(39,607)	(39,607)
Balances, December 31, 2019	**277,893,686**	**371,744**	**80,602**	**(67,831)**	**384,515**

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

ALEAFIA HEALTH INC.

Consolidated Statements of Cash Flows

Years ended December 31, 2020 and 2019
(Amounts reflected in thousands of Canadian dollars)

	2020	2019
Operating activities		
Net loss for the year	$ (247,238)	$ (39,607)
Adjustments for non-cash items:		
Amortization and depreciation	10,164	5,912
Gain on sale of land	-	(166)
Share-based consulting fees	-	5,838
Share-based payments	2,690	13,512
Accretion of convertible debt	6,488	3,426
Deferred income tax recovery	(2,540)	2,959
Bad debt expense	1,892	-
Realized gain on settlement	(6,344)	-
Realized gain on investments at FVTPL	(1,181)	-
Unrealized (gain) loss on investments at FVTPL	(943)	1,796
Impairment of intangible assets	22,116	-
Impairment of goodwill	177,476	-
Inventory write-down	16,973	-
Fair value changes in biological assets and changes in inventory sold	12,160	(13,219)
	(8,287)	(19,549)
Changes in operating working capital		
Prepaid expenses	14,293	(2,991)
Trade receivable	(10,114)	(1,590)
Deferred expenses	574	(1,036)
Biological assets	5,078	12,963
Inventory	(26,673)	(28,263)
Tax receivable	1,961	(5,354)
Accounts payable and accrued liabilities	39	7,638
Cash received from LP settlement	15,500	-
Net cash used in operating activities	(7,629)	(38,182)
Investing activities		
Proceeds from disposable of marketable securities	2,913	-
Investment in OPC	(107)	(616)
Purchase of marketable securities	(1,234)	3,759
Cash acquired on amalgamation	-	19,624
Proceeds from sale of land	-	8,710
Acquisition of property, plant, and equipment	(17,777)	(16,077)
Net cash (used in) provided by investing activities	(16,205)	15,400
Financing activities		
Lease payments	(1,138)	(699)
Convertible debt, net costs	-	33,903
Warrants and options exercised	94	4,281
Proceeds from the issuance of stock	14,160	137
Net cash provided by financing activities	13,116	37,622
Change in cash and cash equivalents	(10,718)	14,840
Cash and cash equivalents, beginning of year	41,247	26,407
Cash and cash equivalents, end of year	$ 30,529	$ 41,247

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

Note 1 Nature of Operations

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.

Aleafia Health Inc. ("Aleafia Health") is a vertically integrated and federally licensed Canadian cannabis company offering health and wellness services. The Company's four primary business units are Cannabis Cultivation & Products, Health & Wellness Clinics, Cannabis Education and Consumer Experience with e-commerce, retail distribution and provincial supply agreements.

The Company owns three cannabis product and cultivation facilities, which are licensed and operational. The Company produces a diverse portfolio of commercially proven, high-margin derivative products including flower, pre-rolls, oil drops, oil capsules and oil sprays. Aleafia Health operates the largest national network of medical cannabis clinics and education centers staffed by physicians, nurse practitioners and educators.

Aleafia Health was originally incorporated under the Business Corporations Act (British Columbia) as Wyn Metals on February 2, 2007. On March 26, 2018, concurrent with the completion of a business combination with Canabo Medical Inc., the Company changed its name to "Aleafia Health Inc." On June 27, 2018, the Company continued into Ontario under the Business Corporations Act (Ontario).
For further information on these transactions, please refer to the Company's Annual Information Form dated March 18, 2020.

On March 14, 2019, the Company acquired 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 Emblem's amalgamation with Aleafia Health's wholly-owned subsidiary, 11208578 Canada Inc., to form a new wholly-owned subsidiary of the Company continuing as "Emblem Corp." ("Emblem"), see "Note 4. Business Combination and Asset Acquisition".

Following the completion of the Arrangement, on March 19, 2019, the common shares of the Company ceased trading on the TSX Venture Exchange Inc. ("TSXV") and commenced trading on the Toronto Stock Exchange ("TSX") under its existing symbol "ALEF" which was subsequently changed to "AH" on May 27, 2020. Emblem Shares were delisted from the TSXV on March 18, 2019.

Note 2 Significant Accounting Policies

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB").
These consolidated financial statements were authorized for issue in accordance with a resolution from the Board of Directors on March 24, 2021.

Basis of presentation

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

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

a) Consolidation

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

	Years ended December 31	
Ownership interest	2020	2019
	%	%
Aleafia Inc.	100	100
Canabo Medical Corporation ("Canabo")	100	100
Aleafia Farms Inc. ("Aleafia Farms")	100	100
Emblem Corp. ("Emblem")	100	100
Emblem Cannabis Corporation ("ECC")	100	100
GrowWise Health Limited ("GrowWise")	100	100
Emblem Realty Limited ("Emblem Realty")	100	100
Emblem Germany GmbH	60	60
Flying High Brands Inc. ("Flying High")	51	51
Aleafia Brands Inc. (inactive)	100	100
Aleafia Retail Inc. (inactive)	100	100
2672533 Ontario Inc (inactive)	100	100
2676063 Ontario Inc.(inactive)	100	100

b) Cash and cash equivalents

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

c) Biological assets

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

d) Inventory

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

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

e) Property, plant, and equipment

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

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

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

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

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

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

f) Share-based payments

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

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

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

g) Provisions

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

h) Loss per share

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

i) Income taxes

Current income taxes are the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted, and includes any adjustments to tax payable or receivable in respect of previous years. Deferred income taxes are recorded using the liability method whereby deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

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

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

j) Financial Instruments

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

- FVTPL
- Amortized cost
- Fair value through other comprehensive income ("FVOCI")
- Equity instruments designated at FVOCI; or
- Financial instruments designated at FVTPL

Financial liabilities are subsequently measuredat:

- FVTPL
- Amortized cost

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

k) Impairment of non-financial assets

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

l) Impairment of financial assets

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

m) Business combinations

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

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

n) Intangible assets

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

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

At each financial position reporting date, the carrying amounts of the Company's long-lived assets, including property and equipment and intangible assets, are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs.

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

Health Canada Licences	24 years
OPA power contracts	14 years
Brand names and licences	5 to 15 years
Patient lists	10 years
Scientific and medical research	7 years
Agreement	7 years
IP & R&D	indefinite

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

o) Goodwill

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

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

p) Segment reporting

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

q) Revenue recognition

The Company derives revenue from 1) providing medical consultation services to patients suffering from chronic pain and disabling illnesses, 2) conducting medical research associated with the use of medical cannabis and 3) the sale of cannabis and cannabis products in Canada in accordance with the Cannabis Act . Revenue is recognized upon transfer of control of the promised goods and services to customers in an amount that reflects the consideration of the Company expects to receive in exchange for those goods or services. Performance obligations are satisfied, and revenue is recognized, either over time or at a point in time. Certain activities may give rise to deferred revenue, which are contract liabilities under IFRS 15 and relate to payments received in advance of performance under contracts with customers. Contract liabilities are recognized as revenue as (or when) the Company satisfies its performance obligations under the contracts.

Under bill-and-hold arrangements – whereby the Company bills a customer for product to be delivered at a later date – control typically transfers when the product is still in our physical possession, and title and risk of loss has passed to the customer. Revenue is recognized when all specific requirements for transfer of control under a bill-and-hold arrangement have been met.

Amounts disclosed as net revenue are net of sales tax, duty tax, allowances, discounts and rebates.

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

- **Medical research**: The Company provides customers with access to non-specific patient data relating to the use of medical cannabis in the treatment of various illnesses as well as the opportunity to conduct targeted research on the impact medical cannabis may have on specific ailments. Customers are billed a subscription fee for access to data or negotiated contract amounts related to targeted research. In the case of subscription fees, revenue is recognized evenly over the subscription year and revenue from targeted research amounts are recognized based on the extent of progress towards completion of the specific performance obligations related to each individual research project.
- **Sale of cannabis**: Revenue from the sale of cannabis is recognized when the Company transfers control to the customer upon delivery or the time of the product pickup from the Company's facilities by the customer based on the contract-by-contract basis between the Company and the customer.

r) Joint arrangements

A joint arrangement classified as such when the arrangement provides joint control to the parties. Joint control is the contractually agreed sharing of control of an arrangement which exists only when decisions about the relevant activities require unanimous consent of parties sharing control. The Company recognizes joint arrangements as either joint ventures or joint operations depending on the circumstances of each arrangement. The assets, liabilities and results of joint operations are included within the respective line items of the Consolidated Statements of Financial Position, Consolidated Statements of Comprehensive Loss, Consolidated Statements of Changes in Equity and Consolidated Statements of Cash Flows where an arrangement is classified as a joint operation.

Arrangements classified as a joint venture are accounted for using the equity method of accounting. The Company's interest in an investee is initially recorded at cost and is subsequently adjusted for the Company's share of changes in the net assets of the investee, less any impairment in the value of individual investments, and any dividends paid.

Note 3 Significant Accounting Estimates and Judgments

The preparation of these consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting year. Actual outcomes could differ from these estimates. These consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the year in which the estimate is revised and future years if the revision affects both current and future years. These estimates are based on historical experience, current and future economic conditions, and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income, and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

a) Biological assets and inventory

In calculating the value of the biological assets and inventory, management is required to make a number of estimates, including estimating the stage of growth of the cannabis up to the point of harvest, harvesting costs, selling costs, sales price, wastage and expected yields for the cannabis plant.

In calculating final inventory values, management is required to determine an estimate of spoiled or expired inventory and compares the inventory cost to estimated net realizable value, estimated useful lives and impairment of cash-generating units and goodwill.

b) Valuation of intangibles and goodwill

The impairment test for cash generating units ("CGUs") to which goodwill is allocated based on the value in use of the CGU, determined in accordance with the expected cash flow approach. The calculation is based on assumptions used to estimate future cash flows, the cash flow growth rate and the discount rates. The Company exercises significant judgement in determining CGUs. The Company has identified four CGUs the Company identified four CGU's, namely Aleafia Farms Inc. (AFI), Emblem Corp. (EC), Canabo Medical Corp. (CMC), Flying High Brands and Flying High Retail (FHB and FHR) representing its cannabis cultivation (AFI), processing, sales, and cannabis education operations (EC), medical research operations (CMC), cannabis retail operations (FHB and FHR).

c) Useful lives of property, plant and equipment and intangible assets

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

d) 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.

e) Revenue recognition

Estimates are used when the Company recognizes certain research revenue depending on how frequently patients visit the clinics and what portion of the upfront deposits are considered deferred. Also, significant judgment is exercised to determine if all the specific requirements for the transfer of control under a bill-and-hold arrangement have been met and revenue can be recognized.

f) Valuation of share-based payments

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

g) Income taxes

Income taxes and tax exposures recognized in the consolidated financial statements reflect management's best estimate based on facts known at the reporting date. When the Company anticipates a future income tax payment based on its estimates, it recognizes a liability. The difference between the expected amount and the final tax outcome has an impact on current and deferred taxes when the Company becomes aware of this difference. In addition, when the Company incurs losses for income tax purposes, it assesses the probability of taxable income being available in the future based on its budgeted forecasts. These forecasts are adjusted to take into account certain non-taxable income and expenses and specific rules on the use of unused credits and tax losses. When the forecasts indicate that sufficient future taxable income will be available to deduct the temporary differences, a deferred tax asset is recognized for all deductible temporary differences.

Note 4 Business Combination and Asset Acquisition

Flying High Brands Inc.

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

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

During the year ended December 31, 2020 the Company provided for an impairment charge of $10.6 million against the carrying value of the license.

Emblem Corp.

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

Prior to the completion of the Arrangement, Emblem had outstanding three classes of warrants to purchase

Emblem shares listed on TSXV. The listed warrants, with the exception of any listed Emblem Warrants that were exercised prior to closing of the Arrangement, remain outstanding as warrants of "Emblem Corp" that upon exercise will entitle the holder thereof to receive the Consideration.

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

The acquisition was accounted for as a business combination as the assets acquired and liabilities assumed constitute a business. The transaction was accounted for using the acquisition method of accounting whereby the assets acquired, and the liabilities assumed were recorded at their estimated fair value at the acquisition date. The Company applied various valuation techniques in order to measure the assets acquired and the liabilities assumed in the business combination. These provisional amounts may be adjusted during the measurement period, or additional assets or liabilities may be recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

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

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

Net assets acquired		
Working Capital	$	34,397
Long-term advances and deposits		20,847
Property, plant, and equipment		39,797
Emblem brand		9,025
GrowWise brand		4,428
Symbol brand		1,647
Paris license		34,000
PR, R&D		600
SDM distribution agreement		1,300
Convertible debt		(20,458)
Deferred income tax liability		(285)
		125,298
Goodwill acquired		176,076
Total net assets acquired	$	301,374

Included in working capital is $2.6 million of trade receivables.

The resulting goodwill represents the sales and growth potential of Emblem Corp. and will not be deductible for tax purposes. The Company has goodwill of $12.7 million from other previous amalgamations.

Had the business combination occurred on January 1, 2019, management estimated that the revenue of the Company would have increased by approximately $9,200 (unaudited) and the net loss of the Company would have increased by approximately $11,700 (unaudited) for the year ended December 31, 2019. Emblem expenses include approximately $13,100 (unaudited) in one-time, non-recurring expenses as a result of the acquisition of Emblem by the Company, including advisory fees and termination payments.

Impairment of goodwill and intangible assets

During the year ended December 31, 2020, the Company recognized non-cash impairment charges of $177.5 million related to goodwill and $22.1 million related to its intangible assets. The Company performed its annual impairment test on its indefinite life intangible assets and goodwill for each CGU. The recoverable amounts for each CGU was based on its value in use ("VIU") which was determined to be greater than its fair value less costs of disposal. The VIU was estimated using level 3 inputs and a discounted cash flow analysis approach.

The significant assumptions applied in the determination of the recoverable amount are described below for the discounted cash flow method:

Cash flows - Estimated cash flows were projected based on actual operating results from internal sources as well as industry and market trends. Estimated cash flows are primarily driven by sales volumes, selling prices and operating costs. The utilized a five-year forecast and account for long-term growth through the use of a terminal value assuming a 2.5% growth rate.

Pre-tax discount rate - In its estimates, the Company used pre-tax discount rates ranging from 21.5% to 24.2%. The weighted average cost of capital ("WACC") – the Company WACC was estimated based on the risk-free rate, equity risk premium and after-tax cost of debt based on corporate bond yields.

As a result of the analysis it was determined that the Emblem and Canabo CGUs carrying values were greater than the recoverable amounts. The goodwill related to Emblem CGU of $176.1 million was fully written-off at December 31, 2020. The goodwill related to Canabo CGU was written down by $1.4 million to $6.5M at December 31, 2020.

Note 5 Right-of-Use Asset and Lease Liability

RIGHT-OF-USE ASSET		
Cost		
Balance, December 31, 2018	$	-
Recognition upon adoption of IFRS 16		1,591
Balance, December 31, 2019		1,591
New leases entered into		2,472
Cancellation of lease		(69)
Balance, December 31, 2020	$	3,994
Accumulated amortization		
Balance, December 31, 2018	$	-
Amortization		(520)
Balance, December 31, 2019		(520)
Amortization		(692)
Balance, December 31, 2020	$	(1,212)
Net book value, December 31, 2019		1,071
Net book value, December31, 2020	$	2,782

LEASE LIABILITY		
Balance , December 31,2018	$	-
Recognition upon adoption of IFRS 16		1,591
Interest expense		315
Payments		(699)
Balance, December 31, 2019		1,207
New leases entered into		2,472

Cancellation of lease		(69)
Interest expense		695
Payments		(1,138)
Balance, December 31, 2020	$	3,167
Current portion		**441**
Long-term portion	**$**	**2,726**

Note 6 Property, Plant and Equipment

	Computer & Software	Equipment & Furniture	Leasehold Improvements	Land	Buildings & Houses	Total
Cost						
Balance , December 31, 2018	$ 206	$ 3,071	$ 117	$ 1,813	$ 8,763	$ 13,790
Business acquisition	42	2,233	5,302	13,063	19,158	39,798
Additions/Disposals	510	6,721	34	(7,239)	12,525	12,551
Balance, December 31, 2019	758	12,025	5,453	7,637	40,446	66,319
Additions	218	1,955	320	100	18,796	21,389
Balance, December 31, 2020	$ 976	13,980	5,773	7,737	59,242	$ 87,708
Accumulated Depreciation						
Balance , December 31, 2018	$ (75)	$ (36)	$ (32)	$ -	$ (47)	$ (190)
Depreciation	(150)	(767)	(240)	-	(634)	(1,791)
Balance, December 31, 2019	(225)	(803)	(272)	-	(681)	(1,981)
Depreciation	(193)	(2,013)	(311)	-	(4,741)	(7,258)
Balance, December 31, 2020	$ (418)	(2,816)	(583)	-	(5,422)	$ (9,239)
Carrying Amounts						
Balance, December 31, 2019	533	11,222	5,181	7,637	39,765	64,338
Balance, December 31, 2020	$ 558	$ 11,164	$ 5,189	$ 7,737	$ 53,821	$ 78,469

Depreciation relating to manufacturing equipment and production facilities for owned and right-of-use lease assets is capitalized to biological assets and inventory and is expensed to cost of sales upon the sale of goods. During the year ended December 31, 2020, the Company recognized $7,258 of depreciation expense (2019 - $1,791), of which $834 (2019 – $Nil) was included in cost of sales, $4,219 (2019 – $Nil) was included in operating expenses, and the remaining balance of $2,205 (2019 - $Nil) was included in biological assets and inventory.

Note 7 Intangible Assets

	Grow License	Patient List	Serruya License	Emblem Brands	Emblem License	Other	Total
Cost							
Balance, December 31, 2018	$ 9,770	$ 12,416	$ 12,260	$ -	$ -	$ 1,457	$ 35,903
Additions	-	-	-	15,100	34,000	1,900	51,000
Balance, December 31, 2019	9,770	12,416	12,260	15,100	34,000	3,357	86,903
Intangible assets write-down	-	(12,416)	(12,260)	(1,931)	-	(1,158)	(27,765)
Balance, December 31, 2020	$ 9,770	-	-	13,169	34,000	2,199	$ 59,138
Balance, December 31, 2018	$ (412)	$ (955)	$ -	$ -	$ -	$ (162)	$ (1,529)
Amortization	(391)	(1,242)	(885)	(130)	(1,122)	(353)	(4,122)
Balance, December 31, 2019	(803)	(2,197)	(885)	(130)	(1,122)	(515)	(5,651)
Amortization	(391)	(1,242)	(818)	(165)	(1,417)	(388)	(4,421)
Intangible assets write-down	-	3,439	1,703	-	-	507	5,649
Balance, December 31, 2020	$ (1,194)	-	-	(295)	(2,539)	(396)	$ (4,423)
Carrying Amounts							
Balance, December 31, 2019	8,967	10,219	11,375	14,970	32,878	2,842	81,252
Balance, December 31, 2020	$ 8,576	-	-	12,874	31,461	1,803	$ 54,715

Amortization of Grow License and Emblem License have been recorded in costs of sales for the year. Amortization and impairment of other intangible assets have been recorded in operating expenses for the year. In 2020, $1,274 in amortization of Grow License and Emblem License has been included in costs of sales for the year (2019- $Nil). The remaining amortization and impairment of other intangible asses have been recorded in operating expenses for the year.

Note 8 Share Capital

Authorized

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

Issued and Outstanding

As at December 31, 2020, there were 301,269,686 units issued and outstanding. On May 29, 2020 the Company issued 23,000,000 common shares at a price of $0.65 per share for aggregate gross proceeds of $15.0 million which includes the full exercise of the over-allotment option and paid $1.0 million as transaction costs in cash and issuance of brokers' warrants. Each unit consisted of one common share of the Company and one half of one common share purchase warrant with an exercise price of $0.80 and expiring in three years.

Warrants

On May 29, 2020 the Company issued 805,000 compensation warrants and 11,902,500 subscriber warrants to the shareholders of the bought deal. As at December 31, 2020 the Company had following warrants outstanding:

	Warrants Outstanding	Weighted Average Exercise Price
	#	$
Outstanding and exercisable, December 31, 2018	9,228,590	1.67
Warrants issued, Emblem acquisition	40,336,129	2.43
Warrants issued with convertible debt	27,370,000	1.45
Broker warrants issued	1,915,900	1.47
Warrants exercised	(1,114,046)	1.36
Warrants expired	(17,471,757)	1.92
Warrants outstanding and exercisable, December 31, 2019	60,264,816	2.05
Compensation warrants issued for share issue	805,000	0.80
Subscriber warrants issued for share issue	11,902,500	0.80
Warrants exercised	(500)	0.80
Warrants expired	(22,749,842)	3.12
Outstanding and exercisable, December 31, 2020	50,221,974	1.17

At December 31, 2020, the Company had outstanding warrants entitling the holders to acquire additional common shares as follows:

	Expiry Date	Number of Warrants	Weighted Average Exercise Price
		#	$
Warrants Issued by Aleafia	June 11, 2020- June 27, 2022	41,992,900	1.25
Warrants Issued by Legacy Emblem	Dec 6, 2019 - Dec 6, 2021	8,229,074	0.75
Outstanding and exercisable, December 31, 2020		50,221,974	1.17

Stock Options

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

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

	2020	2019	2018
Weighted average share price	$0.53	$1.23	$1.47
Weighted average risk-free interest rate	0.54%	1.54%	2.21%
Weighted expected life-years	2.49 years	3.34 years	3.76 years
Weighted average expected volatility	89%	92%	109%
Weighted expected dividends	Nil	Nil	Nil
Forfeiture rate	0%	1.07%	0%

The following table summarizes information relating to outstanding and exercisable stock options as at December 31, 2020:

	Number of Options	Weighted Average Exercise Price
	#	$
Outstanding and exercisable as of December 31, 2019	24,979,725	1.22
Granted	5,030,431	0.52
Exercised/Released	(375,500)	0.25
Cancelled and expired	(3,374,024)	1.55
Outstanding and exercisable as of December 31, 2020	26,260,632	1.06
Vested	**17,862,452**	**1.20**
Unvested	**8,398,180**	**0.76**

	Number of Options	Weighted Average Exercise Price
	#	$
Outstanding and exercisable as of December 31, 2018	12,651,289	1.01
Options deemed to be issued on business amalgamation	4,626,892	1.71
Granted	11,719,495	1.07
Exercised/Released	(1,682,559)	0.52
Cancelled and expired	(2,335,392)	1.62
Outstanding and exercisable of December 31, 2019	24,979,725	1.22
Vested	**17,633,725**	**1.26**
Unvested	**7,346,000**	**1.10**

Restricted Share Units

The Company has a restricted share unit plan (the "RSU Plan"). For each RSU granted under the plan, the Company recognizes an expense equal to the market value of a common share at the date of grant based on the number of RSUs expected to vest over the term of the vesting period, with a corresponding credit to equity for share-based payments anticipated to be equity settled. RSUs under the RSU plan may vest immediately or become exercisable in various increments based on conditions as determined by the Board. In determining the amount of share-based compensation, the Company used the closing price of the common shares on the RSU grant date. Under the plan, a maximum of 4,000,000 common shares may be issuable. There were no RSUs issued and outstanding as at December 31, 2020.

Deferred Share Unit Plan for Directors

During the year ended December 31, 2020, the Company has implemented a deferred share unit plan (the "DSU Plan).

The purpose of the DSU Plan is to promote a greater alignment of long-term interests between eligible participants (being non-executive directors only) and the Company and its shareholders, to provide a compensation system for non-employee directors that, together with the other director compensation mechanisms of the Company, is reflective of the responsibility, commitment and risk accompanying membership on the Board and the performance of the duties required of the various committees of the Board. During the year the Company issued 148,431 DSUs which were outstanding at December 31, 2020.

Note 9 Related Party Balances and Transactions

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

During the years ended December 31, 2020 and 2019, the Company had the following transactions with the officers and directors of the Company:

	December 31, 2020	December 31, 2019
Wages and benefits	$ 2,984	$ 2,509
Short term benefits	150	606
Share based compensation	2,136	1,674

As at December 31, 2020, an amount of $0.15 million (2019: $0.6 million) was due to directors and management. These amounts are non-interest bearing, unsecured, due on demand and included in accounts payable and accrued liabilities.

Note 10 Management of Capital

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

The Company defines capital as the aggregate of its shareholders' equity, long term debt and convertible debt. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares or dispose of assets or adjust the amount of cash.

Note 11 Inventory

	$
Balance, December 31, 2018	356
Acquisition of Emblem	5,301
Transferred from biological assets	16,851
Inventory purchased during the year	20,409
Expensed to cost of sales during the year	(6,744)
Changes in value of inventory sold	(2,058)
Balance, December 31,2019	34,115
Transferred from biological assets	11,749
Inventory purchased during the year	27,068
Inventory produced internally during the year	7,110
Production costs capitalized to inventory	3,531
Expensed to cost of sales during the year	(19,328)
Unrealized impairment write-down	(16,973)
Changes in value of inventory sold	(20,030)
Balance, December 31, 2020	27,242

Inventory is comprised of the following items:

	December 31, 2020	December 31, 2019
Finished goods	$ 3,890	$ 27,067
Work-in-progress	21,919	6,018
Supplies and consumables	1,433	1,030
Total inventory	**$ 27,242**	**$ 34,115**

The fair value adjustment to biological assets and inventory sold consists of the following:

	December 31, 2020	December 31, 2019
Realized fair value amounts included in inventory sold	$ 20,030	$ 2,058
Unrealized impairment write-down of inventory	16,973	-
Increase in fair value on growth of biological assets	(7,870)	(15,277)
	$ 29,133	**$ (13,219)**

The $16,973 write-down of inventory is due to the decrease in the estimated net realizable value of these inventories based on the evolving nature of the adult-use market.

Note 12 Biological Assets

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

The Company's estimates are subject to change and differences from the anticipated yield will be reflected in the gain or loss on biological assets in future years. As of December 31, 2020, the biological assets strains at the harvesting phase were on average 100% complete for outdoor plants and 69% complete for indoor plants and strains.

The following table depicts the changes in the fair value measurement (unrealized gain/loss resulting from fair value changes on growth of biological assets) and the fair value of biological assets as of December 31, 2020 as required by IFRS 13 fair value measurement.

The carrying value of biological assets are as follows:

Biological assets	
Balance, December 31, 2018	$ 233
Changes in fair value less costs to sell due to biological transformation	15,277
Acquisition of Emblem	392
Products costs capitalized to biological assets	1,920
Transferred to inventory upon harvest	(16,851)
Balance as at December 31, 2019	971
Changes in fair value less costs to sell due to biological transformation	7,870
Production costs capitalized to biological assets	5,419
Transferred to inventory upon harvest	(11,749)
Balance as at December 31, 2020	$ 2,511

	Estimated KGs	Estimated Total
	#	$
Biological assets transferred to inventory	31,793	11,749

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

Significant assumptions	Indoor	Outdoor
Average transfer price per gram ($)	0.75	0.35
Average yield per plant (grams)	125	750
Average stage of growth (weeks)	12	16

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

The unrealized gain for biological assets for the years ended in December 31, 2020 was $7.9 million (December 31, 2019 - $15.3 million).

Sales price used in the valuation of biological assets is based on the average selling price of all cannabis products and can vary based on the different strains being grown as well as the proportion of sales derived from wholesale compared to retail. Selling costs vary depending on methods of selling and are considered based on the expected method of selling and the determined additional costs which would be incurred.

Expected yields for the cannabis plant is also subject to variety of factors, such as strains being grown, length of growing cycle, and space allocated for growing. Management reviews all significant inputs based on the historical information obtained as well as based on planned production schedules. Management has quantified the sensitivity of the inputs and determined the following.

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

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

These inputs are level 3 on the fair value hierarchy and are subject to volatility in market prices and several uncontrollable factors, which could significantly affect the fair value of biological assets in the future periods.

Note 13 Investments

On November 22, 2018, the Company entered into a Master Joint Venture Agreement ("the Agreement") with SPE Finance LLC ("SPE") to establish a joint venture for the purpose of owning and managing retail stores with a focus on selling cannabis and cannabis-related products across Canada and internationally (excluding the United States of America). The intention is to create, fund and govern the operations of the joint venture in the form of a corporation to carry on business. The joint venture was incorporated under the name One Plant (Retail) Corp. ("OPC").

The Company paid $4.0 million for the issuance of 99 common shares of OPC and as a result owns 9.9% of the outstanding common shares of OPC. On April 1, 2020 Flying High Inc invested $0.8 million in OPC and the Company recorded the transaction as an investment. For accounting purposes, the Company classified its interest in OPC at fair value through profit and loss and as an investment.

OPC is a private entity without observable market prices for its common shares and this investment is measured at its estimated fair value which is calculated based on a valuation technique that uses inputs derived by management which are considered level 3 in the fair value hierarchy (see Note 15). The

Company has reviewed the results of operations of OPC based on the financial information provided by management of OPC and prepared a cash flow projection. The Company used a discount rate of 15% to estimate the recoverable cash flows at December 31, 2020.

The Company invested $0.1 million in CannaPacific in January 2019 and $0.6 million in April 2019. CannaPacific is a private entity without observable market prices for its common shares and this investment is measured at its estimated fair value which is calculated based on a valuation technique that uses inputs derived by management which are considered level 2 in the fair value hierarchy (see Note 15). The investment is recorded its estimated fair value of $2.6 million. During the year ended December 31, 2020, the Company recorded an unrealized gain in fair value of $1.9 million (2019 - $Nil).

Note 14 Convertible Debt

Emblem Convertible Debt

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

- a maturity date of February 2, 2021(see Note 18).
- 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 ofthe 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 $2.9 million debentures to 1,972,789 equity shares.

Convertible debt		
Balance, December 31, 2018		-
Acquisition of Emblem	$	19,652
Issuance of convertible debentures		40,250
Transaction costs deferred		(3,301)
Initial present value discounts		(6,087)
Amortization of transaction costs		1,117
Amortization of present value discounts		1,966

Debenture converted into common shares		(2,588)
Balance as at December 31, 2019	$	51,009
Amortization of transaction costs		2,081
Amortization of present value discounts		3,712
Balance as at December 31, 2020	$	56,802
Current portion		**24,361**
Long-term portion	**$**	**32,441**

Note 15 Financial Instruments and Financial Risks

Fair Value of Financial Instruments

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

		December 31, 2020		December 31, 2019
FVTPL (i)	$	37,149	$	47,315
Assets, amortized cost (ii)		13,041		4,847
Liabilities, amortized cost (iii)	$	80,135	$	72,347

(i) Cash and cash equivalents, investments, and marketable securities
(ii) Trade and other receivables
(iii) Accounts payable, lease liability 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
- Level 3 - Inputs that are not based on observable market data

The following table sets for the Company's financial assets measured at fair value on a recurring basis by level within the fair value hierarchy as at December 31, 2020:

	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Cash and cash equivalents	$ 30,529	-	-	$ 30,529
Investments	-	2,620	4,000	6,620
Total	**$ 30,529**	**2,620**	**4,000**	**$ 37,149**

The carrying value of trade receivables and accounts payable are a reasonable approximation of their fair value due to their short-term nature. The carrying value of lease liability and convertible debt are a reasonable approximation of their value based on market interest rates for similar instruments as at December 31, 2020.

During the year ended December 31, 2020 there were no transfers between Level 1, Level 2, and Level 3 fair value measurements. There has been no change in fair value of the Company's investment in OPC (classified as Level 3) as disclosed in Note 13. The value of investment is assessed based on discounted cash flow model. The following factors have a potential impact on net earnings/loss based on various combinations of changes in unobservable inputs in the Company's internal valuation models for its investment in OPC:

- Fair value of investment: $4,000
- After-tax discount rate: 13% to 19%

Adjustment of management revenue received due to risk and uncertainties: -15% / +15%

Hypothetical $ change effect on fair value measurement and net earnings / loss for the year: - $1M - $2M.

The analysis assumes variation within a reasonable possible range determined by Company based on an analysis of the return, management's knowledge of the cannabis retails store market and the potential impact on the changes in the interest rates.

The impact on the internal valuation models from changes in significant unobservable inputs deemed to be subject to the judgement and estimates disclosed above shows the hypothetical increase (decrease) in net earnings / loss. Changes in the after- tax discount rates, adjustment for risk and uncertainty over amounts of payment to be received, each in isolation, would hypothetically change the fair value of the Company's investments as noted above. Generally, an increase (decrease) in long term growth rates, or a decrease (increase) in after-tax discounts rates, would result in higher (lower) fair value of the Company's investment in OPC.

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

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

Aleafia has identified the below potential risk categories:

a) Currency risk

The Company's revenues and expenses are denominated in Canadian dollars. The Company's corporate office is based in Canada and current exposure to exchange rate fluctuations is minimal.

The Company does not have any significant foreign currency denominated monetary assets or liabilities. 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, accounts receivable 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 and the price risk and cash flow risk on convertible debts. The fair value interest rate risk on bank deposits is insignificant as the deposits are short-term in nature. The interest rate risk on convertible debt is insignificant due to fixed rate of interest on convertible debt. 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 which comprised of marketable securities. 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 December 31, 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.

Note 16 Commitments and Contingencies

	Less than 2 years	2 to 5 years	Total
Plant construction contracts	$ 1,000	-	$ 1,000
Long-term arrangements on facilities	628	1,877	2,505
Car lease	6	-	6
Total	**$ 1,634**	**1,877**	**$ 3,511**

Certain of Emblem's former executives have been named in a claim commenced March 20, 2015 in the Ontario Superior Court of Justice that also identifies Emblem and ECC in relation to certain services provided to the Emblem parties by an individual. The parties to the claim are: Amos Tayts (Plaintiff/Defendant by Counterclaim), Gordon Fox, Harvey Shapiro, Maxim Zavet, Levy Zavet Professional Corporation, MZ Prime Holdings Ltd., White Cedar Pharmacy Corporation, Emblem Corp. (Defendants), Emblem Cannabis Corporation ("ECC"), Kindcann.com, Inc. (Defendants/Plaintiffs by Counterclaim), and Talya Lev-Mor (Defendant by Counterclaim). The plaintiff has claimed $10.0 million in damages for some unspecified combination of the value of shareholdings in Emblem of which he says he has been wrongfully deprived, the amount by which he claims Emblem has been directly or indirectly unjustly enriched as a result of his labors, 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 and not the Emblem parties. The claim for damages against the Emblem parties, specifically, is not pleaded with sufficiency particularity to allow an accurate assessment of the quantum of damages being sought against the Emblem parties. The likely measure of damages sought will either be the market value of the services the plaintiff alleges to have provided to the Emblem parties or the degree to which Emblem was enriched by those services. The Company is of the view that the amount of the claim bears no relationship to the value of the services provided. The outcome of this legal matter is subject to negotiations by the officers of the Company and the Company believes it is unlikely to be impacted and accordingly, no amount has been provided for. A separate claim was also initiated by Tayts on March 22, 2019 in the Ontario Superior Court of Justice against Emblem and

Emblem arising out of the same facts and seeking the same damages. The claim is contested but pleadings have not yet concluded.

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.

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 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 $5million in punitive damages.

Ms Langevin has not alleged that she ever purchased product from Emblem or Aleafia. The case is at its earliest stages and has not been certified as a class proceeding. Based on the information available to us the Company appears to have good defenses to the claim and intends to vigorously defend the claim. We also note that 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.

To date this claim has not advanced in any material way and remains at its earliest stages.

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 audited consolidated financial statements.

Note 17 COVID-19 and its Impact on the Business Environment

General outcome

In December 2019, a novel strain of coronavirus ("COVID-19") emerged in China. Since then, it has spread to over a hundred other countries and infections have been reported around the world. Canada confirmed its first case of COVID-19 on January 25,2020 and its first death related to COVID-19 on March 9, 2020. On March 11, 2020, the World Health Organization declared the outbreak of COVID- 19 a global pandemic.

In response to the outbreak, governmental authorities in Canada and internationally have introduced various recommendations and measures to try to limit the pandemic, including travel restrictions, border closures, non-essential business closures, quarantines, self-isolations, shelters-in-place, and social distancing. The COVID-19 outbreak and the response of governmental authorities to try to limit it are having a significant impact on the private sector and individuals, including unprecedented business, employment, and economic disruptions.

The continued spread of COVID-19 nationally and globally could have an adverse impact on the business, operations and financial results and position, including through disruptions to the Company's cultivation and processing activities, supply chains and sales channels, as well as a deterioration of general economic conditions including a possible national or global recession. Due to the speed with which the COVID-19 situation is developing and the uncertainty of its magnitude, outcome, and duration, it is not possible to estimate its impact on business, operations or financial results and position. Further impacts could include an impact on our ability to maintain operations, to obtain and maintain debt and obtain equity financing on attractive commercial terms or at all, impairment of investments, impairments in the value of our non-current assets, or potential future decreases in revenue or the profitability of our ongoing operations, any of which could be material.

COVID-19 and other risks

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:

- extraordinary weather conditions or natural disasters such as hurricanes, tornadoes, floods, fires, extreme heat, earthquakes, etc.

- 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").
- political instability, social and labor unrest, war, or terrorism; or
- 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 conduct operation 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 the Company's business, financial condition, results of operations and cash flows, including a potential reduction in patient visits at the Company's Clinics and, as a result, potential lost revenue.

All three of the Company's production facilities continue to operate. To date there have been no material negative impacts on production due to COVID-19. The Company continues to expand core revenue-generating operations, with new hires completed in product sales, quality control and production.
On March 16, 2020, patients at Aleafia Health's network of medical cannabis clinics were notified that all physical clinic locations would be voluntarily and temporarily closed during the COVID-19 pandemic and that all patient consultations would be conducted through virtual clinic services. Since that time, patient consultations have been completed entirely remotely, ensuring that all patients maintain access to safe, secure, and convenient cannabinoid therapy. As announced on October 17, 2018, the Company previously invested in the technology and training to offer scalable virtual clinic services.

Last-Mile Home Delivery: In recognition of the need for safe, contactless delivery of medical cannabis, the Company advanced its already planned introduction of last-mile home delivery for medical cannabis products. The Company launched last-mile home delivery publicly available for Toronto- based registered Emblem patients.

In March, in addition to temporarily closing physical clinic locations, management enacted a series of measures to ensure business continuity and the safety of team members, including:

- Barring all visits to production facilities and cancelling all non-essential employee travel.
- Increased cleaning frequency throughout facility common areas and enforcing work from home for all non-production essential employees; and
- Adjustment to shift start times, shift length and break structure to eliminate the crossover between groups of employees.

Note 18 Subsequent events

On January 29, 2021 the Company repaid $25M in cash of its 8% unsecured convertible debt which matured on February 2, 2021.

On March 9, 2021, the company closed its previously announced bought deal offering for a total issuance of 27,390,000 units of the Company at a price per Unit of $0.83 for gross proceeds of $22.7 million, which includes a partial exercise of the over-allotment option. Each Unit consists of one common share in the capital of the Company and one-half of one common share purchase warrant. Each warrant entitles the holder thereof to purchase one Common Share at an exercise price of $1.05, for a period of 24 months following the closing of the Offering.

Note 19 Income taxes

The Company has non-capital losses carried forward of $108,691 available to reduce income taxes in future years which expire from 2030 to 2040. The Company has not recognized any deferred income tax assets. The Company recognizes deferred income tax assets based on the extent to which it is probable that sufficient taxable income will be realized during the carry forward periods to utilize all deferred tax assets.

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

	2020	2019
Canadian statutory income tax rate	26.5%	26.5%
	$	$
Income tax recovery at statutory rate	(65,518)	(9,705)
Effect of income taxes of:		
Permanent differences and other	55,075	15,969
Change in deferred tax assets not recognized	7,903	(3,305)
Deferred income taxes (recovery)	(2,540)	2,959

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

	2020	2019
	$	$
Non-capital loss carry forwards	28,803	30,586
Property, plant, and equipment	(715)	(766)
Investment	(503)	-
Biological assets and inventory	4,456	(2,958)
Intangible assets	(13,858)	(18,448)
Convertible debentures	(1,388)	(3,088)
Lease liability IFRS 16	269	-
Share issue costs	1,564	2,350
Deferred tax assets not recognized	(21,482)	(13,070)
Deferred income tax liability	(2,854)	(5,394)