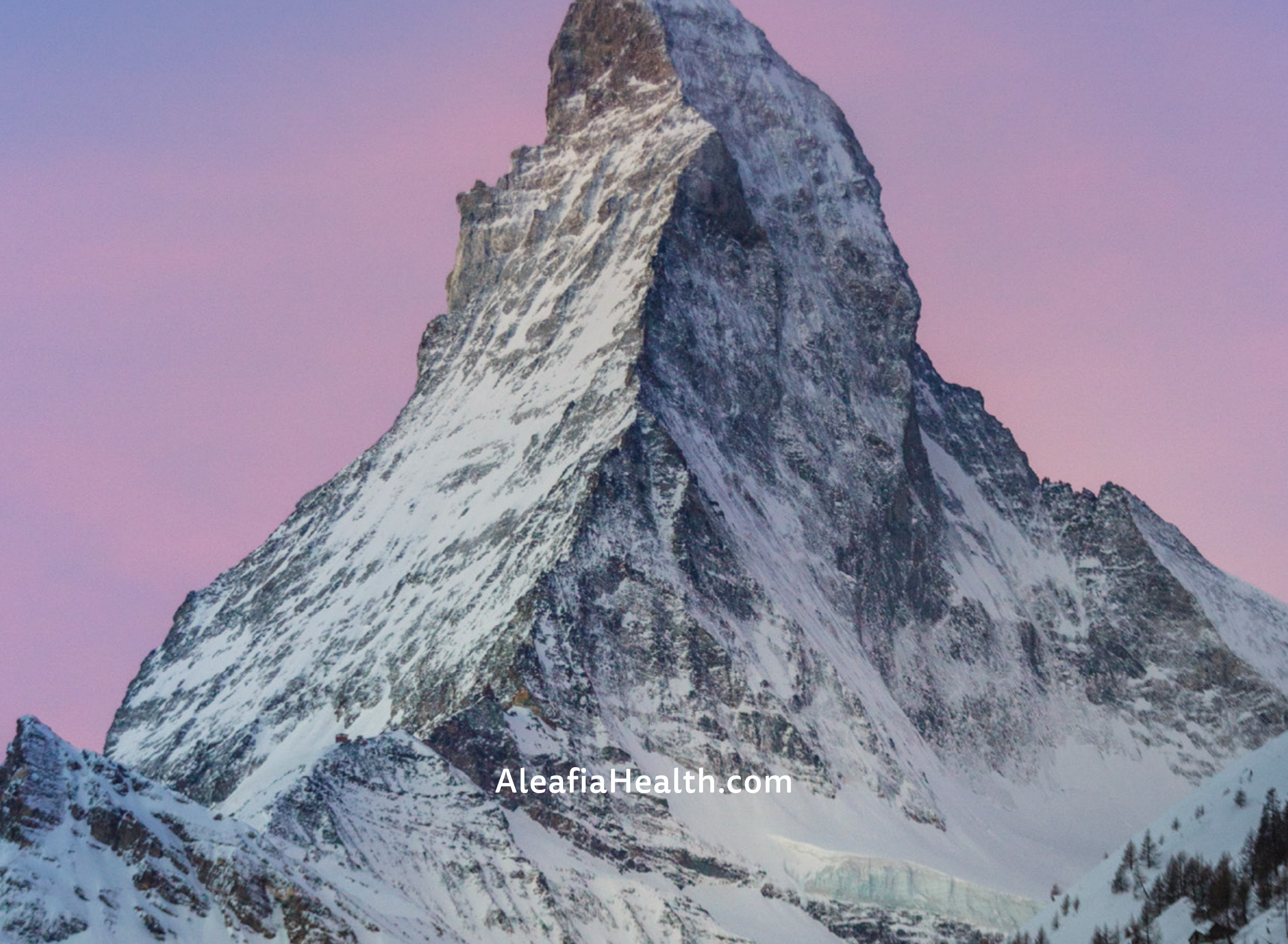
Aleafia Health™

ALEAFIA HEALTH INC.

UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Canadian dollars)
For the three months ended
March 31, 2021 and 2020



AleafiaHealth.com

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To the Shareholders of Aleafia Health Inc.:

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

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

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

"Geoffrey Benic"	*"Benjamin Ferdinand"*
Geoff Benic Chief Executive Officer	Benjamin Ferdinand Chief Financial Officer

ALEAFIA HEALTH INC.
Unaudited Interim Condensed Consolidated Statements of Financial Position
As at March 31, 2021 and December 31, 2020
(Amounts reflected in thousands of Canadian dollars)

	Note	March 31, 2021 (unaudited)	December 31, 2020 (audited)
ASSETS			
Current			
Cash and cash equivalents		$ 17,678	$ 30,529
Trade and other receivables		11,821	13,041
Tax receivables		2,152	4,537
Prepaid expenses		6,299	5,063
Inventory	10	31,134	27,242
Biological assets	11	2,967	2,511
		72,051	82,923
Non-current			
Property, plant, and equipment	5	76,953	78,469
Deferred expenses		154	460
Right-of-use assets	4	2,647	2,782
Investments	12	6,620	6,620
Intangible assets	6	54,174	54,715
Goodwill	3	11,314	11,314
		151,862	154,360
TOTAL ASSETS		$ 223,913	$ 237,283
LIABILITIES			
Current			
Accounts payable and accrued liabilities		$ 18,779	$ 20,166
Lease liability	4	730	441
Deferred revenue		64	73
Convertible debenture		-	24,361
		19,573	45,041
Non-current			
Lease liability	4	2,363	2,726
Convertible debt	13	33,165	32,441
Deferred tax liability		2,854	2,854
		38,382	38,021
TOTAL LIABILITIES		57,955	83,062
SHAREHOLDERS' EQUITY			
Share capital	7	404,128	384,265
Contributed surplus	7	88,147	85,025
Deficit		(326,317)	(315,069)
		165,958	154,221
TOTAL LIABILITIES AND EQUITY		$ 223,913	$ 237,283

COMMITMENTS AND CONTINGENCIES (Note 15)
SUBSEQUENT EVENT (NOTE 17)

Approved and Authorized for issue on behalf of the board on May 11, 2021.

" *Carlo Sistilli* " — Carlo Sistilli - Director

"Lea Ray" — Lea Ray - Director

ALEAFIA HEALTH INC.

Unaudited interim Condensed Consolidated Statements of Comprehensive Loss

For the three months ended March 31, 2021 and 2020

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

	Notes	March 31 2021	March 31 2020
Revenue			
Sale of cannabis		$ 6,689	$ 13,963
Consultation services		465	635
Research		356	235
		7,510	14,833
Excise taxes		444	237
		7,066	14,596
Cost of sales			
Doctor and educator services		660	469
Inventory expensed to cost of sales		3,121	2,052
Gross profit before fair value adjustment		3,285	12,075
Fair value changes in biological assets and changes in inventory sold	11	(921)	(6,217)
Gross profit		2,364	5,858
Expenses			
Wages and benefits		2,304	2,487
General and administrative		4,592	3,107
Business transaction costs		1,454	510
Bad debt expense		558	104
Amortization and depreciation		1,799	2,014
Share-based payments		579	966
		11,286	9,188
Operating loss		(8,922)	(3,330)
Other (income) expense			
Interest expense		2,238	2,648
Unrealized gain on marketable securities		-	(281)
Non-operating (income) expense		88	(41)
		2,326	2,326
Net loss before income taxes		(11,248)	(5,656)
Income tax			
Current income tax expense		-	1,700
Deferred income tax recovery		-	(1,200)
Net loss and comprehensive loss		$ (11,248)	$ (6,156)
Loss per share, basic and diluted		$ (0.04)	$ (0.02)
Weighted average common shares outstanding		308,912,989	277,893,686

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

ALEAFIA HEALTH INC.

Unaudited Interim Condensed Consolidated Statements of Changes in Equity

For the three months ended March 31, 2021 and 2020

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

	Common shares				
	Number of Shares	**Amount**	**Contributed Surplus**	**Deficit**	**Total**
	#	$	$	$	$
Balance, December 31, 2020	**301,269,686**	384,265	85,025	**(315,069)**	**154,221**
Share issuance costs	-	(1,714)	-	-	(1,714)
Issuance of units	27,390,000	18,899	3,835	-	22,734
Shares issued from options exercised	781,250	959	(334)	-	625
Shares issued from warrants exercised	1,050,890	1,719	(958)	-	761
Share-based payments	-	-	579	-	579
Net loss for the period	-	-	-	(11,248)	(11,248)
Balance, March 31, 2021	**330,491,826**	**404,128**	**88,147**	**(326,317)**	**165,958**

	Common shares				
	Number of Shares	**Amount**	**Contributed Surplus**	**Deficit**	**Total**
	#	$	$	$	$
Balance, December 31, 2019	**277,893,686**	**371,744**	**80,601**	**(67,831)**	**384,514**
Shares issued for services	-	-	966	-	966
Net loss for the period	-	-	-	(6,156)	(6,156)
Balance, March 31, 2020	**277,893,686**	**371,744**	**81,567**	**(73,987)**	**379,324**

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

ALEAFIA HEALTH INC.

Unaudited Interim Condensed Consolidated Statements of Cash Flows

For the three months ended March 31, 2021 and 2020
(Amounts reflected in thousands of Canadian dollars)

	March 31, 2021	March 31, 2020
Operating activities		
Net loss for the period	$ (11,248)	$ (6,156)
Adjustments for non-cash items:		
Depreciation	1,836	1,064
Amortization	541	1,105
Bad debt expense	558	-
Current income tax liability	-	1,700
Share-based payments	579	966
Accretion of convertible debt and lease liabilities	2,238	1,331
Deferred income tax recovery	-	(1,200)
Unrealized gain on marketable securities	-	(281)
Fair value changes in biological assets and changes in inventory sold	921	6,217
	(4,575)	4,746
Changes in operating working capital		
Prepaid expenses	(1,236)	4,361
Trade receivable	662	(2,383)
Marketable securities	-	134
Biological assets	(45)	(5,671)
Inventory	(4,605)	5,022
Tax receivable	2,385	3,369
Accounts payable and accrued liabilities	(1,341)	(9,408)
Deferred revenues	(9)	(24)
Net cash provided by (used in) operating activities	(8,764)	146
Investing activities		
Deferred expenses	306	43
Acquisition of property, plant, and equipment	(762)	(7,941)
Net cash used in investing activities	(456)	(7,898)
Financing activities		
Lease liability payments	(387)	(115)
Repayment of convertible debt	(25,650)	-
Warrants and options exercised	1,386	-
Proceeds from the issuance of units	21,020	-
Net cash used in financing activities	(3,631)	(115)
Change in cash and cash equivalents	(12,851)	(7,867)
Cash and cash equivalents, beginning of period	30,529	41,247
Cash and cash equivalents, end of period	$ 17,678	$ 33,380

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

Note 1 Nature of Operations

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 ConsumerExperience 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.

The Company's head and registered office is located at 85 Basaltic Road, Concord, Ontario and its corporate website is *www.aleafiahealth.com*.

Aleafia Health was originally incorporated under the *Business Corporations Act* (British Columbia) asWyn 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, 2021.

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 3. 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.

As at March 31, 2021, the Company had not generated a profit and had accumulated a deficit of $326 million. The Company's operations and expenditures have been funded by the issuance of equity andconvertible debt.

Note 2 Basis of Presentation

These unaudited condensed interim consolidated financial statements as at and for the three months ended March 31, 2021 and 2020 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and in accordance with IAS 34, Interim Financial Reporting ("IAS 34"). The accounting policies, methods of computation and presentation applied in these unaudited condensed interim consolidated financial statements are consistent with those of the previous fiscal year. These unaudited condensed interim consolidated financial statements reflect the accounting policies and disclosures described in Notes 2 and to the Company's audited consolidated financial statements for the year ended December 31, 2020 with the exception of any change set out below and accordingly, should be read in conjunction with those audited consolidated financial statements and the notes thereto.

The unaudited interim condensed 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 unaudited interim condensed 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.

Note 3 Business Combination

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 continuingas "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.

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

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		
Net tangible assets	$	74,583
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
Deferred income tax liability		(285)
		125,298
Goodwill acquired		176,076
Total net assets acquired	$	301,374

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

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. There have been no impairment write-downs recognized in the three months ended March 31, 2021.

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

Note 4 Right-of-Use Asset and Lease Liability

RIGHT-OF-USE ASSET		
Cost		
Balance, December 31, 2019	$	1,591
New leases entered into		2,472
Cancellation of lease		(69)
Balance, December 31, 2020		3,994
New leases entered into		98
Cancellation of lease		(56)
Balance, March 31, 2021	$	4,036
Accumulated amortization		
Balance, December 31, 2019	$	(520)
Amortization		(692)
Balance, December 31, 2020	$	(1,212)
Amortization		(177)
Balance, March 31, 2021	$	(1,389)
Net book value, December 31, 2020	$	2,782
Net book value, March 31, 2021	$	2,647

LEASE LIABILITY		
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
New leases entered into		88
Interest expense		225
Payments		(387)
Balance, March 31, 2021	$	3,093
Current portion	**$**	**730**
Long-term portion	**$**	**2,363**

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

Note 5 Property, Plant and Equipment

	Computer and Software	Equipment and Furniture	Leasehold Improvements	Land	Buildings and Houses	Total
Cost						
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
Additions	33	433	-	-	296	762
Balance, March 31, 2021	$ 1,009	$ 14,413	$ 5,773	$ 7,737	$ 59,538	$ 88,470
Accumulated Depreciation						
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)
Depreciation	(49)	(566)	(87)	-	(1,576)	(2,278)
Balance, March 31, 2021	$ (467)	$ (3,382)	$ (670)	$ -	$ (6,998)	$ (11,517)
Carrying Amounts						
As at December 31, 2020	$ 558	$ 11,164	$ 5,190	$ 7,737	$ 53,820	$ 78,469
As at March 31, 2021	$ 542	$ 11,031	$ 5,103	$ 7,737	$ 52,540	$ 76,953

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 three months ended March 31, 2021, the Company recognized depreciation expense of $2,278 (2020 - $779), of which $352 (2020 – $Nil) was included in cost of sales, $1,308 (2020 – $779) was included in operating expenses, and the remaining balance of $618 (2020 - $Nil) was included in biological assets and inventory.

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

Note 6 Intangible Assets

	Grow License	Emblem Brands	Emblem License	Other	Total
Cost					
Balance, December 31, 2020	$ 9,770	$ 13,169	$ 34,000	$ 2,199	$ 59,138
Balance, March 31, 2021	$ 9,770	$ 13,169	$ 34,000	$ 2,199	$ 59,138
Accumulated Amortization					
Balance, December 31, 2020	$ (1,194)	$ (295)	$ (2,539)	$ (395)	$ (4,424)
Amortization	(98)	(83)	(354)	(6)	(541)
Balance, March 31, 2021	$ (1,292)	$ (378)	$ (2,893)	$ (401)	$ (4,964)
Carrying Amounts					
Balance, December 31, 2020	$ 8,576	$ 12,874	$ 31,461	$ 1,804	$ 54,715
Balance, March 31, 2021	$ 8,478	$ 12,791	$ 31,107	$ 1,798	$ 54,174

During the three months ended March 31, 2021, the Company recognized amortization expense of $541 (2020 - $1,105), of which $227 (2020 – $Nil) was included in cost of sales and $314 (2020 – $1,105) was included in operating expenses.

Note 7 Share Capital

Authorized

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

Issued and Outstanding

As at March 31, 2021, there were 330,491,826 common shares issued and outstanding.

On March 9, 2021, the Company closed a 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. On March 9, 2021, the market price of the Company's common shares was $0.69 per share. Using the residual method, the Company assigned a total value of $3.8 million to the 13,695,000 warrants issued. The Company paid $1.7 million in transaction costs. In connection with the bought deal, the Company issued 621,000 compensation warrants to the brokers. Each of the compensation warrant entitles the holder to purchase one common share at an exercise price of $0.83, for a period of 24 months following the closing of the offering. The fair value of the compensation warrants was determined to be nominal.

During the three months ended March 31, 2021, the Company issued 781,250 common shares for options exercised with net proceeds of $625. The Company reclassified fair value of $334 for the options from contributed surplus to share capital in connection with the option exercises.

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

During the three months ended March 31, 2021, the Company issued 1,050,890 common shares for warrants exercised with net proceeds of $761. The Company reclassified fair value of $958 for the warrants from contributed surplus to share capital in connection with the warrant exercises.

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. In connection with the bought deal, the Company issued 1,207,500 compensation warrants and 11,500,000 subscriber warrants to the shareholders.

Warrants

As at December 31, 2020 and March 31, 2021, the Company had the following warrants outstanding:

	Warrants outstanding	Weighted average exercise price
	#	$
Warrants outstanding and exercisable, December 31, 2019	60,264,816	2.05
Warrants issued	12,707,000	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
Warrants issued	14,316,000	1.25
Warrants exercised	(1,050,890)	0.74
Outstanding and exercisable, March 31, 2021	63,487,084	1.14

At March 31, 2021, the Company had outstanding warrants entitling the holders to acquire additional common shares as follows:

Outstanding and exercisable	Expiry date	Warrants	Weighted average exercise price
		#	$
Warrants Issued by Aleafia	June 27, 2022 - May 29, 2023	55,463,650	1.20
Legacy warrants issued by Emblem	June 23, 2021 - Dec 6, 2021	8,023,434	0.75
Outstanding and exercisable, March 31, 2021		63,487,084	1.14

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

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 theday preceding the date of grant.

The following table summarizes information relating to outstanding and exercisable stock options as at December 31, 2020 and March 31, 2021:

	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
Options outstanding, December 31, 2020	26,260,632	1.06
Options issued	926,076	0.57
Options exercised	(781,250)	0.65
Options outstanding, March 31, 2021	26,405,458	1.06
Vested, March 31, 2021	18,789,201	1.19
Unvested, March 31, 2021	7,616,257	0.74

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

	Three months ended March 31, 2021	Three months ended March 31, 2020
Weighted average share price	$1.06	$1.23
Weighted average risk-free interest rate	1.45%	2.04%
Weighted expected life-years	3.17 years	3.73 years
Weighted average expected volatility	80%	110%
Weighted expected dividends	Nil	Nil
Forfeiture rate	0%	0%

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 conditionsas 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 and March 31, 2021.

Deferred Share Unit Plan for Directors

At the Company's annual general meeting on June 30, 2020, shareholders passed a resolutionapproving the Aleafia Health Inc. a deferred share unit plan (the "DSU Plan"), which was implemented in Q4 2020.

The purpose of the DSU Plan is to promote a greater alignment of long-term interests between eligible participants (being non-executive directors only) and the Company and its shareholders, to provide a compensation system for non-employee directors that, together with 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 three months ended March 31, 2021, the Company issued 177,078 DSUs (during the year ended December 31, 2020 - 148,431 DSUs). At March 31, 2021, there were 325,509 DSUs issued and outstanding.

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

Note 8 Related Party Balances and Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the otherparty 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 three months ended March 31, 2021 and 2020, the Company had the following transactions with the officers and directors of the Company:

	March 31, 2021	March 31, 2020
Wages and Benefits: Directors	171	166
Wages and Benefits: Management	494	434
Accounts payable and accrued liabilities: Directors	161	251
Accounts payable and accrued liabilities: Management	132	25
Share based compensation: Directors	69	69
Share based compensation: Management	440	682

As at March 31, 2021, an amount of $0.29 million was due to directors and management (December 31, 2020 - $0.15 million). These amounts are non-interest bearing, unsecured, due on demand and included in accounts payable and accrued liabilities.

Note 9 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.

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

Note 10 Inventory

Inventory is comprised of the following items	March 31, 2021	December 31, 2020
Finished goods	$5,100	$3,890
Work-in-progress	24,413	21,919
Supplies and consumables	1,621	1,433
Total inventory	**$31,134**	**$27,242**

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

	Three months ended March 31, 2021	Three months ended March 31, 2020
Realized fair value amounts included in inventory sold	$ 301	$ 6,179
Change in fair value on growth of biological assets	620	38
	$ 921	**$ 6,217**

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

Note 11 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 volatilityin market prices and several uncontrollable factors could significantly affect the fair value of biologicalassets 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 pointof 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 March 31, 2021, the biological assets strains consisted of indoor plants which were on average 41% complete.

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 30, 2020 and March 31, 2021 as required by IFRS 13 fair value measurement.

Biological Assets		
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 , December 31, 2020	$	2,511
Changes in fair value less costs to sell due to biological transformation		(620)
Products costs capitalized to biological assets		1,677
Transferred to inventory upon harvest		(601)
Balance as at March 31, 2021	$	2,967

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.

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 assetvalue decreasing by $106 and inventory decreasing by $30.

b) Harvest yield per plant

A decrease in the harvest yield per plant of 5% would result in the biological asset value decreasing by $106.

The unrealized loss on biological assets for the three months ended March 31, 2021 was $620 (2020 - $38).

Note 12 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 andmanaging 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 14). 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 and March 31, 2021.

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 14). 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. There has been no change in the estimated fair value at March 31, 2021.

Note 13 Convertible Debt

Emblem Convertible Debt

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

- a maturity date of February 2, 2021
- an interest rate of 8% per annum, payable semi-annually.
- convertible at $2.3875 per share, subject to adjustment in certain events, at the option of the holder; and
- Aleafia Health may require the conversion of the full principal amount of the outstanding convertible debentures at the conversion price on not less than 30 days' notice, should the daily volume weighted average trading price of the outstanding common shares of Aleafia Health on the TSX be greater than $4.12 for any 10 consecutive days.

Upon maturity on February 2, 2021, the debt was repaid in full.

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.

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

Convertible debt

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
Amortization of transaction costs		322
Repayment of convertible debt		(24,689)
Interest payments		(961)
Amortization of present value discounts		1,691
Balance as at March 31, 2021	$	33,165
Current portion		**-**
Long-term portion	**$**	**33,165**

Note 14 Financial Instruments and Financial Risks

Fair Value of Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, tradeand 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:

		March 31, 2021		December 31, 2020
FVTPL (i)	$	24,298	$	37,149
Assets, amortized cost (ii)		11,821		13,041
Liabilities, amortized cost (iii)	$	55,037	$	80,135

(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

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

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:

	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	$ 17,678	-	-	$ 17,678
Investments	-	2,620	4,000	6,620
Total	**$ 17,678**	**2,620**	**4,000**	**$ 24,298**

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 March 31, 2021.

During the period ended March 31, 2021 and the year ended December 31, 2020, there have been 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 12. 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 income / 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 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 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 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. 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 March 31, 2021 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.

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

Note 15 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	3	-	3
Total	**$ 1,631**	**1,877**	**$ 3,508**

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 $5 million 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 16 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 17 Subsequent Event

On May 10, 2021, the Company announced that its wholly-owned subsidiaries, Canabo Medical Corporation **("Canabo"**) and GrowWise Health Limited **("GrowWise"**), (together the **"Vendors"**) closed a transaction (the "Transaction") with Myconic Capital Corp. **("Myconic")** whereby the Vendors sold certain of their respective clinic assets to Myconic. Additionally, Canabo has agreed to continue to staff and generally operate the clinics for the benefit of Myconic for a period of ten years, through a Clinic Services and License Agreement (the **"Services Agreement**") between Canabo and Myconic, ensuring that there will be no interruption to medical services offered to existing patients.

Pursuant to an Asset Purchase Agreement, the Vendors sold to Myconic certain clinic leases, inventory, equipment, and contracts, all relating to clinic operations (which excludes all patient records) (collectively the "**Purchased Assets**").

As consideration for the Purchased Assets, Canabo and GrowWise were issued and delivered an aggregate of 7,000,000 common shares in the capital of Myconic, issued at an issue price of $1.50 per share, in satisfaction of a purchase price of $10.5 million, (the "**Consideration Shares**") on the closing of the Transaction. The Consideration Shares are subject to a contractual lockup whereby the Consideration Shares will be released and become freely tradeable in several tranches over a period of 12 months following closing. No finder's fees are payable as a result of the transaction.