Aleafia Health

ALEAFIA HEALTH INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the three and twelve months ended March 31, 2023

Dated June 13, 2023

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MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THREE AND TWELVE MONTHS ENDED MARCH 31, 2023

This Management's Discussion and Analysis ("MD&A") of Aleafia Health Inc. is dated June 13th 2023 and provides an analysis of the financial operating results for the three and twelve months ended March 31, 2023. Unless the context otherwise requires, "Aleafia Health" refers to Aleafia Health Inc. and the "Company" refers to Aleafia Health and its affiliates, subsidiaries and associated corporations. This MD&A should be read in conjunction with the Company's audited consolidated financial statements for the three and twelve months ended March 31, 2023 and notes thereto (the "Financial Statements"), which have been prepared in accordance with International Financial Reporting Standards ("IFRS") for consolidated financial statements.

All amounts are in Canadian dollars unless otherwise specified. The MD&A has been prepared by reference to the MD&A disclosure requirements established under National Instrument 51-102 "Continuous Disclosure Obligations" ("**NI 51-102**") of the Canadian Securities Administrators. This MD&A, the consolidated financial statements, and press release have been filed on SEDAR. Additional information is also available on the Company's website at www.AleafiaHealth.com. The common shares of the Company are traded on the Toronto Stock Exchange ("**TSX**") under the symbol "**AH**" and on the Over the Counter ("**OTCQB**") under the symbol "**ALEAF**"). The Company also has warrants (AH.WT.B) and three classes of secured convertible debentures (AH.DB.A, AH.DB.B and AH.DB.C) which trade on the TSX.

COMPANY OVERVIEW

Aleafia Health Inc. is a publicly traded corporation incorporated under the laws of Ontario. Aleafia Health's head and registered office is currently located at 85 Basaltic Road, Concord, Ontario, and its corporate website is www.AleafiaHealth.com.

The Company is a federally licensed Canadian cannabis company offering cannabis products in Canada and destined for international markets, including Australia and Germany. The Company operates a virtual medical cannabis clinic staffed by physicians and nurse practitioners which provide health and wellness services across Canada.

The Company operates three licensed cannabis production facilities all in the province of Ontario, including the largest, outdoor cannabis cultivation facility in Canada. The Company produces a diverse portfolio of cannabis and cannabis derivative products including pre-roll, milled, dried flower, vapes, oils, capsules, edibles, sublingual strips, and topicals, for sale in Canada in the medical and adult-use markets, and in select international jurisdictions.

The common shares of the Company commenced trading on the symbol ("ALEAF").

SELECT FINANCIAL HIGHLIGHTS

($,000s)	Three months ended		Twelve months ended		Fifteen months ended
	31-Mar-23	31-Mar-22	31-Mar-23	31-Mar-22	31-Mar-22
Financial Highlights					
Branded Cannabis Net Revenue	7,173	8,047	36,622	31,567	36,768
Wholesale Net Revenue	2,216	(1,008)	6,225	4,489	6,354
Total Net Revenue (1)	9,389	7,039	42,847	36,056	43,122
Adjusted SG&A	4,533	7,282	17,575	32,264	41,174
% of total net revenue	48%	103%	41%	89%	95%
Adjusted EBITDA (2)(3)	229	(4,412)	(180)	(18,936)	(22,010)
Adjusted EBITDA margin	2%	-63%	0%	-53%	-51%

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

Due to the change in the Company's fiscal year from December 31, 2021 to March 31, 2022, the prior fiscal year represents a 15 month period. Accordingly, the Company has added the 12 month ended March 31, 2022 as the comparative year for discussion purposes.

See the non-IFRS Measures section for further discussion on Adjusted SG&A and Adjusted EBITDA.

OVERALL PERFORMANCE

Corporate Strategy

The Company sells its products primarily through three core sales channels: adult-use, medical, and international. Together, the adult-use, medical and international sales channels are referred to as our branded cannabis product portfolio.

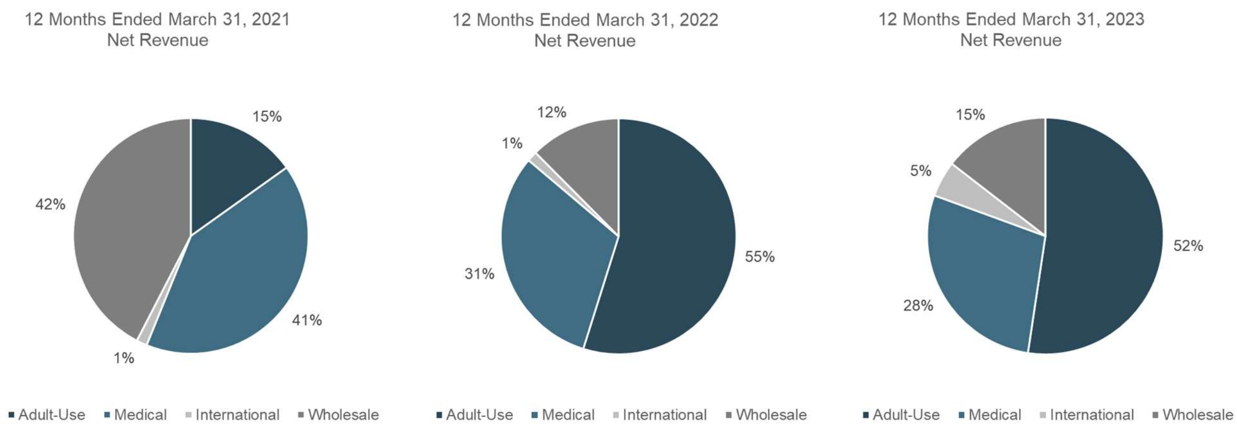
Prior to 2021, the bulk wholesale market was the primary sales channel for the Company where it sold bulk flower, oils, distillate, isolate and other cannabis input materials. With the launch of the Company's adult-use Sunday Market House of Brands in Q1 of 2021, and the improved potency and quality of the Company's outdoor harvest from Port Perry, it is now able to utilize that flower feedstock to support its own branded cannabis products. The Company utilizes its outdoor Port Perry cultivation to supply its pre-roll and milled product offerings and utilizes strategic third-party growers to supply its dried flower product offerings and blend with its own flower feedstock to support its pre-roll and milled product offerings. The Company tactically will sell through the bulk wholesale sales channel where it has excess product or product not suitable for its other sales channels, to maximize net realizable margin from its cultivation sites.

Within the branded cannabis products portfolio, the adult-use sales channel is the largest vertical. For the year ended March 31, 2023, the adult-use revenue increased +24% and net revenue increased 13% over the prior year. The main product categories include pre-roll, milled, dried flower, and vapes in addition to a suite of derivative products. These four product categories account for the largest percentage of total net revenue.

The medical sales channel represents a stable, but higher margin revenue stream, driven by the recurring ordering patterns of our active patient base, referrals from third-party clinics and demand from other medical marketplaces for our branded products. For the year ended March 31, 2023, the medical net revenue increased +7% over the prior year. The majority of sales are cannabis derivative products which generally deliver a higher margin than flower format products, and sales also include medical clinic related revenue. We continue to drive increased patient engagement to improve ordering frequency, basket size and lifetime revenue.

The international sales channel is our most recently added sales channel, highest margin revenue stream, and fastest scaling vertical. For the twelve months ended March 31, 2023, the international net revenue increased +318% over the prior year. We continue to seek out new international partnerships to build that sales pipeline. Most recently in January 2023, the Company signed a $1.0 million sales opportunity with a new European partner. This strategic partnership unlocks a new gateway into the growing European medical and burgeoning legalized adult-use market. The international sales are a combination of bulk flower and oils and capsules which are exported into international jurisdictions, delivering the highest sales growth rate and net realizable margin per gram of equivalent flower sold. Germany represents our largest international end-market, and with continued progression towards full legalization of recreational cannabis and two sales commitments representing $5.6 million in total sales, this is anticipated to continue to be the largest international sales channel.

The below charts illustrate the transformation in the business over the last three years, whereby the Company developed, built, and launched its own branded cannabis products to compete in the adult-use sales channel, established international partnerships and customers, and deepened its presence in the Canadian medical market. The international sales channel has expanded from representing 1% of total net revenue in the twelve months ended March 31, 2021, to now representing 5% in the twelve months ended March 31, 2023, and the Company's entire total branded product sales expanded from representing 58% in the twelve months ended March 31, 2021, to 85% in the twelve months ended March 31, 2023. Within the adult-use sales channel, the Company further diversified its revenue base by expanding into a new province, Manitoba, in fiscal year 2023.



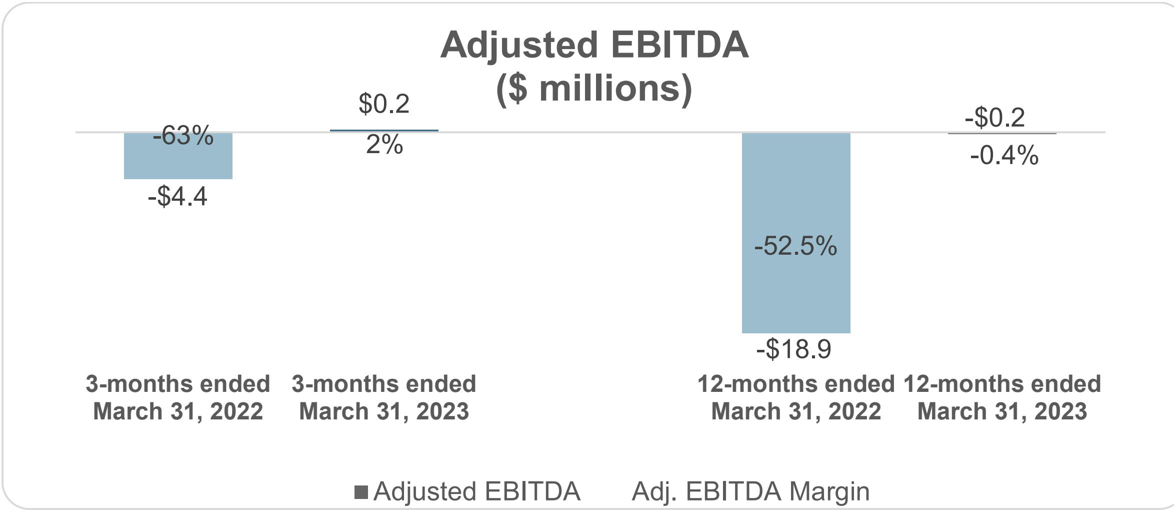
STRATEGIC OBJECTIVES

The Company established four key long-term strategic objectives in 2022:

1. **Adjusted EBITDA(2) profitability**

   The Company disclosed guidance in February 2022, anticipating reaching breakeven Adjusted EBITDA profitability by the quarter ended March 31, 2023. The Company attained that goal two quarters earlier than anticipated, achieving breakeven Adjusted EBITDA profitability in the quarter ended September 30, 2022.

   In the quarter ended March 31, 2023, the Company delivered Adjusted EBITDA of $0.2 million, an increase of $4.6 million over the prior year. This third consecutive quarter of Adjusted EBITDA profitability was primarily due to the $1.3 million bulk wholesale gross profit before fair value adjustments which represents two bulk wholesale customers. These input materials sold exceeded the Company's near-term supply requirements for its own branded cannabis products and accordingly had previously taken a $1.1 million inventory provision. After completing these sales transactions, the Company has no further obligation or commitment to these two customers. As the sales transactions with these two customers fulfilled two separate product-in-kind obligations, no cash was received. On a go forward basis, the Company anticipates continuing opportunistically entering into bulk wholesale transactions with cash paying Canadian LP customers.



Concurrently with the Company scaling each of its branded cannabis sales channels[1], it is focused on cost of sales optimization, and selling, general & administrative expense containment and strategic rationalizations to continue to improve its Adjusted EBITDA profitability profile. The Company is focused on long-term, sustained, positive cash flow generation in-line with other consumer product goods sectors.

The Company is growing its Adjusted EBITDA profitability by focusing on:

1. Growing sales volumes and capturing market share in pre-roll, milled, flower, concentrate (including infused pre-roll and hash), and vape product sub-categories through new innovative product offerings which deepen penetration in its existing five provincial markets;

2. Building relationships to drive expansion of the adult-use sales channel into other provinces;

3. Migrating its adult-use consumer base from entry level "starter" formats to large size product formats which deliver higher gross profit dollars and margin to the Company;

4. Improving patient engagement to drive higher order frequency, basket size and lifetime revenue in the medical channel;

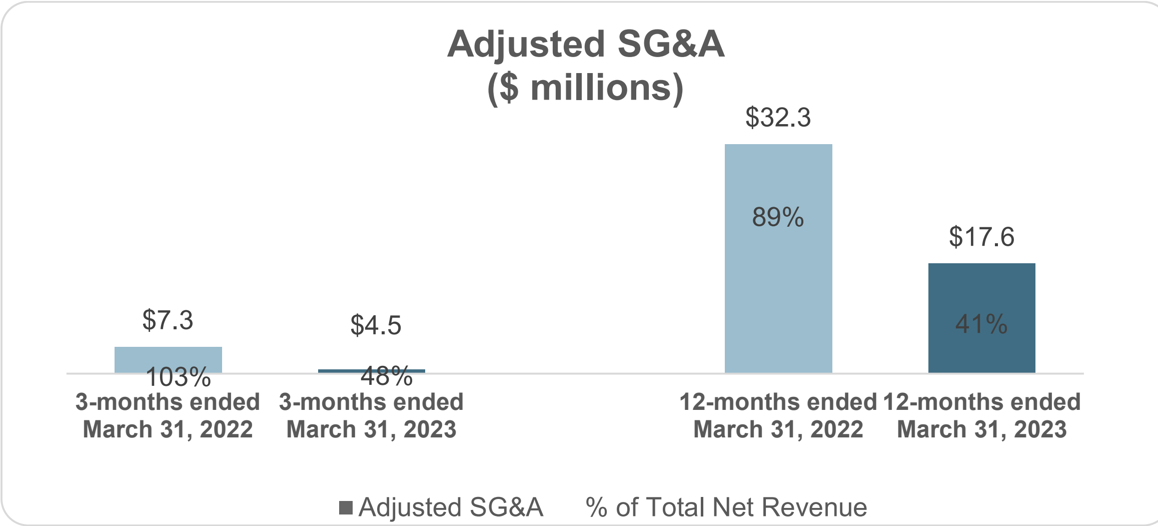
5. Expanding its newest, and fastest growing sales channel, the international vertical, which delivers the highest net realizable margin per gram of equivalent flower sold;

6. Increasing its gross profit margin profile by driving further operational efficiency in its manufacturing and processing through automation; and

7. Identifying, reducing and containing selling, general and administrative expenses which the Company has found is a key strength in a highly competitive market.

Over the last eight quarters, the Company has decreased Adjusted SG&A(1) by 45% to $4.5 million in the quarter ended March 31, 2023 as compared to the same period two years ago. Over this same timeframe, the Company has driven robust 22% growth in total net revenue.

[1] This is a Supplementary Measure. Please see page 41 for its composition.
(1) See 'Cautionary Statements Regarding Certain non-IFRS Measures' section



In September 2021, the Company completed a holistic review of its operations, shared services and organizational structure and evaluated total SG&A savings, which totalled over $16 million on an annualized basis, including:

- the reduction of its workforce by 48% representing $13 million;
- the reduction in the use of external consultants, legal counsel and external advisors representing $2.0 million; and
- the wind down of leased spaces to consolidate operations representing $0.5 million.

In November 2021 the Company completed a portfolio optimization to further improve adult-use profit margins. This aligned our portfolio with the best-selling products formats that deliver the strongest gross profit margins and executed moderate strategic price increases.

In February 2022, the Company provided an update on its cost rationalization strategy. The Company methodically reviewed its cost structure and optimized its talent and resources towards the sales channels which delivered the highest net realizable margin per gram of flower sold – its branded cannabis products.

In April 2022, the Company provided a corporate update on its ongoing cost containment initiatives, including identifying $4.4 million in annualized cost savings to be completed within the quarter. The Company realigned its medical business, integrated its virtual, physical and third-party clinic platform to further improve its general and administrative and wages and benefits cost profile while improving the patient experience through a more cohesive and consistent approach to managing patient interactions. Moreover, the Company overhauled its Grimsby, Ontario hybrid greenhouse and drove operational efficiencies and remapped its processes to allow its cultivation organization to expand throughput of high THC potency flower ("**Usable Flower**"). The Company assessed procurement practices, resulting in a consolidation of certain vendors leading to cost efficiencies.

In July 2022, the Company enacted a vendor consolidation initiative, to extract economies of scale by aggregating procurement across its four facilities into key trusted vendors. This initiative identified and enacted agreements which represent an annualized cost of sales savings of $2.3 million.

In September 2022, the Company extracted further savings among its third-party copackers based on increased purchase volumes which on an annualized basis represented annualized cost of sales savings of $1.8 million.

In October 2022, the Company identified efficiencies in its information technology, legal and finance functions which represented over $1.5 million in annualized SG&A savings. The primary cost savings related to a further 5% reduction in the Company's headcount. The Company extracted savings from third-parties by focusing on service providers that are appropriate for the Company's size & scale and provide offerings best suited for our industry and growth strategy.

In November 2022, the Company enacted further cost savings initiatives around its flower supply, by initiating the winddown of its Grimsby greenhouse which represents an annualized net cost savings of approximately $4.1 million which will further improve go forward profitability. This cultivation facility was historically the primary supplier of usable flower for the dried flower category in the Divvy brand. Over the course of calendar year 2022, the Company was able to secure high-quality dried flower from multiple trusted third-party growers at attractive prices which allows the Company to grow its dried flower sales and achieve an improved margin profile in its adult-use sales channel. Additionally, with continued improvement in grow practices the Company will be utilizing the harvest from the outdoor Port Perry cultivation facility to support the continued growth of its leading pre-roll and milled product categories. The Company is focused on continuing to build its loyal consumer base of its everyday value brand, Divvy, by supplying its consumers with innovative sought-after cultivation strains from the best sources of flower supply, whether that be internally grown or procured from other third-party growers.

In January 2023, the Company completed a review of its adult-use brand and SKU portfolio as a part of its normal course annual review of product life cycles. Based on its review of the market size, consumption patterns, behaviours and evolving trends, the Company concluded that approximately 1/3 of the in-market adult-use SKUs were designated for delisting and two of its brands under its Sunday Market House of Brands would be rationalized: Bogart's Kitchen (edibles), and Nith & Grand (craft flower). This was estimated to result in an approximate $0.9 million in annualized net savings to the Company.

In February 2023, the Company completed the ramp-up of its first automated flower packaging machine. The machine is anticipated to result in operational efficiencies, accuracy, consistency, and improved overhead absorption. The machine is anticipated to result in approximately $0.5 million in annualized cost savings and unlock further flower packaging throughput potential.

In March 2023, the Company completed the winddown of its Grimsby greenhouse with only maintenance and security personnel stationed at the facility until its eventual sale. It also negotiated another significant price reduction with its third-party copackers representing $0.5 million in annualized cost savings. It completed a holistic review of its ongoing IT requirements and identified redundancies which could be eliminated in its corporate operating platform and its key seed-to-sale platform representing $0.2 million in annualized cost savings. Further, the Company has reduced its active headcount from 162 as of December 31, 2022 to 158 as at March 31, 2023 representing $0.3 million in annualized cost savings.

The Company believes it has the organizational infrastructure, including a core corporate shared services and distribution relationships to facilitate the continued growth in its branded cannabis net revenue to create further operating leverage and drive improved Adjusted EBITDA profitability in fiscal year 2024.[2]

[2] This is forward looking information. Please see cautionary statement on page 40.

2. Increasing Market Share Position in Canadian Adult-Use Market

The Company launched its Sunday Market House of Brands in Q1 of 2021, anchored around Divvy, the everyday brand focused on delivering an exceptional value proposition to consumers. Divvy is consistently a top searched brand on OCS.ca. The Company's product portfolio and SKU listings are focused on the largest adult-use categories: pre-roll, milled, flower, and vapes and represent the majority of the Company's adult-use sales. The Company sells into five provinces with Ontario and Alberta representing its two largest customers. This sales channel represented 82% of Q4 fiscal year 2023 total net revenue.

Brands & Products: The other four supporting brands under the adult-use portfolio, Bogart's Kitchen, Kin Slips, and Noon & Night, are niche brands targeted at specific consumer segments in the market and span from value to premium craft. Over 45 new SKUs launched in fiscal year 2023, including: large format flower (28g) in Divvy cropped products, new Divvy cultivars, Divvy large format pre-roll line extensions, 8 new Divvy vape cartridges, first-to-market Nitecaps under Noon & Night, a third hot sauce as well as THC-infused maple syrup under Bogart's Kitchen. The Company has over 170 provincial listings of its SKUs in the adult-use portfolio, including a full suite of pre-roll, milled, dried flower, vape and cannabis derivative products. The Company has expanded into the concentrate category with the launch of hash products in May 2023 and infused pre-rolls in June 2023. The company has an additional 15 SKUs in the same categories accepted by various provincial boards, set to launch as early as Q1 fiscal year 2024, with additional submissions being evaluated.

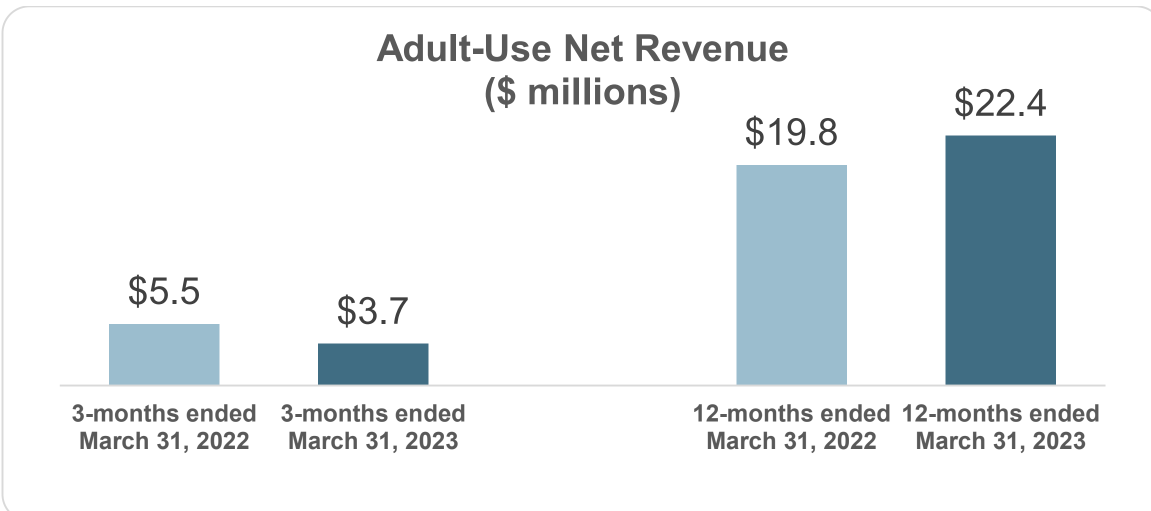
Geographic Markets: The adult-use sales channel in Canada is now the Company's largest sales channel based on total net revenue, with distribution agreements and entrenched relationships in five provinces – Ontario, Alberta, British Columbia, Saskatchewan, and Manitoba – representing an estimated 71% of the Canadian population. Manitoba is the most recent province that the Company entered in late November 2022. The Company is actively reviewing opportunities to expand into other Canadian provinces and territories in fiscal year 2024. Any expansion into new geographies is anticipated to be a favourable tailwind for the adult-use sales channel to drive further sales velocity and improved revenue diversification.

Go-to-Market Approach: The Company markets its products through its internal salesforce and is focused on gaining market share through the continued launch of innovative products in the largest product categories, mainly pre-roll, milled, whole flower, and vapes. The Company's internal sales and marketing team can respond to market trends in a dynamic and rapid fashion to drive sales velocity of its unique cannabis portfolio. The Company is focused on deepening its penetration in its existing core provincial markets, along with expanding into select other provincial markets. The Company believes its internal sales and marketing teams, is a key competitive advantage allowing the Company to respond to and drive key changes in the Canadian adult-use marketplace.

Market Share Capture: The Company has driven the second largest change in market share rankings among the top 15 Canadian Licensed Producers from Q1 2021 #26th, when the Company launched its new adult-use brand portfolio, to Q3 fiscal year 2023 #15th according to data from HiFyre based on the products and four provinces (Ontario, Alberta, British Columbia, and Saskatchewan) Aleafia operated in throughout the most recently completed fiscal period ended March 31, 2023. In November 2022 the Company launched successfully into Manitoba, its fifth provincial territory, and the Company continues to target a top 10 Canadian LP standing, as measured by retail sales pull-through, in each of its markets[5].

The Company Increased revenue by 24% to $36.1 million for the total fiscal year 2023 versus $29.1 million in the prior year. Net revenue improved 13% to $22.4 million compared to $19.8 million. While overall top-line growth is important for the Company, simultaneously, the Company is focused on profitable growth and actively seeks out more profitable product formats, categories and SKUs in favour of higher volume, lower margin SKUs.

During the quarter ended March 31, 2023, the Company saw its whole flower sales decline to its lowest level seen in fiscal year 2023. We believe this was primarily due to: customary yearly seasonality seen in the cannabis retail environment at the turn of every calendar year which typically declines by approximately 10% to 15%; overall price compression in the market due to elevated levels of competition particularly in the largest product format (whole dried flower); and the effects of repeated and prolonged product out-of-stocks in the summer and fall of calendar year 2022 due to the Company's demand for its whole flower products outstripping the supply of the Company's Grimsby greenhouse cultivation facility. Consumer demand for the Company's flower products far exceeded the cultivation supply capacity of its Grimsby greenhouse through most of calendar year 2022. The Company has now mitigated this issue by sourcing usable, high-THC flower from a variety of trusted, strategic third-party growers.



3. **Leadership in Medical**

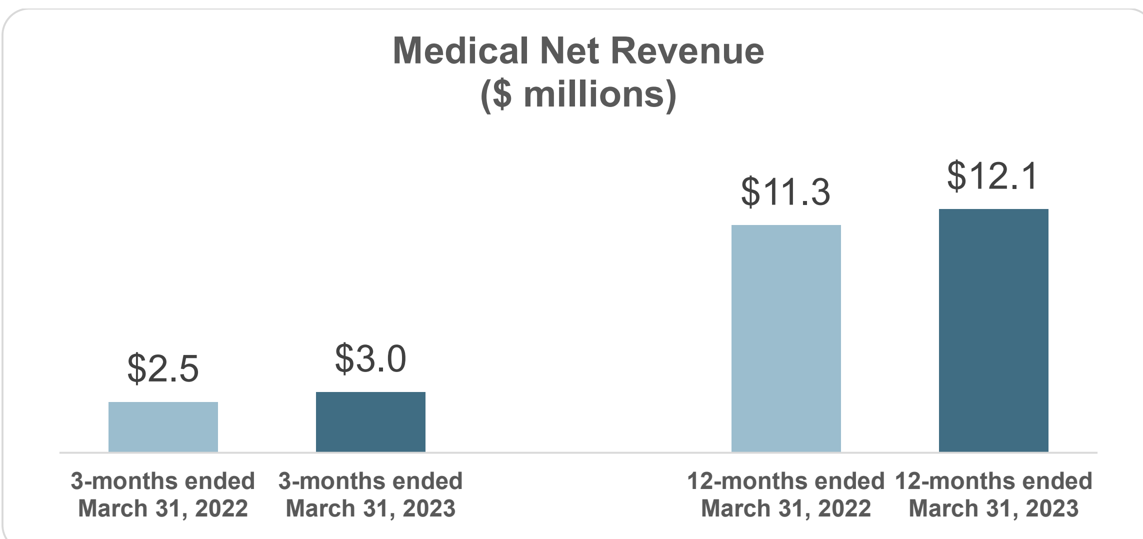
The medical sales channel in Canada is core to the Company and supported by our medical ecosystem, offering the ability for new patients to be onboarded, consulted, prescribed, and delivered medical cannabis products. Containing approximately 20,000 active patients with stable ordering patterns, this sales channel has a high level of recurring revenue. The medical sales channel includes revenue from: the sale of medical cannabis in the Canadian markets, clinic fees, and research revenue, and represented 32% of Q4 fiscal year 2023 total net revenue.

Go-to-Market Approach: The Company's direct-to-patient medical business receives patient referrals from its owned clinic Canabo Medical Clinics® ("**Canabo**") and several third-party clinics nationwide. Canabo operations are predominantly virtual, helping patients access treatment services in a convenient and cost-effective setting. Canabo has one long standing physical clinic in St. John's, Newfoundland. We deliver products direct-to-patient the same day they are ordered in the Greater Toronto Area, Canada's most populous region. In addition to the direct-to-patient model, the company sells branded medical cannabis products to other Canadian medical sales license holders.

Product Portfolio: The Emblem brand is used exclusively in the Company’s medical sales channel. The Company also offers certain other products from its Sunday Market House of Brands and resells other products procured from third-parties to its medical patients. The majority of sales in the medical sales channel are of cannabis derivative products, including oils, capsules and vapes.

Growth Initiatives: The Company made strategic investments in email platforms to enhance the patient experience, resulting in a significant increase in email engagement and a reduction in overall marketing costs. The Company also implemented new targeted email marketing campaigns to increase brand loyalty, improve the patient experience through education, and drive sales growth. In addition, the Company continues to enhance its support and product offerings for Veteran patients. This includes the launch of new flower SKUs, edibles and specialized “white-glove” service.

The Company increased net revenue in the medical channel sales channel by 19% to $3.0 million in Q4 fiscal year 2023 versus $2.5 million in the prior year. This increase was primarily driven by continued penetration into the Quebec market and higher sales to veteran patients. Additionally, it benefited from an improved patient journey following the Company’s integration of its physical clinics, virtual clinics, and third-party clinic platform completed in April 2022. The Company has driven this growth by increasing its market share in a flat to declining overall medical market. Continued penetration into the Quebec market and higher sales to veteran patients. Additionally, it benefited from an improved patient journey following the Company’s integration of its physical clinics, virtual clinics, and third-party clinic platform completed in April 2022. The Company has driven this growth by increasing its market share in a flat to declining overall medical market.



4. **Well-Positioned for International Growth**

One of the Company’s fiscal year 2023 objectives was to expand its international sales channels. In parallel to serving the Canadian medical market, the Company is well-positioned to benefit from the expansion of the global medical cannabis market and the continued legalization of global recreational markets. The Company has identified $5.6 million in sales opportunities, with more demand for its products in international markets than current supply. This sales channel represented 5% of total net revenue for fiscal year 2023 compared to 1% in fiscal year 2022.

Strategic Focus: The Company is focused on expanding its international sales as it sees the opportunity to supply flower and cannabis derivative products in bulk-form to select international medical markets. Given the high regulatory and other barriers to entry of supplying these international jurisdictions, the Company enjoys an early mover advantage. The Company further sees expanding its international medical sales as a potential toehold should cannabis be legalized recreationally in the same international jurisdictions. The sales agreements for international sales typically are longer in duration than the Canadian medical or adult-use channels, with guaranteed minimum purchase commitments and no required Canadian excise duties. Moreover, they typically deliver the highest net realizable margins per gram of flower equivalent sold than the other sales channels.

Select Key International Markets: The Company's products have been successfully exported into key global markets including Germany, the UK and Australia. The Company continues to engage in discussions to deepen its penetration in these markets and selectively expand into other jurisdictions where it could also enjoy an early mover advantage. The Company is actively pursuing increased penetration into the European market where the addressable market is multiples larger than the Canadian market.

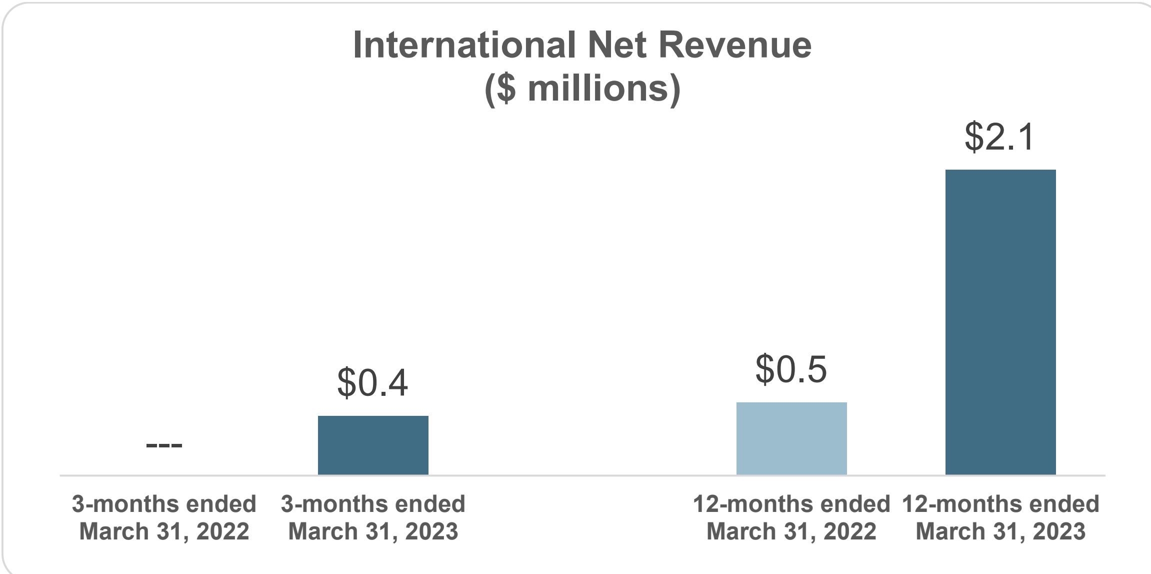
Recent Agreements: In July 2022, the Company secured an estimated $4.6 million[3] international sales agreement to supply bulk flower into the European market. It is a two-year agreement, with a minimum annual sales commitment estimated at $2.0 million[4] per year based on a variable price per gram of flower. The Company successfully shipped product under this agreement in the quarter ended December 31, 2022 which is destined for Germany. Additionally, in January 2023, the Company secured an additional international sales order for approximately $1.0 million[5] in annual sales with a new European based strategic partner. This expands the Company's international sales and improves access into the existing European medical market and burgeoning legalized adult-use markets.

International net revenue was $0.4 million in the Q4 fiscal year 2023, compared to nil in the prior year. The Company is looking to further develop this channel with an active pipeline of opportunities for fiscal year 2024.

[3] This is forward looking information. Please see cautionary statement on forward looking information.

[4] This is forward looking information. Please see cautionary statement on forward looking information.

[5] This is forward looking information. Please see cautionary statement on forward looking information.



OUTLOOK

The Company's overall objectives for fiscal year 2023 built upon the successes it recognized during fiscal year 2022. During fiscal year 2023, the Company focused on growth as a branded cannabis producer in the Canadian adult-use and medical markets, while continuing to advance the Company's international expansion efforts; rationalizing its cost structure to drive profitability; and building its capacity to sustainably deliver Usable Flower through its own outdoor cultivation facility as well as its ecosystem of trusted, strategic, third-party growers. The Company's overall objectives for fiscal year 2023 were as follows[6]:

- Total net revenue of between $44.0 million and $46.0 million;
- Develop a pathway and momentum towards attaining top 10 market share positions in each of its provincial Canadian adult-use markets based on retail sales pull through;
- Maintaining a leadership position in the medical market;
- Achieving Gross Profit Margins before Fair Value Adjustments of between 32% and 38%;
- Adjusted SG&A of between $17.2 and $18.0 million; and
- Adjusted EBITDA of between -$0.5 million and $0.5 million.

The Company generated $42.8 million of total net revenue, representing 3% less than the low end of the targeted guidance. The Company believes this difference is primarily related to the Company's liquidity constraints, challenges in making timely payments to high priority vendors, the increasingly competitive market environment, and unforeseen external factors including the cybersecurity attack on the Ontario

[6] The foregoing projections are Forward Looking Information. Please see the cautionary statement on page 40.

Cannabis Store, a labour strike in British Columbia, and a lack of usable high-THC flower due to the Grimsby greenhouse supply behind outstripped by demand.

The Company significantly increased its presence and deepened consumer awareness of its branded products, increasing its average market share ranking from #15 in fiscal year 2022 to #13 in fiscal year 2023.

The Company has maintained a leadership position in the Canadian medical market, and increased its net revenue by 7% to $12.1 million in the 12 months ended March 31, 2023, as compared to $11.3 million in the 12 months ended March 31, 2022.

The Company generated 33% in gross profit margin before fair value adjustments, in-line with its targets for fiscal year 2023.

The Company achieved Adjusted SG&A of $17.5 million in fiscal year 2023 compared to $31.3 million in the prior year.

The Company achieved total Adjusted EBITDA of -$0.2 million in fiscal year 2023. This is well ahead of the initial guidance provided in February 2022 of achieving a range of between -$7.5 million and -$2.5 million. The Company believes this is an incredible milestone given the competitive market conditions in the Canadian cannabis industry, the Company's capital constraints, and the Company's transformation from being a bulk wholesale producer to a branded cannabis producer supplying into three core sales channels: adult-use, medical, and international. The Company remains focused on bringing innovative and differentiated cannabis products to Canadian consumers that deliver on the commitment of offering high quality cannabis wellness products at competitive prices. While all objectives are important to the Company, ultimately the Company is focused on driving sustainable, long-term profitability as its primary objective.

Due to the Company's ongoing liquidity risk and lack of sufficient capital resources for the next twelve months, and the ongoing challenges to maintain payments such that our accounts were in good standing with high priority vendor relationships, the Company has not initiated any guidance for fiscal year 2024.

Adult-Use Brand Portfolio

Divvy is the Company's main adult-use brand. It represents the vast majority of the Company's sales in the adult-use sales channel. In addition to Divvy, there are four other supporting brands serving distinct segments of the adult-use market.

Divvy.	Divvy Cannabis brings frequent cannabis users good quality products at value-oriented price-points. With flower harvested from our hybrid greenhouse and outdoor operations, Divvy flower products include whole flower, milled flower, pre-rolls, vapes and oils.
NOON &NIGHT	Noon & Night is a CBD-forward line of familiar wellness products. Noon & Night is highly differentiated, filling a gap in the cannabis brand landscape with its exclusive focus on wellness-conscious consumers.
KIN SLIPS	Kin Slips are cannabis-infused sublingual strips, an edible alternative that are discreet, precise, and provide rapid onset. Kin Slips are formulated with peppermint oil to deliver a fresh minty sensation. They are vegan, sugar-free, contain only natural ingredients, and come in roughly the size of a postage stamp.

Medical Brand Portfolio

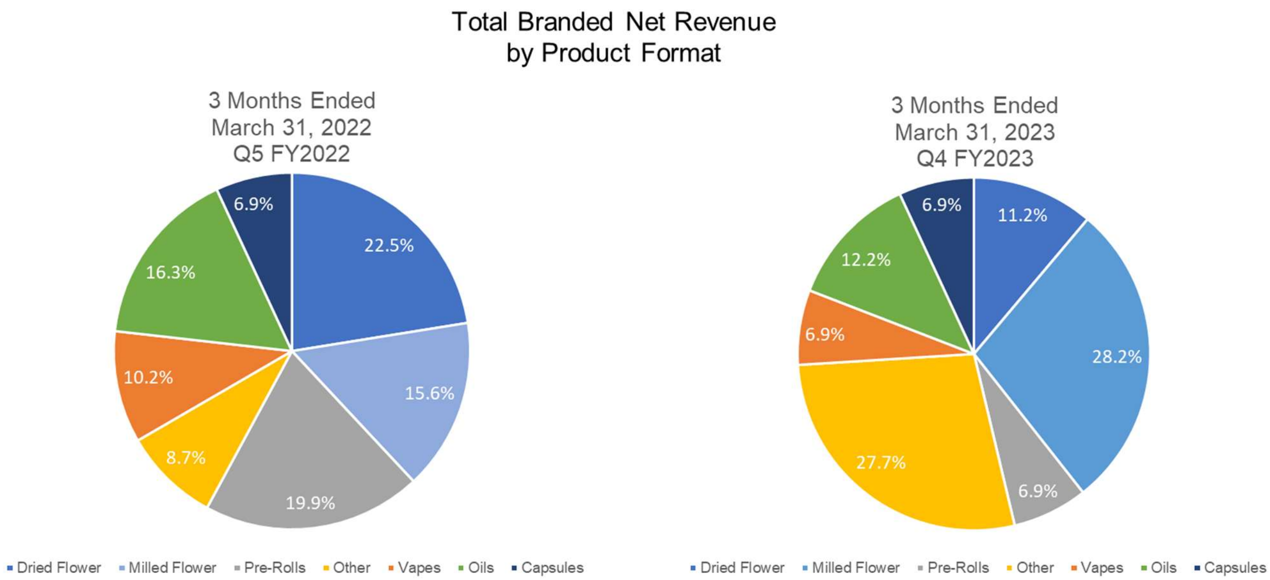
The Company serves the Canadian medical cannabis market with the Emblem brand. It also opportunistically offers select products from its Sunday Market House of Brands and other limited time promotional products to its medical patients to better serve their needs.

From our team of growers to our client care team, each member of the Company's team works toward giving patients the best medical cannabis experience. Emblem is the heart of Aleafia Health's unique medical cannabis ecosystem, as a trusted brand and secure ecommerce marketplace with a reputation for product excellence.

1. PRODUCT PORTFOLIO

The Company currently produces a diverse portfolio of cannabis products which it sells into the provincial adult-use sales channels, to medical cannabis patients, to other Licensed Producers, and internationally to the Germany and Australia medical-use markets. The Company continued its strategic expansion of its product portfolio, as outlined below. The Company aims to utilize its diverse craft indoor and outdoor cultivation in high margin, unique product formats tailored to the various need-states of cannabis consumers and patients.

With the improvement in Usable Flower from its Port Perry outdoor facility, the proportion of sales generated by pre-roll and milled products has now reached 35% in the most recent quarter ended March 31, 2023.



Note: Other includes sublingual strips, edibles, and topicals

a) **Pre-rolls**

The Company utilizes flower from its Port Perry outdoor cultivation facility to supply its pre-roll offering, which represents the second largest product category in the Canadian cannabis market, according to data from HiFyre. The 2022 Port Perry harvest delivered a new record with respect to high THC potency usable flower supply, which when combined with the strategic outsourcing of pre-roll manufacturing, allows Aleafia Health to deliver significantly improved product availability, and new larger format SKUs including a 12-pack of 0.35 gram pre-rolls in a recognizable, reusable package. In Q1 FY2023, the Company launched a 7-pack of 1-gram pre-rolls in the Alberta and Ontario markets (May 2022 and June 2022, respectively) which were well-received by consumers. Further pre-roll formats launched in Spring 2023, including 12-packs and 56-packs of traditional 0.5 gram pre-rolls, and the Company is scheduled to launch into the fast growing infused pre-roll market later in Q1 FY2024.

b) **Milled (Cropped)**

Driven by the expansion of its Port Perry outdoor cultivation facility and relentless focus on high-quality usable flower, the Company has launched and seen tremendous success in its pre-ground milled offering. Having launched in Q3 2021, the milled products under the Divvy brand have quickly gained market share, reaching a peak #2 market share ranking for fiscal year 2023 in Ontario, the largest provincial market in Canada. Building upon the success of the initial two SKUs, both Alberta and Ontario have picked up the product in larger formats as well as a CBD offering.

c) **Dried Flower**

The Company has undertaken an expansion of its dried flower offering, which is the largest product category in the Canadian cannabis market, according to data from HiFyre. Driven by the continued ramp-up of procurement from third-party growers, the Company is able to deliver greater product availability, and new larger format stock-keeping-units ("SKU") including 7, 14, and 28-gram flower pouches. Sales of these products and other new dried flower SKUs commenced during Q2 & Q3 2022, under the Divvy brand.

d) **Vapes**

The Company's vape portfolio is inspired by a robust portfolio of cultivars. The custom-made, unique terpene blends in Divvy vapes deliver robust flavours and consistent effects. Additional Divvy SKUs, including new THC-dominant flavour profiles, a CBD dominant full-spectrum, and a balanced THC: CBD vape have been listed in multiple markets. New bold flavour profiles are entering the market this Spring, and the Divvy Puff 'n Pass SKU, a 1 gram 510 thread vape cartridge, launched in January 2023, provides a platform for a rotation of new, exciting flavours.

e) **Oils**

Cannabis oil products remain a core product category for wellness-oriented medical patients and adult-use consumers. Line extensions include the innovative Omega CBD Soft Gels which feature full-spectrum, single strain CBD extract, and is one of the first Canadian cannabis products to be suspended in fish oil containing omega-3.

f) **Sublingual Strips**

Kin Slips, cannabis-infused sublingual strips, typically offer a fast onset time relative to other non-combustible cannabis products. Placed under the tongue, the active ingredients enter the bloodstream through the sublingual gland, delivering a typical onset time of 10 to 15 minutes. Kin Slips are classified as ingestible extracts, and can therefore contain up to 1000 milligrams of THC per package, as opposed to traditional cannabis edible products which are restricted to 10 milligrams of THC per package.

g) **Edibles**

The Company launches highly artisan and seasonal edible products which complement its product portfolio anchored around pre-roll, milled, flower and vape formats. During Q1 2021, the Company released its first cannabis edible product, soft chews, with two THC and one CBD-dominant offering. The Company followed that up with Salted Caramel Pretzel Bites, Cluster Pucks as well as an infused hot sauce with well-known Canadian hot sauce maker Heartbeat Hot Sauce, all launched under the Bogart's Kitchen edibles brand. The brand currently contains the collaboration hot sauces and launched a THC-infused Maple Syrup product in Winter 2022, just in time for the holiday season.

h) **Bath & Body**

The Noon & Night brand launches bath & body products focused on the wellness space. During Q2 2021, the Company launched Lavender Fizz CBD bath bombs along with the Freshly Minted Roll-on. The peppermint-scented roll-on is designed to provide a soothing, aromatic experience through local application on the hairline, neck, forehead and shoulders. The brand also began offering CBD-Omega soft gels in Q2 2021.

KEY DEVELOPMENTS

Amendment to Convertible Debentures

The Convertible Debentures amendments became effective on June 28, 2022. The amendments entailed the exchange of the Convertible Debentures for new convertible debentures (the "**New Convertible Debentures**") issued in three equal, separate tranches, maturing in 2, 4 and 6 years from the date of issuance (the "**2024 Debentures**", "**2026 Debentures**", and "**2028 Debentures**", respectively). The interest rate remained at 8.5%, but the New Convertible Debentures have no mandatory cash interest payment for 24 months as interest will initially be paid-in-kind ("**PIK**") with additional New Convertible Debentures (the "**PIK Debentures**"), reducing near-term debt servicing requirements. The conversion price was reduced to \$0.25 for the 2024 Debentures, \$0.30 for the 2026 Debentures, and \$0.35 for the 2028 Debentures. The New Convertible Debentures were granted security against certain assets of the Company but are fully subordinated to the Company's existing senior secured debt. The Company is precluded from incurring further senior secured indebtedness, subject to certain exceptions including to fund working capital, capital expenditures, and strategically accretive acquisitions. Debenture holders who approved the Debenture Amendments received a fee (the "**Consent Fee**") calculated as the amount of accrued interest on the existing Convertible Debentures between July 1, 2021 and the effective date of the Debenture Amendments, payable in additional 2028 Debentures at par. Effective as of October 31, 2022, the New Convertible Debentures were listed on the TSX.

See Subsequent Events section for proposed amendments.

$5.6 Million Equity Financing

On June 24, 2022, the Company closed a private placement of 68,151,515 units issued at a price of $0.0825 each (the "**Issue Price**"). Each unit consists of one common share in the capital of the Company and one-half of one common share purchase warrant. A warrant is exercisable into one common share at an exercise price of $0.1025 for a period of four years from the date of issuance. The expiry date of the warrants can be accelerated by the Company at any time and upon 30 days' notice, if the closing price of the common shares on the Toronto Stock Exchange (the "**TSX**") is greater than $0.165 for any 10 consecutive trading days following the date that is 4 months and one day after the date of issuance and prior to the expiry date of the Warrants. The net proceeds from the Private Placement will be used to fund working capital and capital expenditures for the Company's continued growth, and other general corporate purposes. A finder's fee of 3,407,500 common shares was paid to a finder (the "**Finder's Shares**") in connection with the Private Placement.

Amendment to August 2021 Credit Facility

On June 23, 2022, the Company made its second amendment to its August 2021 Credit Facility, whereby amongst other things it agreed to prepay an amount equal to $622,500 as a prepayment of interest under the loan agreement in respect of the period beginning June 24, 2022 and ending June 24, 2023. In addition, the Company agreed to grant to the lender a general security interest from the Company in favour of the Lender.

$4.5 Million Promissory Notes

During the year ended March 31, 2023, the Company issued three promissory notes totaling $4.5 million carrying a fixed 12.75% interest rate. The first note of $1.0 million was issued on December 16, 2022, the second note of $1.5 million was issued on January 24, 2023 and the third note of $2.0 million was issued on February 28, 2023. All three notes become due and payable upon the earlier of a Change of Control transaction or December 31, 2024. The interest on these notes is paid bi-monthly. The use of proceeds of these promissory notes was to fund working capital.

OPERATIONAL AND FINANCIAL HIGHLIGHTS

($,000s)	Three months ended		Twelve months ended		Fifteen months ended
	31-Mar-23	31-Mar-22	31-Mar-23	31-Mar-22	31-Mar-22
Operating Results					
Adult-Use Market Share %(1)	1.9%	2.2%	2.1%	1.5%	1.3%
Adult-Use Market Share Ranking	15	14	13	15	18
Medical Use Orders	14,557	17,048	61,086	75,044	86,657
Medical Use Avg Order Value	$169	$152	$164	$145	$144
Financial Results					
Revenue	11,696	10,734	57,361	46,303	53,813
Branded Cannabis Net Revenue	7,173	8,047	36,622	31,567	36,768
Wholesale Net Revenue	2,216	(1,008)	6,225	4,489	6,354
Net revenue(1)	9,389	7,039	42,847	36,056	43,122
Branded Cannabis profit $	2,690	2,851	12,664	10,179	12,840
Branded Cannabis profit %	38%	35%	35%	32%	35%
Bulk Wholesale profit $	1,262	(1,918)	1,533	(5,882)	(3,683)
Bulk Wholesale profit %	57%	0%	25%	-131%	-58%
Gross profit before fair value adjustments	3,953	933	14,196	4,297	9,157
Total Gross profit %	42%	13%	33%	12%	21%
Adjusted SG&A	4,533	7,262	17,575	32,264	41,174
% of total net revenue	48%	103%	41%	89%	95%
Adjusted EBITDA(2)(3)	229	(4,412)	(180)	(18,936)	(22,010)
Adjusted EBITDA margin (2)	2%	-63%	0%	-53%	-51%

1. Based on HiFyre retail sales pull through data in BC, AB, SK& ON
2. See “Cautionary Statements Regarding Certain non-IFRS Measures” section for term definition
3. See "*Adjusted EBITDA*" section for reconciliation to IFRS equivalent.

Branded Cannabis

Total revenue for the fiscal year grew by 24% to $57.4 million and total net revenue also grew by 19% to $42.8 million. Branded net revenue grew by 16% to $36.6 million, with growth across all three of its core branded cannabis sales channels. Wholesale net revenue grew by 39% to $6.2 million.

Adult-use net revenue grew by 13% to $22.4 million for the fiscal year ended March 31, 2023, from $19.8 million in the prior year. The Company's market share ranking reached #13th compared to #15th a year earlier and market share increased to 2.1% from 1.5% a year earlier. Fiscal year 2023 saw tremendous growth in the pre-roll, milled and flower product format categories in particular with the expansion of larger format sizes. A focus on high velocity sales categories have been key to this successful growth. Additionally, the Company continues to redirect an increasing share of the Usable Flower supply from its Port Perry outdoor cultivation facility away from the bulk wholesale towards the adult-use sales channel, achieving higher net revenue and net realizable margin per gram. At the same time, the Company has been focusing on generating higher margins from its product portfolio by optimizing its product portfolio to focus on larger formats.

Medical net revenue grew by 7% to $12.1 million for the fiscal year ended March 31, 2023, from $11.3 million in the prior year. The growth in medical was accomplished despite the ongoing challenging contraction of the medical market. Further, there was an increase in average order value ("AOV") through focusing on high value patients and improving engagement with its active patient base. The Company estimates its market share ranking to be top 5 within the Canadian medical market[7].

International net revenue increased by $1.6 million or 318% for the fiscal year ended March 31, 2023 over the prior year. This increase was driven by European bound shipments of medical cannabis related to the Company's new international partner announced in August 2022.

The branded cannabis gross profit before fair value adjustments was $12.7 million in the fiscal year ended March 31, 2023, representing a 35% margin compared to 32% in the prior year. This improvement in margin was driven by:

- *Building its international sales pipeline* - the Company is actively seeking out and onboarding new international sales opportunities which provide improved revenue and cash flow, reduced cash conversion cycle and higher margin than adult-use sales channel.

- *Growing its medical recurring "sticky" revenue, high-margin medical business* - driving market share capture by focusing on improving engagement with existing patients to grow average order values, access new regions and retaining our high value patients.

- *Innovative products* - continually augmenting the Company's portfolio with margin accretive SKUs, including larger size formats, and focus its efforts on curating a portfolio of innovative sought-after products that deliver attractive value for its consumers.

- *Portfolio optimization* - aligning the Company's portfolio with the best-selling product formats that deliver the strongest gross profit margins. The Company completed its first portfolio optimization in November 2021 and its most recent one in January 2023 to respond to emerging market trends.

- *Strategic flower sourcing arrangements* - procuring high-THC usable flower from third-party growers to drive improved whole flower product out-of-stock performance.

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[7] *Data on cannabis for medical purposes*. Health Canada. https://www.canada.ca/en/health-canada/services/drugs-medication/cannabis/research-data/medical-purpose.html

- *Co-packing* - identifying areas where operational efficiencies can be extracted by outsourcing certain manufacturing and processing functions. These outside service providers allow the Company to rapidly scale throughput and focus its capital allocation in areas that are anticipated to deliver a higher return in the long-term.

- *Focusing on high quality usable flower* - optimizing grow practices to focus on the yield of high potency, usable flower for its branded products. This strategic shift away from focusing on total quantity and towards usable flower continues to optimize the yield and drive down the cash cost to grow flower.

- *Selective automation* – where products begin to mature in their packaging format, sizes, and consumption preferences the Company strategically deploys capital to automate certain parts of its processing. Most recently acquiring its first automated flower packaging machine and ramping it up in February 2023.

Bulk Wholesale

Bulk wholesale net revenue was higher for the fiscal year ended March 31, 2023 at $6.2 million compared to $4.5 million in the prior year. Despite the company's being primarily focused on growing its branded cannabis sales, this increase primarily came from the completion of two product-in-kind arrangements that saw the Company complete its obligations with these two Canadian LPs. Additionally, the Company opportunistically sold off-spec, low potency flower and other aged inventory in the bulk wholesale sales channel to other Canadian LPs. The Company continually evaluates its anticipated cultivation yield and requirements for its forecasted sales to optimize its inventory on hand and increase inventory turnover.

Total gross profit[8] improved by $3.0 million for the fiscal year ended March 31, 2023 compared to the prior year. This was driven by higher net revenue versus the prior year, the nonrecurrence of negative gross profit margin wholesale transactions as was the case in fiscal year 2022, and an improved gross profit margin in its branded cannabis product portfolio.

[8] This is a non-IFRS measure. Please see page 34 for more information.

REVENUE COMPOSITION

($,000s)	Three months ended		Twelve months ended		Fifteen months ended
	31-Mar-23	31-Mar-22	31-Mar-23	31-Mar-22	31-Mar-22
Revenue					
Adult-Use	5,768	9,001	36,039	29,120	31,068
Medical Use	3,301	2,741	13,000	12,192	15,729
International	411	-	2,097	502	662
Total Branded	9,480	11,742	51,136	41,814	47,459
Bulk Wholesale	2,216	(1,008)	6,225	4,489	6,355
Total Revenue	11,696	10,734	57,361	46,303	53,813
Net Revenue					
Adult-Use	3,742	5,518	22,439	19,777	21,499
Medical Use	3,020	2,529	12,086	11,288	14,608
International	411	-	2,097	502	662
Total Branded	7,173	8,047	36,622	31,567	36,768
Bulk Wholesale	2,216	(1,008)	6,225	4,489	6,354
Total Net Revenue	9,389	7,039	42,847	36,056	43,122

OPERATING EXPENSES

($,000s)	Three months ended		Twelve months ended		Fifteen months ended
	31-Mar-23	31-Mar-22	31-Mar-23	31-Mar-22	31-Mar-22
Selling, general and administrative	5160	4,887	18,221	27,231	34,127
Amortization and depreciation	363	2,607	3,373	7,669	9,468
Share-based compensation expense	(139)	68	1,944	2,320	2,899
Restructuring costs	106	-	397	-	-
Business transaction costs	74	696	502	3,572	5,026
Bad debt expense	218	179	217	1,722	1,868
Total	5,781	8,437	24,653	42,514	53,388

The total operating expenses for the three months ended March 31, 2023 declined 31% to $5.8 million, compared to the previous year's expenses of $8.4 million, despite a 33% increase in total net revenue. The total operating expenses for the twelve months ended March 31, 2023 declined 42% to $24.7 million, compared to the prior year's expenses of $42.5 million. The decline is primarily driven by significant headcount reductions, winddown of physical medical clinics, IT consolidation of platforms, integration of the physical, virtual, and third-party clinic platform, rationalizations in consultants, advisors and legal costs, and various other cost optimization initiatives. The Company's full-time equivalent headcount has decreased by 43% from 276 at March 31, 2022 to 158 as at March 31, 2023. For the twelve months ended March 31, 2023, bad debt expense decreased as the Company continues to improve the credit quality of its receivables with increased focus on branded cannabis sales which have negligible credit risk as they are mostly government agencies. In the prior year the bad debt expenses was higher due to increased bulk wholesale sales related allowances for doubtful accounts. Business transaction costs were down for the three months and twelve months ended March 31, 2023, mainly due to non-recurring marketing, consultant, brand development and product formulation costs related to the launch of new product formats in the prior year comparative quarter. There were restructuring costs for the year of $0.4 million related to the winddown of the Grimsby greenhouse.

OTHER EXPENSES (INCOME)

($,000s)	Three months ended		Twelve months ended		Fifteen months ended
	31-Mar-23	31-Mar-22	31-Mar-23	31-Mar-22	31-Mar-22
Interest expense, net	2,310	2,626	9,357	8,548	10,787
Gain on sale of assets	(21)	-	(91)	-	(12,092)
Fair value through profit and loss	2,000	1,120	1,108	15,505	15,505
Impairment of property, plant and equipment	-	-	5,578	28,800	28,800
Impairment of intangible assets	-	-	-	53,093	53,093
Impairment of goodwill	-	-	-	11,314	11,314
Gain on marketable securities	-	-	-	(12,092)	-
Other non-operating expense (income)	-	263	-	334	(18)
Total	**4,289**	**4,009**	**15,952**	**105,502**	**107,389**

Other expenses for the three months ended March 31, 2023 was $4.3 million compared to $4.0 million for the three months ended March 31, 2022. The increase in fair value through profit and loss adjustments relates to a reduction in the fair value of the Company's investments.

Other expenses for the twelve months ended March 31, 2023 was $16.0 million compared to $105.5 million for the twelve months ended March 31, 2022. Prior year included profit and loss adjustments of $29.9 million related to a decrease in the fair value of the Company's investments, impairments to property, plant, and equipment (PPE) classified as held for sale and determined that the carrying amount of one of its assets was no longer recoverable, and impairments to intangible assets.

NON-IFRS MEASURES

ADJUSTED SG&A

Adjusted selling, general and administrative ("**Adjusted SG&A**") is defined as SG&A expenses adjusted to exclude non-recurring costs. These non-recurring items may relate to certain transaction costs, one-time subsidies, and severances. Adjusted SG&A is not recognized or defined under IFRS, and as a result, it may not be comparable to the data presented by competitors.

($,000s)	Three months ended		Twelve months ended		Fifteen months ended
	31-Mar-23	31-Mar-22	31-Mar-23	31-Mar-22	31-Mar-22
SG&A	**5,160**	**4,887**	**18,221**	**27,231**	**34,127**
Business transaction costs	74	696	502	3,572	5,026
Wage Subsidies, severance	(105)	1,142	(552)	(598)	(38)
Grimsby costs	(459)	-	(459)	-	-
Paris property taxes	(137)	-	(137)	-	-
Medical Clinic Supply Services	-	557	-	2,059	2,059
Adjusted SG&A	**4,533**	**7,282**	**17,575**	**32,264**	**41,174**

The Company considers Adjusted SG&A an important key metric to measure the Company's cost structure outside of production and inventory related costs as it drives continued operating leverage and improved Adjusted EBITDA profitability. The Company believes tightly containing and finding further cost efficiencies is a competitive strength. It is mostly fixed in nature with some variability depending on sales volume for marketing and other sales-oriented expenditures.

The Company has aggressively contained and rationalized its Adjusted SG&A cost profile, resulting in a 51% decline to $4.5 million in the three months ended March 31, 2023, compared to $7.3 million in the prior year comparative quarter. This was achieved despite total net revenue increasing 33% over the same period to $9.4 million from $7.0 million in the prior year. See the explanations of the changes in operating expenses for further information on SG&A.

There was a decline by 46% to $17.6 million in the twelve months ended March 31, 2023, compared to $32.3 million in the prior year comparative quarter. This was achieved despite total net revenue increasing 19% over the same period.

ADJUSTED EBITDA

($,000s)	Three months ended 31-Mar-23	Three months ended 31-Mar-22	Twelve months ended 31-Mar-23	Twelve months ended 31-Mar-22	Fifteen months ended 31-Mar-22
Net loss	**(12,053)**	**(4,152)**	**(34,610)**	**(156,049)**	**(169,867)**
Add back:					
Depreciation and amortization (1)	888	2,149	6,147	10,050	12,427
Interest expense, net	2,310	2,626	9,357	8,549	10,787
Income tax expense (recovery)	-	-	-	(2,854)	(2,854)
EBITDA	**(8,856)**	**623**	**(19,107)**	**(140,305)**	**(149,507)**
Inventory write down	-	-	6,795	19,648	19,648
FV changes in biological assets and changes in inventory sold	5,935	906	1,401	563	1,453
Share-based payments	10	68	2,221	2,320	2,899
Bad debt expense	218	(8,088)	218	(1,290)	1,868
Business transaction costs	74	696	501	3,613	5,026
Restructuring costs	106	-	397	-	-
Gain on sale of assets	-	-	(112)	(12,092)	(12,092)
Gain on sale of marketable securities	(21)	-	(21)	-	-
Fair value through profit and loss adjustments	-	1,120	1,133	15,505	15,505
Impairment of intangible assets	-	-	-	53,093	53,093
Impairment of goodwill	-	-	-	11,314	11,314
Impairment of property, plant & equipment	2,000	-	5,578	28,800	28,800
Grimsby costs	563	-	563	-	-
Paris property taxes	137	-	137	-	-
Non-operating expense (income)	62	263	115	(106)	(17)
Adjusted EBITDA (2)	**229**	**(4,412)**	**(181)**	**(18,937)**	**(22,010)**

1. Includes non-cash depreciation expensed to cost of sales.
2. See "Cautionary Statements Regarding Certain Non-IFRS Measures" section for term definitions

The Company considers Adjusted EBITDA a key metric for measuring operating performance and cash flow, to manage working capital, debt repayments and capital expenditures. Adjusted EBITDA is calculated as net income (loss), excluding (i) amortization and depreciation, (ii) fair value changes in biological assets and changes in inventory sold, (iii) share-based payments, (iv) bad debt expense, (v) business transaction costs, (vi) non-operating expenses (income), (vii) taxes, (viii) interest expenses, (ix) one-time sale of assets, (x) unrealized gain (loss) on marketable securities and (xi) other non-recurring expenses (income). Adjusted EBITDA is not recognized or defined under IFRS, and as a result, it may not be comparable to the data presented by competitors.

Adjusted EBITDA for the three months ended March 31, 2023 was a gain of $0.2 million, compared to a loss of $4.4 million in the prior year comparative quarter. The increase was primarily due to the $1.3 million bulk wholesale gross profit before fair value adjustments which represents two bulk wholesale customers.

The Company entered into five sales transactions representing $2.2 million in bulk wholesale net revenue and $1.3 million in gross profit before fair value adjustments with two customers to settle a product-in-kind obligation. These input materials exceeded the Company's near-term supply requirements for its own branded cannabis products and accordingly had previously taken a $1.1 million inventory provision. In management's estimation at the time of recording the inventory provisions, the cost of the inventory exceeded management's estimate of the net realizable value. After completing these sales transactions, the Company has no further obligation or commitment to these customers. As the sales transactions with these two customers fulfilled two separate product-in-kind obligations, no cash was received.

The Company will continue to sell product that is in excess of its needs to supply its own branded cannabis products in bulk wholesale transactions in order to maximize net realizable margin from its cultivation sites and improve its liquidity position.

The improvement in Adjusted EBITDA also benefitted from the reduction in selling, general and administrative expenses. There was certain marketing, consultant, brand development and product formulation costs related to the launch of new product formats, most of which are non-recurring in nature. In conjunction with the Company's focused cost containment and rationalizations, which has delivered a dramatically improved SG&A expense profile.

LIQUIDITY AND CAPITAL RESOURCES

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

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. On March 31, 2023, the Company's contractual obligations consist of accounts payable and accrued liabilities, net tax payable, credit facilities, and lease liability, which has a contractual maturity date within one year.

The following table sets forth the use of proceeds from the Company's equity offering and debt financings completed over the last four quarters.

Date	Type	Gross Proceeds	Initially Intended Use of Proceeds	Actual Usage of Proceeds
June 24, 2022	Equity Financing Private Placement	$5.6 million	The Company expected to use the net proceeds to fund working capital and capital expenditures for the Company's continued growth, and other general corporate purposes.	Proceeds were used to fund working capital and other general corporate purposes.

December 16, 2022 January 24, 2023 February 28, 2023	Debt Financing Promissory Notes	$4.5 million	The Company expected to use the net proceeds to fund working capital and capital expenditures for the Company's continued growth, and other general corporate purposes.	Proceeds were used to fund working capital and other general corporate purposes.

Cash Flow Highlights

A condensed consolidated cash flow statement of the Company is summarized below:

($,000s)	Three months ended		Twelve months ended		Fifteen months ended
	31-Mar-23	31-Mar-22	31-Mar-23	31-Mar-22	31-Mar-22
Cash balance, beginning of period	602	11,232	1,569	17,678	30,529
Cash used in operating activities	(1,838)	(3,555)	(3,478)	(25,458)	(32,142)
Cash provided by used in investing activities	(49)	(652)	(1,427)	(4,203)	(4,659)
Cash provided by (used in) financing activities	1,912	(5,456)	3,963	13,552	7,841
Cash and restricted cash balance, end of period	627	1,569	627	1,569	1,569

Operating Activities

Cash used in operating activities was $1.8 million for the three months ended March 31, 2023, compared to cash used in operating activities of $3.6 million for the three months ended March 31, 2022. Cash used in operating activities has decreased by $1.7 million driven by improved gross profit margin, reduced SG&A expense profile, enhanced accounts receivable and inventory working capital efficiency and the closure of the Grimsby greenhouse.

Cash used in operating activities was $3.5 million for the twelve months ended March 31, 2023, compared to cash used in operating activities of $25.5 million for the twelve months ended March 31, 2022. Cash used in operating activities has decreased by $22 million driven by higher total net revenue, improved gross profit margin, reduced SG&A expense profile, and enhanced accounts receivable and inventory working capital efficiency.

Investing Activities

Cash used in investing activities was $0.1 million and $1.4 million for the three and twelve months ended March 31, 2023, compared to $0.7 million and $4.2 million for the three and twelve months ended March 31, 2022. Cash used in investing activities has declined significantly, due to the completion of significant capital projects at the Company's owned production facilities and the winddown of the Grimsby greenhouse. The Company continues to invest in ongoing equipment and other capital expenditures to maintain and make modest enhancements to the efficiency of its two cultivation facilities, including the investment in an automated flower packaging machine.

Financing Activities

Cash provided by financing activities was $1.9 million for the three months ended March 31, 2023, compared to cash used in financing activities of $5.5 million for the three months ended March 31, 2022.

The gross proceeds from the issuance of two promissory notes was $3.5 million and this was partially offset by the $1.2 million decline in the drawn balance on the revolving credit in the quarter ended March 31, 2023.

Cash generated by financing activities was $4.0 million for the twelve months ended March 31, 2023, compared to $13.5 million for the twelve months ended March 31, 2022. The Company raised $5.6 million from the issuance of common shares and $4.5 million from the issuance of promissory notes. This cash inflow was partially offset by $2.0 million in interest payments, $2.3 million credit facility repayment, $1.3 million in lease liabilities and other debt related costs.

Contractual Obligations & Capital Expenditures

As of March 31, 2023, the Company had the following contractual obligations:

($,000s)	Within 1 year	2 years	3 years	4 years	5 year and thereafter
Convertible debentures	-	12,350	-	12,350	14,736
Credit facilities	12,882	-	-	-	-
Lease obligations	260	1,072	511	11	2
Promissory notes	-	4,500	-	-	-
Purchase commitments	506	-	-	-	-
Total	**13,648**	**17,972**	**511**	**12,361**	**14,738**

The purchase commitments all represent outstanding purchase orders to be fulfilled by vendors.

Convertible Debt

In June 2019, Aleafia Health issued 40,250 additional convertible debentures units (the "Debenture Units") for gross proceeds of $40.3 million. Each Debenture Unit consisted of one $1,000 principal amount of an unsecured convertible debenture of Aleafia Health and 680 common share purchase warrants, which debentures contained the following terms:

- a maturity date of June 27, 2022;
- an interest rate of 8.5% per annum; payable semi-annually;
- convertible at $1.47 per share until June 27, 2022, at the option of the holder; and
- Aleafia Health may accelerate the expiry date of the common share purchase warrants with not less than 30 days' notice, should the daily volume weighted average trading price of the outstanding common shares of Aleafia Health on the TSX be greater than $3.10 for 20 consecutive trading days.

During 2019, Debenture holders converted $2.9 million debentures to common shares. Accordingly, the remaining principal balance to be paid upon maturity is $37.3 million.

During the year ended March 31, 2022, Debenture holders converted $0.3 million debentures to 204,751 common shares. Accordingly, the remaining principal balance to be paid upon maturity is $37.0 million.

On June 23, 2022, the Company amended key commercial terms of its unsecured convertible debenture (Debenture Amendments), maturing June 27, 2022. The amendment includes, among other things, exchanging the current convertible debentures for new convertible debentures with maturities in two, four and six years. The interest rate remains the same at 8.5%, with payment in kind with additional new convertible debentures and a reduction in the conversion price from $1.47 to $0.25 for the debentures expiring in 2024, $0.30 for the debentures expiring in 2026, and $0.35 for the debentures expiring in 2028.

The Debenture Amendments were effected by the exchange of the outstanding $37.0 million principal amount of unsecured convertible debentures for new, secured convertible debentures, which were issued to existing debenture holders in three equal, separate series (each, a "Series"): (a) 8.50% Series A Secured Debentures Due June 30, 2024 (the "Series A Debentures"), (b) 8.50% Series B Secured Debentures Due June 30, 2026 (the "Series B Debentures"), and (c) 8.50% Series C Secured Convertible Debentures Due June 30, 2028 (the "Series C Debentures" and, collectively with the Series A Debentures and the Series B Debentures, the "New Debentures").

The interest rate remains at 8.5%, with no mandatory cash interest payment for either 24 and 30 months depending on the length of the term, as interest will be paid-in-kind with additional New Debentures (the "PIK Interest") during these periods.

In addition, $2.4 million principal amount of Series C Debentures were issued as consideration for the consent fee payable to debenture holders who consented in favour of the extraordinary resolution approving the Debenture Amendments.

Following the closing of the Debenture Amendments, the following New Debentures are issued and outstanding on the following terms:

New Debenture	Initial Principal Amount	Maturity Date	Conversion Price
Series A Debentures	$12,350	June 30, 2024	$0.25
Series B Debentures	$12,350	June 30, 2026	$0.30
Series C Debentures	$14,736	June 30, 2028	$0.35

The New Debentures are secured against certain assets of the Company and are fully subordinated to the Company's existing credit facilities. The Company is not permitted to incur further senior secured indebtedness, subject to certain exceptions, including to fund working capital, capital expenditures, and acquisitions.

December 2021 Credit Facility - Current

On December 24, 2021, the Company entered into a new loan agreement that provides for a term facility of $12.0 million and access to a revolving facility up to $7.0 million. The loans bear interest at a rate of the National Bank of Canada prime rate with a floor of 3.45% plus 9%, annually. The availability under the revolving facility is subject to an advance rate against certain accounts receivable balances. Both facilities are payable on the earlier of demand and two years from funding.

The facility is secured by first lien mortgages on the Paris, Ontario and Grimsby, Ontario production facilities and certain equipment and a general security agreement.

On each of March 28, 2022 and June 17, 2022 the Company and the lender agreed to certain amendments to the agreement to provide for ongoing funding under the revolving facility despite one or more breaches of existing covenants.

As of March 31, 2023, the facility was fully paid off with an overpayment of $0.2 million, resulting in an undrawn balance of $7.2 million.

The available undrawn balance of the revolving facility, based on the eligible accounts receivable criteria, at the date hereof is $0.7 million.

August 2021 Credit Facility – Current

On August 23, 2021, the Company entered into a secured Credit Agreement, to receive $10.0 million for working capital, general corporate purposes and capital expenditures. The term of the loan was for one year and it bears simple interest at a rate of 12%, with an effective interest rate of 17.3%. Accrued interest may either be paid monthly in arrears or upon maturity of the facility. The first six months following the amended agreement allows for interest to accrue. In addition, up to 1,000,000 common share purchase warrants with an exercise price of $0.32 were granted and vest in four tranches of 250,000 quarterly commencing November 20, 2021. The warrants were ascribed a value of $131, using Black Scholes pricing model. The loan was initially secured by first lien mortgages on the Paris, Ontario and Grimsby, Ontario production facilities.

On December 24, 2021, the Company entered into an amendment with its lender to revise certain terms in the credit facility. The mortgages against the Paris, Ontario and Grimsby, Ontario production facilities were subordinated and a first lien mortgage was granted on the Port Perry, Ontario facility. The maturity date was extended by approximately 16 months to December 24, 2023 and the stated interest rate applicable changed to 12.45%.

The Company made a principal repayment of $5.0 million against the credit facility, together with accrued interest and fees on January 7, 2022. The first tranche of the common share purchase warrants of 250,000 vested on November 20, 2021. Due to the early repayment, the second tranche vesting February 20, 2022, was reduced to 190,217 from 250,000. The third tranche of 125,000 common share purchase warrants vested on May 20, 2022 and the remaining 125,000 common share purchase warrants vested on August 20, 2022.

Promissory Note – Non-Current

During the year ended March 31, 2023, the Company issued three promissory notes totaling $4.5 million carrying a fixed 12.75% interest rate. The first note of $1.0 million was issued on December 16, 2022, the second note of $1.5 million was issued on January 24, 2023 and the third note of $2.0 million was issued on February 28, 2023. All three notes become due and payable on December 31, 2024. The interest on these notes is paid bi-monthly. The use of proceeds of these promissory notes was to fund working capital.

Contingencies

In the ordinary course of business, from time to time, the Company may be involved in various claims related to its commercial and/or corporate activities. Although such matters cannot be predicted with certainty, management does not consider the Company's exposure to these claims to be material to the Financial Statements.

Certain of Emblem Corp.'s former executives have been named in a claim commenced March 20, 2015, in the Ontario Superior Court of Justice that also identifies Emblem Corp. and Emblem in relation to certain services provided to the parties by an individual. The plaintiff has claimed $10 million in damages. The claim is being contested and is expected to proceed to trial circa 2024 if a settlement cannot be reached earlier. The outcome of this legal matter is subject to negotiations by the officers of the Company and the Company believes it is unlikely to be impacted and accordingly, no amount has been provided for. A separate claim was also initiated by Amos Tayt's on March 22, 2019, in the Ontario Superior Court of Justice against Emblem and Emblem Corp. arising out of the same facts and seeking the same damages. It is also being contested.

On June 16, 2020, a class-action lawsuit was issued in Calgary, Alberta by Lisa Marie Langevin as the proposed representative plaintiff. The claim has been filed against most of the cannabis manufacturers in Canada and includes, among the many defendants, Emblem Corp. and Aleafia Health. The claim alleges that the THC and CBD levels in the products manufactured and/or sold by the defendants differed from what was represented on packaging, specifically alleging that THC and CBD levels were found to be significantly higher than indicated in some products while others may have had significantly lower levels. The action is seeking $500 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 $5.0 million in punitive damages. Ms. Langevin has not alleged that she ever purchased product from Emblem or Aleafia Health. The case is at its earliest stages. The Company believes it has good defenses to the claim and intends to vigorously defend the claim. Accordingly, at this stage no amount has been provided for in the consolidated statements of financial position in respect of this claim.

On February 8, 2023, the Company received a letter from the Canada Revenue Agency ("CRA") with respect to Emblem Cannabis Corporation's previously filed Canada Emergency Wage Subsidy ("CEWS") for the period between March 15, 2020 and March 13, 2021. The CRA has audited said periods for Emblem Cannabis Corporation and has proposed a claw back in the amount of $3.2 million related to the CEWS funds provided to the Company. The Company is actively reviewing the CRA's findings and intends to file a Notice of Objection. Based on the Company's records and external advice, it remains of the belief that it is owed the full amount of the previously claimed and received CEWS funds. At this time, it is not possible to make a reasonable and reliable estimate of the likelihood of the outcome of the dispute. Accordingly, the Company has not accrued for any potential disallowed CEWS claims in the period. The Company will continue to assess the matter as the dispute resolution progresses.

Excise Duties

The Company has excise duties which are accrued for in the normal course as incurred. As a result, of ongoing liquidity issues the Company has accumulated overdue excise duties and is incurring interest at the statutory posted rate on said amounts. The total excise duty payable as at March 31, 2023 was $9.4 million. The Company is in discussions with the CRA to formulate a formal repayment plan. No assurances can be provided as to the length or outcome of these discussions.

Off-balance Sheet Arrangements

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

Related Party Transactions

Other than compensation and benefits paid to directors or key management personnel in the normal course of business, the Company had no transactions with its related parties (as defined under IFRS) during the reporting period.

SELECTED QUARTER & ANNUAL INFORMATION

The following information has been prepared in accordance with IFRS in Canadian dollars.

($,000s) except per share amounts	Three months ended		Twelve months ended		
	31-Mar-23	31-Mar-22	31-Mar-23	31-Mar-22	31-Mar-21
Net revenue	9,394	7,039	42,847	36,496	29,189
Cost of sales	5,437	6,106	28,651	32,566	15,669
Total operating expenses	5,782	8,437	24,654	42,514	43,493
Total other expenses	4,289	4,009	15,952	105,502	206,931
Net loss and comprehensive loss	(12,050)	(4,152)	(34,604)	(150,764)	(257,022)
Loss per share, basic and diluted	$(0.03)	$(0.01)	$(0.09)	$(0.46)	$(0.83)
Total assets	59,925	81,518	59,925	81,518	72,051
Total non-current liabilities	33,197	6,908	33,197	6,908	38,382

The fluctuations in reported results during the three months ended March 31, 2023 resulted primarily from the following factors:

- Net revenue increased 33% to $9.4 million from $7.0 million in the prior year primarily due to an increase in wholesale revenue.
- Cost of sales decreased 11% to $5.4 million from $6.1 million in the prior year. Cost of sales % improved to 58% of net revenue compared to 87% in the prior year primarily due to an increase in the proportion of branded cannabis sales and the gross profit margin expansion in branded cannabis sales.
- Total operating expenses decreased 32% to $5.8 million from $8.4 million in the prior year. The decline is primarily driven by significant headcount reductions, winddown of physical medical clinics, integration of the physical, virtual, and third-party clinic platform, rationalizations in consultants, advisors and legal costs, reduction in amortization and depreciation expense, and various other cost optimization initiatives.
- Total other expenses were slightly higher at $4.3 million compared to $4.0 million in the prior year. The increase is due to fair value through profit and loss adjustments related to a change in share price of investments and marketable securities.
- Total non-current liabilities increased which following the convertible debenture refinancing completed in June 2022 were reclassified from current to non-current liabilities.

Fluctuations in results for the twelve month period ended March 31, 2023 compared to the prior periods resulted primarily from the following factors:

- Net revenues improvement of 17% and 25% compared to the periods ended March 31, 2022 and March 31, 2021 respectively. This trend is a result of the company’s strategic shift to branded cannabis products.
- Cost of sales over the twelve month period ended March 31, 2023 improved by 11%. The Company methodically reviewed its cost structure and optimized its talent and resources towards branded cannabis products which delivered the highest net realizable margin per gram of flower sold.

- Operating expenses have significantly improved over the past twelve months because of the company's ongoing cost containment strategy. The Company realigned its medical business, integrated its virtual, physical and third-party clinic platform to further improve its general and administrative and wages and benefits cost profile while improving the patient experience through a more cohesive and consistent approach to managing patient interactions. The Company assessed procurement practices, resulting in a consolidation of certain vendors leading to cost efficiencies.

- Net loss and comprehensive losses in the year's ended March 31, 2022 and 2021 included significant impairments of goodwill, intangible assets, and impairment of property, plant and equipment.

QUARTERLY HISTORICAL FINANCIAL RESULTS

($,000s)	Three months ended			
	31-Mar-23	31-Dec-22	30-Sep-22	30-Jun-22
Net revenue	9,389	10,789	10,577	12,028
SG&A expenses	5,160	3,872	4,257	5,006
Net loss and comprehensive loss	(12,053)	(25,128)	7,047	(4,469)
Basic and diluted earnings (loss) per share	$(0.03)	$(0.06)	$0.02	$(0.01)

($,000s)	Three months ended			
	31-Mar-22	31-Dec-21	30-Sep-21 (Restated)	30-Jun-21 (Restated)
Net revenue	7,039	8,764	9,574	10,672
SG&A expenses	4,887	6,980	6,581	9,165
Net loss and comprehensive loss	(4,152)	(71,509)	(80,335)	5,231
Basic and diluted earnings (loss) per share	$(0.01)	$(0.22)	$(0.24)	$0.02

The Company is exposed to seasonality with respect to its branded cannabis sales. Sales are typically slower in the first quarter of each calendar year and then increase into the summer periods.

SG&A expenses have trended lower over the past eight quarters reflecting the success of the company's focus on cost containment and rationalization.

SUMMARY OF OUTSTANDING SHARE DATA

The Company is authorized to issue an unlimited number of common shares. Subsequent to March 31, 2023, 121,220 common shares were issued under the Company's share-based plans. The total number of common shares issued and outstanding is 403,265,146 as of the date hereof.

In addition, the Company has the following securities outstanding which are convertible into common shares:

- 34,765,475 warrants;
- 50,874,190 stock options;
- 1,935,750 restricted share units;
- 12,082,004 deferred share units;
- $12,887,493 of Series A Debentures;
- $12,887,493 of Series B Debentures; and
- $15,378,043 of Series C Debentures.

FINANCIAL INSTRUMENTS

The table below summarizes the categories under IFRS 9 for the financial assets and financial liabilities:

($,000s)	March 31, 2023	March 31, 2022
Fair value through profit and loss (cash, restricted cash, and marketable securities)	697	2,759
Assets, amortized cost (trade receivables, net tax receivable, and investments)	6,666	10,672
Liabilities, amortized cost (accounts payable, net tax payable, lease liability, credit facilities, liabilities held for sale, promissory note and convertible debt)	68,838	79,903

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

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

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

Fair value measurements using	Quoted prices in active markets for identical instruments	Significant other observable inputs	Significant unobservable inputs	
	(Level 1)	(Level 2)	(Level 3)	Total
	$	$	$	$
Cash	465	-	-	465
Restricted cash	162	-	-	162
Marketable securities	65	5	-	70
Total, March 31, 2023	692	5	-	697

The carrying value of trade receivables, accounts payable and net tax payable are a reasonable approximation of their fair value due to their short-term nature. The carrying value of lease liability, credit facilities, promissory notes and convertible debt are a reasonable approximation of their value based on market interest rates for similar instruments as at March 31, 2023.

Financial Instruments Risk Management

Effective risk management is fundamental to the success of the organization and is recognized as key in the Company's overall approach to strategy management. The primary goals of the Company's risk management strategy are to ensure that the outcomes of risk-taking activities are consistent with the Company's strategies and risk appetite and that there is an appropriate balance between risk and reward to maximize shareholder value.

a) **Currency risk**

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

The Company does not have any significant foreign currency denominated monetary assets or liabilities and has few transactions denominated in a currency other than Canadian dollars. During the twelve months ended March 31, 2023, there has been no change to the management of this risk.

b) **Interest rate risk**

The Company is exposed to interest rate risk on the variable rate of interest earned on bank deposits, the variable rate of interest applicable to the $12.0 million term facility and the drawn amount of the revolving facility. The fair value interest rate risk on bank deposits is insignificant as the deposits are short-term in nature. The interest rate risk on convertible debt is insignificant due to the fixed rate of interest on convertible debt. The Company has not entered into any derivative instruments to manage interest rate fluctuations. The Company monitors interest rate and may enter into derivative instruments to hedge interest rate risk should it deem it economically efficient.

c) **Investment risk**

The Company is exposed to investment risk arising from its holdings in various securities, including publicly traded securities and a long-term investment in a privately held company. Investment risk encompasses a range of factors that could impact the value and performance of these securities.

The Company's investments in publicly traded securities are subject to market-related risks, including share price volatility and fluctuations. These risks are influenced by factors such as market conditions, investor sentiment, economic trends, and company-specific developments. The Company monitors market conditions, including share price movements, and evaluates the performance of its investments regularly. By staying informed about market trends and conducting ongoing evaluations, the Company aims to make informed investment decisions and manage risks effectively.

The Company holds a long-term investment in a privately held retail company, which introduces unique investment risks. These risks include factors such as business performance, market dynamics, regulatory changes, competitive landscape, and other industry-specific risks. The value and success of the investment are dependent on the ability of the underlying company to achieve its strategic objectives and generate sustainable returns. The Company regularly monitors the performance and prospects of this investment and incorporates risk assessments into its investment strategies.

The Company evaluates the business performance, market conditions, and industry-specific risks affecting the investment. By conducting ongoing assessments and incorporating risk assessments into its investment strategies, the Company strives to manage investment risk effectively.

It is important to note that investment risk cannot be completely eliminated, as it is inherent in the investment process. The Company recognizes that investments carry inherent uncertainties, and actual outcomes may differ from estimates and projections. Therefore, the Company remains diligent in its investment activities, continuously evaluates investment opportunities, and adjusts its investment strategy as necessary to navigate investment-related risks effectively.

d) **Credit risk**

Credit risk is the risk of loss associated with the counterparty's inability to fulfill its payment obligations. Financial instruments that potentially subject the Company to concentrations of credit risks consist principally of cash, trade and other receivables and marketable securities. The risk exposure is limited to their carrying values reflected on the consolidated statements of financial position. To minimize the credit risk the Company places these instruments with a high-quality financial institution. There are no expected credit losses with respect to cash and cash equivalents as the Company does not invest in asset backed investments. To manage and mitigate credit risk in respect of trade receivables, the Company has the option in certain cases to receive product in kind.

For the twelve months ended March 31, 2023, the expected credit losses of trade and other accounts receivables were assessed based on the expected loss model in compliance with IFRS 9. Individual receivables that were known to be incurred credit losses are written off by reducing the carrying amount directly, and this is revaluated and subject to change as the Company revaluates its credit risk exposure. Pursuant to their collective terms, trade accounts receivable, were aged as follows:

	March 31, 2023	March 31, 2022
	$	$
Current	2,787	6,363
0 – 30 days past due	512	250
31 – 60 days past due	248	95
61 – 90 days past due	156	69
90 + days past due	1,184	1,176
Provision for credit losses	(871)	(654)
Other receivables	259	452
Total	**4,275**	**7,751**

The standard payment terms applicable to most customers are between 30 – 60 days upon receipt of goods. There is negligible credit risk with respect to other receivables, as they primarily originate from government agencies, national insurance companies and a credit card company.

The Company has concentration risk, as approximately 82% (March 31, 2022 – 76%) of total revenue came from three (March 31, 2022 – three) customers and approximately 59% (March 31, 2022 – 79%) of total trade accounts receivable is due from three (March 31, 2022 – three) customers.

During the year, the Company settled $2 million in accounts payable by delivering its products to a counterparty from whom the Company had made purchases, resulting in an equivalent accounts receivable balance. This transaction led to the offsetting of accounts receivable and accounts payable, effectively setting them to zero. Consequently, no cash flow was generated from the wholesale revenue, and both the accounts payable and accounts receivable were fully eliminated.

e) **Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company has experienced recurring losses and has a cumulative deficit of $527.8 million. For the year ended March 31, 2023, cash flow from operations is negative due in part to the high rate of revenue growth the Company has experienced which has driven a requirement for working capital and selling, general & administrative investment.

As at March 31, 2023, the Company has total current assets of $25.8 million (March 31, 2022 - $36.8 million) and total current liabilities of $31.3 million (March 31, 2022 - $73.0 million), providing for net current liability of $5.4 million (March 31, 2022 – $36.2 million). The significant change during the twelve months ended March 31, 2023 is primarily a result of the extinguishment of the June 2019 convertible debenture.

The Company's objectives when managing its liquidity and capital resources are to ensure sufficient liquidity to meet its financial obligations and execute its operating and strategic plans for at least the next twelve months. Management closely monitors the liquidity position. The Company manages liquidity risk by seeking out new debt and equity financing options, reviewing its capital structure to optimize the cost of capital, exploring and surfacing equity and debt funding options, managing its non-cash current assets to ensure the timely conversion to cash, divesting of non-core assets and putting plans in place to meet its financial obligations as they come due.

The Company potentially has options to meet its liquidity needs including, converting its non-cash working capital to cash, issuance of common shares via a private placement offering, issuing common shares via a public equity offering, and seeking out new debt financing options.

The Company's ability to meet its commitments to sustain operations and settle its obligations as they become due within the next twelve months and its exposure to liquidity risk is dependent on the Company's ability to:

- Divesting of its assets held for sale;
- Refinance or amend the terms of its credit facilities;
- Raise additional debt financing;
- Raise additional equity financing; and
- Realize cash flow from operations which is subject to significant judgements and estimates, the most significant of which is the Company's sales projections and its ability to realize its assets and discharge its liabilities in the normal course of business.

While, the Company has been successful in obtaining financing to date and believes it will be able to obtain sufficient funds in the future and ultimately achieve profitability and positive cash flows from operations, there can be no assurance that the Company will achieve profitability and be able to obtain sufficient financing to maintain operations in the normal course in the future on terms favourable for the Company. In this regard, reference should be had to the section below regarding the Company's going concern assumption.

f) **Compliance with TSX, OTCQX and OTCQB Requirements**

On March 22, 2022, Aleafia Health received notice from the OTCQX that its bid price had closed below

US$0.10 for more than 30 consecutive calendar days and no longer met the Standards for Continued Qualification for the OTCQX International tier. Aleafia Health was given a 180-day cure period for its share price to trade above US$0.10 for ten consecutive days. If, by September 19, 2022, Aleafia Health's bid price did not stay at or above the US$0.10 minimum for ten consecutive trading days during the cure period, and, as a result, Aleafia Health was delisted from the OTCQX on September 21, 2022. However, Aleafia Health has instead been moved to the OTCQB as of September 21, 2022 where its common shares continue to trade.

On May 3, 2022, the TSX approved the application by the Company for an exemption from certain voting requirements relating to the Private Placement and Debenture Amendments on the basis of "financial hardship." As a result, the Company was subject to a remedial delisting review by the TSX. It is routine for the TSX to require any issuer utilizing the financial hardship exemption to be the subject of such a review. On September 16, 2022, the TSX announced that it would extend the delisting review period until November 29, 2022. On November 24, 2022, the TSX confirmed that it completed its delisting review and Aleafia Health satisfied the TSX's requirements to remain listed on the TSX.

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

Going concern assumption

The consolidated financial statements have been prepared on a going concern basis, which contemplates continuity of normal business activities and the realization of assets and settlement of liabilities in the normal course of business as they come due in the foreseeable future.

The Company has experienced recurring losses, has a cumulative deficit of $527.8 million (March 31, 2022 – $493.2 million) and net working capital deficit of $5.4 million (March 31, 2022 – deficiency of $36.2 million). These factors indicate that there are material uncertainties that cast significant doubt as to the Company's ability to continue as a going concern.

The Company's ability to continue as a going concern is dependent on its ability to achieve profitable operations and/or raise equity or debt financing. There is no assurance that any necessary future financing will be sufficient to sustain operations until such time that the Company can generate sufficiently profitable operations to support its requirements.

The consolidated financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary, should the Company be unable to continue as a going concern, such adjustments could be material.

The proposed business combination transaction with Red White & Bloom Brands Inc. ("RWB"), along with the related subsequent events as described in Note 25, have the potential to significantly affect the Company's ability to continue as a going concern. Please refer to Note 25 for more details regarding this subsequent event.

The Company’s objectives when managing its liquidity and capital resources are to ensure sufficient liquidity to meet its financial obligations and execute its operating and strategic plans for at least the next twelve months. Management closely monitors the liquidity position and strives to have adequate sources of funding to finance the Company’s projects and operations. The Company manages liquidity risk by exploring new debt and equity financing options, reviewing its capital structure to optimize the cost of capital, maintaining the continuity of equity and debt funding options, managing its non-cash current assets to ensure the timely conversion to cash, optimizing its fixed assets which in certain instances includes monetizing, and putting plans in place to meet its financial obligations as they come due.

The Company has multiple options which could potentially meet liquidity needs including converting its non-cash working capital to cash, selling non-core assets, issuing common shares via a public or private placement equity offering, and new debt financing options.

The Company’s ability to meet its commitments to sustain operations and settle its obligations as they become due within the next twelve months and its exposure to liquidity risk is dependent on the Company’s ability to:

- Realize cash flow from operations which is subject to significant judgements and estimates, the most significant of which is the Company’s sales projections and its ability to realize its assets and discharge its liabilities in the normal course of business;
- Remain in compliance with its credit facilities and convertible debenture covenants; and
- Raise additional debt and equity financing.

While the Company has been successful in obtaining financing to date, there can be no assurances whether it will be able to obtain sufficient funds from financing in the future and ultimately achieve profitability and positive cash flows from operations.

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 CGUs and goodwill.

Assets and liabilities held for sale

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

Useful lives of property, plant and equipment

Depreciation and amortization of property, plant and equipment 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.

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. Significant judgment is exercised to determine when certain conditions have been met for products destined for international markets.

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 assumptions such as the volatility of the Company's stock price, the value of the common share, and the risk-free interest rate.

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.

DISCLOSURE AND INTERNAL CONTROLS

Disclosure Controls and Procedures

Aleafia Health's disclosure controls and procedures (DCP), as defined in National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings (NI 52-109) are designed to provide reasonable assurance that information required to be disclosed in our filings is recorded, processed, summarized and reported within the time periods specified in securities legislation. They are also designed to provide reasonable assurance that all information required to be disclosed in these filings is accumulated and communicated to management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO) as appropriate, to allow timely decisions regarding public disclosure. Our management, including the CEO and CFO, conducted an evaluation of the effectiveness of the DCP as of March 31, 2023 and concluded they were effective.

Internal Control over Financial Reporting

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

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

All internal control systems have inherent limitations and therefore our ICFR can only provide reasonable assurance and may not prevent or detect misstatements due to error or fraud. Our management, including the CEO and CFO, conducted an evaluation of our ICFR and concluded that they were effective as of March 31, 2023.

It should be noted that a control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that its objectives are met. Because of the inherent limitations in any control system, no evaluation of control can provide absolute assurance that all control weaknesses including, for example, any instances of fraud, have been detected. Inherent limitations include: (i) that management's assumptions and judgements could ultimately prove to be incorrect as conditions and circumstances vary; (ii) the impact of any undetected errors; and (iii) controls may be circumvented through the unauthorized acts of individuals, by collusion of two or more people, or by management override. The design of any system of control is also based upon assumptions as to the likelihood of future events and there is no assurance that any design will succeed in achieving its goals under future conditions.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter that materially affected, or were reasonably likely to materially affect, our ICFR.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

Forward Looking Information

Certain statements herein relating to the Company constitute "forward looking information", within the meaning of applicable securities laws, including without limitation, statements regarding future estimates, business plans and/or objectives, sales programs, forecasts and projections, assumptions, expectations, and/or beliefs of future performance, are “forward-looking information”. Such forward-looking statements involve unknown risks and uncertainties that could cause actual and future events to differ materially from those anticipated in such statements. Forward looking statements include, but are not limited to, statements with respect to our market share, net revenue, net branded revenue, gross profit, gross profit margin, Adjusted SG&A, Adjusted EBITDA, and other financial outlook projections for financial year 2023, our commercial operations, including production and / or sales of cannabis, quantities of future cannabis production, anticipated revenue in connection with such sales, and other Information that is based on forecasts of future results, estimates of production not yet determinable, and other key management assumptions. The following material factors or assumptions were used to develop the forward looking information: market size and growth of the Canadian adult-use and medical cannabis markets, retail store penetration, script ordering frequency, retention and average order value trends, cultivation and processing capacity, costs of production, flower procurement costs, inflation, interest rates, gross and net revenue per gram.

Actual results may differ materially from those expressed or implied by such forward looking statements and involve risk and uncertainties relating to: future cultivation yield and quality, ability to procure additional Usable Flower, actual operating performance of facilities, product launches, facility licenses and amendments, patient retention ability to enter new provincial adult-use markets, average selling prices, cost of goods sold, operating expenses, Adjusted EBITDA, regulatory changes in the Canadian and international markets, and other uninsured risks. The forward looking information was approved by Management as of June 13, 2023. The Company assumes no responsibility to update or revise forward-looking information to reflect new events or circumstances unless required by law. The forward looking information is provided for information purposes only and readers are cautioned that it may not be appropriate for other purposes. This presentation is provided for general information purposes only and does not constitute an offer to sell or solicitation of an offer to buy any security in any jurisdiction

Cautionary Statement Regarding Non-IFRS Measures

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

- Cannabis net revenue is sale of cannabis revenue less excise duties
    - Adult-use cannabis net revenue is net cannabis revenue for Canadian adult-use sales.
    - Medical cannabis net revenue is net cannabis revenue for Canadian medical sales and clinic revenue.
    - International cannabis net revenue is net cannabis revenue for international medical sales.
    - Bulk Wholesale cannabis net revenue is net cannabis revenue in sales to other LPs.

- Branded Cannabis Net Revenue is calculated as Adult-use cannabis net revenue, Medical cannabis net revenue and International cannabis net revenue. It excludes bulk wholesale net revenue
- Total Branded Cannabis Revenue is calculated as Adult-use cannabis revenue, Medical cannabis revenue and International cannabis revenue. It excludes bulk wholesale cannabis revenue.
- Gross profit margin before fair value adjustments on branded cannabis net revenue represents gross profit margin on branded cannabis net revenue. It is calculated by subtracting costs of sales relating to bulk wholesale and dividing by branded cannabis net revenue.
- Gross profit before fair value adjustments on bulk wholesale represents gross profit on bulk wholesale. It is calculated by subtracting costs of sales relating to bulk wholesale net revenue.
- Gross profit margin before fair value adjustments on bulk wholesale represents gross profit margin on bulk wholesale. It is calculated by subtracting costs of sales relating to cannabis net revenue and dividing by bulk wholesale net revenue.
- Gross profit before fair value adjustments margin is the gross profit before fair value adjustments and inventory provision divided by total net revenue. Management believes that this is a useful metric to

assess the profitability of cannabis sales, as it eliminates the effects of non-cash fair value changes in inventory and biological assets.
- Adjusted EBITDA margin is calculated as Adjusted EBITDA divided by total net revenue.

RISK FACTORS

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

REGULATORY AND LEGAL RISKS

Compliance with Laws

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

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

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

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

Achievement of the Company's business objectives is contingent, in part, upon compliance with regulatory requirements enacted by governmental authorities and, where necessary, obtaining regulatory approvals. The impact of regulatory compliance regimes, and the impact of any delays in obtaining or failures to obtain regulatory approvals required by the Company may significantly delay or impact the development of the

Company’s business and operations and could have a material adverse effect on the Company’s business, financial condition and results of operations.

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

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

Changes in Laws, Regulations and Guidelines

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

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

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

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

Reliance on Licenses and Permits

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

The Port Perry facility Licence will expire on October 9, 2023, the Paris facility Licence will expire on January 20, 2028, the Grimsby facility Licence will expire on June 13, 2023, and the Distribution Centre Licence will expire on February 12, 2024. The Company has ceased all activities at its Grimsby facility and is no longer dependent on the facility or its licence.

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

The Company is dependent upon its Licences for its ability to grow, store and sell cannabis and other products at its production facilities. The Licences are subject to ongoing compliance, reporting requirements and renewal.

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

Regulatory or Agency Proceedings, Investigations and Audits

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

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

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

Reliance on Facilities

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

Adverse changes or developments affecting the Port Perry facility, Paris facility, and/or the Distribution Centre, including but not limited to a force majeure event or a breach of security, could have a material adverse effect on the Company's business, financial condition and prospects. Any breach of the security measures and other production facility requirements, including any failure to comply with recommendations or requirements arising from inspections by Health Canada, could also have an impact on the Company's ability to continue operating under its existing licence or the prospect of renewing the licence or could result in a revocation of the licence.

Constraints on Marketing Activities

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

Intellectual Property

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

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

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

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

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

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

OPERATING RISKS

The Cannabis Industry in Canada

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

Operating in a New and Evolving Industry

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

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

Reliance on Third Party Suppliers, Manufacturers and Contractors

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

Third Party Transportation

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

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

Reputational Risk to Third Parties

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

Supply Shortages and Overages

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

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

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

Disruption of Supply Chain

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

(i) extraordinary weather conditions or natural disasters such as hurricanes, tornadoes, floods, fires, extreme heat, earthquakes, etc.;

(ii) a local, regional, national or international outbreak of a contagious disease, including the COVID-19 coronavirus, Middle East Respiratory Syndrome, Severe Acute Respiratory Syndrome, H1N1 influenza virus, avian flu, or any other similar illness could result in a general or acute decline in economic activity (see also, "*Public Health Crises, including COVID-19*");

(iii) political instability, social and labour unrest, war or terrorism; or

(iv) interruptions in the availability of basic commercial and social services and infrastructure including power and water shortages, and shipping and freight forwarding services including via air, sea, rail and road.

Public Health Crises, including COVID-19

In March 2020, the World Health Organization declared the outbreak of a novel strain of coronavirus ("COVID-19"), a global pandemic. Government measures to limit the spread of COVID-19, including the closure of non-essential businesses, continued to disrupt the Company's operations during the year ended March 31, 2023.

The production and sale of cannabis and cannabis-derived products have been recognized as essential services across Canada; however, COVID-19 related challenges have persisted, including, but not limited to, reduced staffing levels, production inefficiencies resulting from increased health and safety measures, and limited supply chain issues.

Due to the ongoing developments and uncertainty surrounding COVID-19, it is not possible to predict the continuing impact that COVID-19 will have on the Company, its financial position, and/or its operating results in the future. In addition, it is possible that estimates in the Company's consolidated financial statements will change in the near term as a result of COVID-19, and the effect of any such changes could be material. The Company is closely monitoring the impact of COVID-19 on all aspects of its business.

Effectiveness of Quality Control Systems

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

Development of New Products and Technologies

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

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

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

Reliance on Skilled Workers and Equipment

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

Attraction and Retention of Key Personnel

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

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

FINANCIAL RISKS

Compliance with TSX, OTCQX and OTCQB Requirements

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

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

On March, 22, 2022, Aleafia Health received notice from the OTCQX that its bid price had closed below US$0.10 for more than 30 consecutive calendar days and no longer met the Standards for Continued Qualification for the OTCQX International tier. Aleafia Health has been given a 180 day cure period for its share price to trade above US$0.10 for ten consecutive days. If, by September 19, 2022, Aleafia Health's bid price has not stayed at or above the US$0.10 minimum for ten consecutive trading days, then its shares will be delisted from the OTCQX on September 21, 2022. However, Aleafia Health has instead been moved to the OTCQB as of September 21, 2022 where its common shares continue to trade.

On May 3, 2022, the TSX approved the application by the Company for an exemption from certain voting requirements relating to the Private Placement and Debenture Amendments on the basis of "financial hardship." As a result, the Company is subject to a remedial delisting review by the TSX which is anticipated to occur in September 2022. It is routine for the TSX to require any issuer utilizing the financial hardship exemption to be the subject of such a review. On September 16, 2022, the TSX announced that it would extend the delisting review period until November 29, 2022. On November 24, 2022, the TSX confirmed that it completed its delisting review and Aleafia Health satisfied the TSX's requirements to remain listed on the TSX.

Volatile Market Price of the Common Shares

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

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

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

Obligations as a Public Company

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

Dilution

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

Cash Flow from Operations

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

Additional Financing and Restrictions

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

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

Joint Venture Vehicles

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

Ability to Achieve or Maintain Profitability

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

Impact of the Illicit Supply of Cannabis

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

(i) offer products with higher concentrations of active ingredients that are either expressly prohibited or impracticable to produce under current Canadian regulations;

(ii) use delivery methods, including certain edibles, concentrates and extract vaporizers, that we are currently prohibited from offering to individuals in Canada;

(iii) use marketing and branding strategies that are restricted under the *Cannabis Act* and *Cannabis Regulations*; and

(iv) make claims not permissible under the *Cannabis Act* and other regulatory regimes.

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

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

(i) result in the perpetuation of the illicit market for cannabis;

(ii) adversely affect the Company's market share; and

(iii) adversely impact the public perception of cannabis use and LPs, all of which could have a materially adverse impact on the Company's business, operations and financial condition.

Employee Health and Safety Regulations

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

ENVIRONMENTAL RISKS

Environmental Regulations and Risks

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

Risks Inherent in an Agricultural Business

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

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

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

OTHER RISKS

Competition

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

(i) have significantly greater financial, technical, marketing and other resources;

(ii) be able to devote greater resources to the development, promotion, sale and support of their products and services; and

(iii) have more extensive customer bases and broader customer relationships.

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

New Industry and Market

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

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

Product Liability

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

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

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

Product Recalls

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

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

Managing Growth

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

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

(i) maintain adequate systems to meet customer demand;

(ii) expand sales and marketing, distribution capabilities and administrative functions; and

(iii) attract and retain qualified employees, including in respect of its management team.

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

Fraudulent or Illegal Activities by Employees, Contractors or Consultants

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

(i) government regulations;

(ii) manufacturing standards;

(iii) federal and provincial healthcare fraud and abuse laws and regulations; or

(iv) laws that require the true, complete and accurate reporting of financial information or data.

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

Insurance Coverage

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

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

Litigation

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

Conflicts of Interest

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

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

Information Technology Systems and Cyber-Attacks

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

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

ADDITIONAL INFORMATION

Additional information regarding the Company, including in the Financial Statements and our most recent annual information form dated June 29, 2022 for the year ended March 31, 2022 (the "Annual Information Form"), is available under the Company's SEDAR profile at www.sedar.com.

SUBSEQUENT EVENTS

On June 6, 2023, Red White & Bloom Brands Inc. ("RWB") and Aleafia (the "Company") entered into a Binding Letter Agreement whereby RWB has agreed to acquire Aleafia and its subsidiaries in a business combination transaction (the "Proposed Transaction") to be completed by way of a court-approved plan of arrangement under the Business Corporations Act (Ontario).

Under the terms of the Binding Letter Agreement, each outstanding common share in the capital of Aleafia (each, an "Aleafia Share") will be exchanged for 0.35 of a common share in the capital of the Company (each, an "RWB Share"), subject to customary adjustment (the "Exchange Ratio"). Upon the completion of the Proposed Transaction, existing RWB shareholders are expected to own approximately 76% of the Combined Company resulting from the Proposed Transaction (the "Combined Company") and Aleafia shareholders are expected to own approximately 24% of the Combined Company.

The Letter Agreement provides for the parties to enter into a definitive arrangement agreement setting out the final terms and conditions of the Proposed Transaction, at which time additional information will be provided in a subsequent press release.

Summary of the Proposed Transaction

The Proposed Transaction is expected to be completed by way of a court-approved plan of arrangement under the Business Corporations Act (Ontario). Under the terms of the Letter Agreement, RWB will acquire all of the issued and outstanding Aleafia Shares in exchange for RWB Shares on the basis of the Exchange Ratio. Outstanding options and warrants to purchase Aleafia Shares will become exercisable to acquire RWB Shares on the same terms and conditions, on the basis of the Exchange Ratio. Outstanding restricted and deferred share units of Aleafia will be settled upon closing in RWB Shares on the basis of the Exchange Ratio.

The Proposed Transaction will require the approval of: (i) two-thirds of the votes cast by shareholders of Aleafia, and, if required, (ii) a simple majority of the votes cast by minority Aleafia shareholders in accordance with Multilateral Instrument 61-101 – Protection of Minority Security Holders in Special Transactions (“MI 61-101”), at a special meeting of Aleafia shareholders expected to take place in the third quarter of 2023 (the “Aleafia Meeting”); (b) debenture holders of the requisite percentage of the principal amount of each series of Aleafia Convertible Debentures (“Debentureholder Approval”); and (c) if required, RWB shareholders at a special meeting of RWB shareholders expected to take place in the third quarter of 2023 (the “RWB Meeting”).

Completion of the Proposed Transaction will be subject to customary closing conditions and receipt of necessary court and regulatory approvals, including stock exchange approval. Subject to receipt of all necessary approvals, the Proposed Transaction is expected to close by on October 31, 2023 (the “Effective Time”).October 31, 2023 (the “Effective Time”).

A copy of the Letter Agreement will be filed on Aleafia and RWB’s SEDAR profiles at www.sedar.com. Prior to entering into a definitive arrangement agreement, all members of the board of directors of Aleafia, all officers of Aleafia and certain other security holders of Aleafia, will enter into customary support and voting agreements.

The Letter Agreement provides for the parties to enter into a definitive arrangement agreement setting out the final terms and conditions of the Proposed Transaction on or before July 31, 2023. The Letter Agreement contains, and the arrangement agreement will continue to contain, standard non-solicitation and superior proposal provisions and a break fee of C$2 million. The Letter Agreement includes, and arrangement agreement will continue to include other provisions such as conditions to closing the Proposed Transaction, and representations and warranties and covenants customary for arrangement agreements. Further details with respect to the Proposed Transaction will be included in the arrangement agreement and in an information circular to be mailed to Aleafia shareholders in connection with the Aleafia Meeting and to holders of Aleafia Convertible Debentures, as applicable, and to RWB shareholders in connection with the RWB meeting (if required). Once available, copies of the arrangement agreement and information circular will be filed on each of Aleafia and RWB’s SEDAR profiles at www.sedar.com, as applicable.

Concurrent with entering into the Binding Letter Agreement, the Aleafia Senior Secured Loan Agreement, made as of December 24, 2021, between Aleafia and certain subsidiaries as borrowers, with other subsidiaries as guarantors, and NE SPC II LP as lender, and subsequently amended on March 28, 2022, June 17, 2022, April 26, 2023, May 15, 2023, and May 31, 2023, was assigned by NE SPC II LP to RWB.

On June 6, 2023, concurrent with the execution of the Binding Letter Agreement Aleafia was advanced $1.5 million.

As part of the Proposed Transaction, the Company expects to settle the 8.5% Series A Secured Convertible Debentures due June 30, 2024, the 8.5% Series B Secured Convertible Debentures due June 30, 2026, and the 8.5% Series C Secured Convertible Debentures due June 30, 2028 (collectively, the “Aleafia Convertible Debentures”) for an aggregate of $6,000 at the Effective Time (subject to Debentureholder approval). The funding for the settlement of the Aleafia Convertible Debentures, along with the assignment of the Aleafia Senior Secured Loan Agreement, is intended to be funded through a new secured $30,000 credit facility (the “New Credit Facility”). The New Credit Facility will also serve to support working capital requirements, growth initiatives, and the RWB Credit Facility, a $17,500 credit facility being negotiated by RWB and Aleafia. The RWB Credit Facility will facilitate cash settlement, working capital requirements, and promissory note repayment, and will include covenants and reporting requirements.

The specific terms of the New Credit Facility and the RWB Credit Facility will be confirmed upon the execution of final funding agreements and the completion of the Proposed Transaction. These actions aim to enhance liquidity and improve financial flexibility by supporting working capital requirements and funding growth initiatives. The negotiations for the RWB Credit Facility are being conducted in accordance with customary practices and are expected to be finalized within 30 days.

As at the consolidated financial statements’ balance sheet date of March 31, 2023, the Proposed Transaction and the related subsequent events had not yet been completed. Consequently, the consolidated financial statements do not reflect the impact of the Proposed Transaction. The Company will reassess and determine the appropriate accounting treatment once the Proposed Transaction is finalized and all necessary approvals are obtained.