ALEAFIA HEALTH INC.

UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(expressed in Canadian Dollars)

PERIODS ENDED MARCH 31, 2019 AND 2018

ALEAFIA HEALTH INC.

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May 13, 2019

To the Shareholders of Aleafia Health Inc.:

The accompanying condensed interim consolidated financial statements of Aleafia Health Inc. were prepared by management, which is responsible for the integrity and fairness of the information presented, including the many amounts that out of necessity be based on estimates and judgements. These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards. Financial information presented elsewhere in this annual report is consistent with these consolidated financial statements.

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

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

Signed:

"Geoff Benic"
Geoff Benic,
Chief Executive Officer
Toronto, Ontario

"Benjamin Ferdinand"
Benjamin Ferdinand,
Chief Financial Officer
Toronto, Ontario

ALEAFIA HEALTH INC.
Unaudited Interim Condensed Consolidated Statements of Financial Position
As at March 31, 2019 and December 31, 2018
(Expressed in Canadian dollars)

	Note	March 31, 2019	December 31, 2018
		$	$
ASSETS			
CURRENT			
Cash and cash equivalents		36,835,966	26,406,978
Marketable securities		6,691,491	-
Accounts receivable		5,986,420	2,028,332
Prepaid expenses		5,932,811	222,817
Inventory	11	4,811,986	356,359
Biological assets	12	751,581	233,333
		61,010,255	29,247,819
Prepaid deposits for property, plant and equipment		23,600,348	3,749,289
Property, plant and equipment	6	61,352,280	13,779,799
Investments	13	4,100,718	4,000,000
Intangible assets	7	84,075,646	34,373,642
Goodwill	4,5	186,635,140	12,713,882
TOTAL ASSETS		**420,774,387**	**97,864,431**
LIABILITIES			
CURRENT			
Accounts payable and accrued liabilities	9	9,554,169	3,281,020
Deferred revenue		188,929	213,763
		9,743,098	**3,494,783**
NON-CURRENT			
Long-term debt		464,401	-
Convertible debt	14	20,652,293	-
Deferred tax liability		2,356,599	2,436,439
TOTAL LIABILITIES		**33,216,391**	**5,931,222**
SHAREHOLDERS' EQUITY			
Share capital	8	364,187,932	104,455,368
Warrants	8	43,523,328	748,228
Contributed surplus	8	28,301,391	14,954,088
Deficit		(48,454,655)	(28,224,475)
		387,557,996	91,933,209
TOTAL LIABILITIES AND EQUITY		**420,774,387**	**97,864,431**

NATURE OF BUSINESS AND CONTINUING OPERATIONS (Note 1) COMMITMENTS (Note 17)

Approved and authorized for issue on behalf of the Board on May 13, 2019

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

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements

ALEAFIA HEALTH INC.
Unaudited Interim Condensed Consolidated Statements of Comprehensive Loss
For the periods ended March 31, 2019 and 2018
(Expressed in Canadian dollars)

		Three months ended March 31	
	Note	**2019**	**2018**
Revenue		$	$
Consultation services		626,368	52,055
Research		367,798	31,588
Sale of cannabis		530,792	-
		1,524,958	83,643
Cost of sales			
Doctor Services		462,520	40,668
Cost of goods sold		1,324,826	28
Gross profit (loss) before fair value adjustments		(262,388)	42,947
Unrealized gain on fair value of biological assets	12	204,549	-
Gross profit (loss)		(57,839)	42,947
Expenses			
Wages and benefits		2,988,213	1,044,307
General and administration		1,415,235	232,500
Sales, marketing and promotion		283,849	116,855
Business advisory fees		907,328	-
Consulting and legal expenses (incl. share-based)		5,971,200	122,700
Amortization and depreciation		867,712	130,709
Share-based payments		7,960,761	121,675
		20,394,298	1,768,746
Loss before other items and taxes		**(20,452,137)**	**(1,725,799)**
Other items			
Interest (income) expense		120,810	(40,731)
Non operating expenses		314,697	-
		(20,887,644)	(1,685,068)
Deferred Income Tax			
Deferred income tax recovery		657,464	-
Net Loss and Comprehensive Loss for the period		(20,230,180)	(1,685,068)
LOSS PER SHARE – Basic and diluted		**(0.12)**	**(0.02)**
Weighted Average Common Shares Outstanding		**163,248,386**	**74,523,075**

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements

ALEAFIA HEALTH INC.
Unaudited Interim Condensed Consolidated Statements of Changes in Equity
For the Period ended March 31, 2019 and 2018
(Expressed in Canadian dollars)

March 31, 2019	**Common Shares**		**Warrants**				
	Number of Shares	**Amount**	**Number of Warrants**	**Amount**	**Contributed Surplus**	**Deficit**	**Total**
		$		$	$	$	$
Balance, December 31, 2018	**157,848,812**	**104,455,368**	**9,228,590**	**748,228**	**14,954,088**	**(28,224,475)**	**91,933,209**
Shares issued from warrants exercised	575,761	970,200	(575,761)	-	-	-	970,200
Shares issued from options exercised	497,789	769,867	-	-	(535,080)	-	234,787
Warrants deemed issued for Emblem	-	-	39,286,213	42,775,100	-	-	42,775,100
Share options deemed issued for Emblem	-	-	-	-	5,921,622	-	5,921,622
Shares issued for Emblem	110,823,349	252,677,236	-	-	-	-	252,677,236
Shares issued for services	2,331,255	5,315,261	-	-	-	-	5,315,261
Share-based payments	-	-	-	-	7,960,761	-	7,960,761
Net loss for the period	-	-	-	-	-	(20,230,180)	(20,230,180)
Balance, March 31 ,2019	**272,076,966**	**364,187,932**	**47,939,042**	**43,523,328**	**28,301,391**	**(48,454,655)**	**387,557,996**

March 31, 2018	Common Shares		Warrants				
	Number of Shares	Amount	Number of Warrants	Amount	Contributed Surplus	Deficit	Total
		$		$	$	$	$
Balance, December 31, 2017	**73,670,000**	**12,285,030**	**-**	**-**	**8,323,573**	**(9,691,899)**	**10,916,704**
Common Shares issued for cash	24,171,000	30,213,750	-	-	-	-	30,213,750
Share issue costs	-	(1,934,840)	-	-	-	-	(1,934,840)
Broker warrants	-	(1,241,212)	2,025,380	-	1,241,212	-	-
Common Shares deemd to be issued on RTO	38,103,461	26,194,098	-	-	59,087	-	26,253,185
Share - based payments	-	-	-	-	121,675	-	121,675
Net loss for the period	-	-	-	-	-	(1,685,068)	(1,685,068)
Balance, March 31 ,2018	**135,944,461**	**65,516,826**	**2,025,380**	**-**	**9,745,547**	**(11,376,967)**	**63,885,406**

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements

ALEAFIA HEALTH INC.
Unaudited Interim Condensed Consolidated Statements of Cash Flows
For the periods ended March 31, 2019 and 2018
(Expressed in Canadian dollars)

	Three months ended March 31	
	2019	**2018**
	$	$
Cash provided by (used in)		
Operating activities		
Net loss for the period	(20,230,180)	(1,685,068)
Adjustment to reconcile net income (loss) to net cash provided by operating activities		
Depreciation	867,712	130,709
Share based consulting fees	5,315,261	121,675
Stock-based compensation	7,960,761	-
Accretion	194,569	-
Deferred income tax recovery	(657,464)	-
Unrealized gain on changes in fair value of biological assets	(204,549)	-
	(6,753,890)	(1,432,684)
Changes in operating assets and liabilities		
Prepaid expenses	(400,964)	(66,017)
Amounts receivable	(1,336,435)	(1,107,783)
Marketable securities	314,697	-
Biological asset	168,397	-
Inventory	808,703	-
Accounts payable and accrued liabilities	(3,075,046)	769,006
Deferred revenues	(24,834)	-
Net cash used in operating activities	(10,299,372)	(1,837,478)
Cash flows to investing activities:		
Investment in Cannapacific	(100,718)	-
Cash acquired on amalgamation	23,715,218	6,916,819
Acquisition of property plant and equipment	(4,087,843)	(121,173)
Net cash provided by investing activities	19,526,657	6,795,646
Cash flows from financing activities:		
Lease liability payments	(3,284)	-
Repayment of mortgage	-	(4,000,000)
Warrants and options exercised	1,204,987	-
Proceeds from the issuance of common stock	-	28,278,909
Net cash provided by financing activities	1,201,703	24,278,909
Change in cash	10,428,988	29,237,077
Cash, beginning of period	26,406,978	1,057,231
Cash, end of period	36,835,966	30,294,308

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements

1. NATURE OF OPERATIONS

Aleafia Health Inc. (the "Company or Aleafia") formerly Canabo Medical Inc. ("Canabo") was incorporated under the laws of the Province of British Columbia on February 2, 2007 and continued under the laws of the Province of Ontario on June 27, 2018. On November 9, 2016 the Company acquired Canabo Medical Corporation and on March 26, 2018 completed a business amalgamation described in Note 6. The Company changed its name to Aleafia Health Inc. and on March 19, 2019 graduated from the TSX Venture Exchange to the TSX exchange. The Company trades under the symbol ALEF.

The Company offers health and wellness services with medical clinics, cannabis cultivation, cannabis research and development as well as joint venture and equity investments in brands and cannabis retail businesses. It operates medical cannabis clinics and education centres in Canada staffed with approximately 70 physicians, nurse practitioners and educators. The other principal activity of the business is the growing and the sale of cannabis as regulated by the Cannabis Act in Canada. Emblem Corp., focuses on product innovation, branding and patient and consumer product distribution and it holds (through subsidiaries) an additional Health Canada Licence to cultivate, process and sell cannabis and cannabis derivatives in Canada under the Cannabis Act.

During the period ended December 31, 2017 and as described in Note 5, Aleafia Inc. acquired a 100% interest in Aleafia Farms Inc. ("Aleafia Farms"). Aleafia Farms is a licensed producer of medical cannabis in Canada pursuant to Health Canada's Cannabis Act & Regulations (formerly Access to Cannabis for Medical Purposes Regulations). On July 30, 2018, the Company acquired a modern, fully automated 160,000 sq. feet greenhouse in Grimsby, Niagara region. Operations at the Aleafia Farms Port Perry facility have commenced, and Grimsby facility is expected to begin during the spring of 2019.

On November 22, 2018, Aleafia acquired 51% interest in Flying High Brands Inc., a domestic and international cannabis brands company and a 9.9% stake in One Plant (Retail) Corp- a Canada-wide cannabis retail joint venture.

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

As at March 31, 2019, the Company had not generated a profit and had accumulated a deficit of $48,454,655. The Company's operations and expenditures have been funded by the issuance of equity.

The head office and principal business of the Company is 2nd floor, 8810 Jane Street, Concord, Ontario.

2. BASIS OF PRESENTATION

These unaudited condensed interim consolidated financial statements as at and for the three months ended March 31, 2019 and 2018 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and in accordance with IAS 34, Interim Financial Reporting ("IAS 34"). The accounting policies, methods of computation and presentation applied in these unaudited condensed interim consolidated financial statements are consistent with those of the previous fiscal year. These unaudited condensed interim consolidated financial statements reflect the accounting policies and disclosures described in Notes 2, 3 and 4 to the Company's audited consolidated financial statements for the year ended December 31, 2018 with the exception of any change set out below and accordingly, should be read in conjunction with those audited consolidated financial statements and the notes thereto.

2. BASIS OF PRESENTATION (continued)

Adoption of IFRS 16 Leases ("IFRS 16")

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

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

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

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

The Company has reviewed existing leases and has estimated that there was no material impact to the consolidated financial statements upon adoption of IFRS 16.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS *(Continued)*

Biological assets and inventory

In calculating the value of the biological assets and inventory, management is required to make a number of estimates, including estimating the stage of growth of the cannabis up to the point of harvest, harvesting costs, selling costs, sales price, wastage and expected yields for the cannabis plant. In calculating final inventory values, management is required to determine an estimate of spoiled or expired inventory and compares the inventory cost to estimated net realizable value.

Estimated useful lives and impairment considerations

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

Business combinations

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

Research revenue

Estimates are used when the Company recognizes certain research revenue depending on how frequently patients visit the clinics and what portion of the upfront deposits are considered deferred.

Share-based compensation and warrants

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

Research revenue

Estimates are used when the Company recognizes certain research revenue depending on how frequently patients visit the clinics and what portion of the upfront deposits are considered deferred.

(Expressed in Canadian dollars)

4. BUSINESS COMBINATION AND ASSET ACQUISITION

Aleafia Farms Inc.

Pursuant to an assignment agreement dated October 4, 2017 (the "Assignment"), Aleafia Inc. was assigned the rights, title and interest to acquire 100% of the issued and outstanding common shares of Aleafia Farms (Note 1) and certain other assets described in a Purchase Agreement dated September 25, 2015 ("Original Purchase Agreement"). Under the terms of Original Purchase Agreement, the purchaser had the rights to acquire 100% of Aleafia Farms and other certain assets for $6,950,000 of which $2,950,000 was to be paid in cash and $4,000,000 could be paid in cash or by an open Vendor Take Back mortgage. The Original Purchase Agreement was amended on December 11, 2017 to include a $4,000,000 Vendor Take Back mortgage at a rate of 3% due on April 1, 2018, secured by the underlying land and buildings and other certain payment terms were amended but the purchase price remained the same. A deposit of $50,000 was paid by the previous purchasers and was not reimbursed by Aleafia Inc. The acquisition of Aleafia Farms was made to directly support its clinic operations.

In consideration for the Assignment Aleafia Inc. paid $1,000,000 in cash and issued 24,000,000 common shares with an estimated fair value of $6,000,000.

The acquisition was accounted for as a business combination as the assets acquired and liabilities assumed constitute a business. The transaction was accounted for using the acquisition method of accounting whereby the assets acquired, and the liabilities assumed were recorded at their estimated fair value at the acquisition date.

The Company applied a market approach, and specifically the mergers and acquisition method, for measuring the fair value of the license to produce medical cannabis. This valuation model uses data from actual market transactions regarding the sale of similar companies or groups of assets to determine the price of the asset under review. The Company used other valuation methodologies to value the remaining assets and liabilities.

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

Consideration	**$**
Cash	3,900,000
Vendor take-back mortgage	4,000,000
Common shares issued	6,000,000
Total consideration paid	13,900,000

Net assets acquired	**$**
Buildings	362,472
House	133,240
Land	735,000
License	9,770,000
OPA power contracts	299,000
Deferred income tax liability	(2,464,000)
	8,835,712
Goodwill acquired	5,064,288
Total net assets acquired	13,900,000

The Company repaid the vendor take-back mortgage of $4,000,000 during the year.

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

4. BUSINESS COMBINATION AND ASSET ACQUISITION (continued)

Flying High Brands Inc.

On November 22, 2018, the Company entered into a Master Joint Venture Agreement (“the Agreement”) with SPE Finance LLC (“Serruya”) to establish a joint venture for the purpose of licensing from Serruya, certain brands of cannabis and cannabis products in Canada. The joint venture was incorporated under the name Flying High Brands Inc. (“FHBI”) the Company paid $1,000,000 for 30 common shares of FHBI and issued 6,000,000 common shares with a fair value $12,060,000 for 480 common shares of FHBI. As a result, the Company controls 51% of FHBI. The other 49% is owned by Serruya. In conjunction with the Agreement Serruya entered into a licensing agreement with FHBI for the use of certain name brands. It is intended that FHBI will have multiple income streams throughout the retail value chain and will use the Company’s cannabis products for those purposes.

For accounting purposes, the Company controls FHBI and as a result has consolidated its operations from the date of acquisition. The Company determined that this transaction is an asset acquisition as the assets acquired did not constitute a business as defined by IFRS 3. The purchase price of the shares was allocated to intangible assets – license. The Company also incurred acquisition costs of $200,000. FHBI had an insignificant amount of activity during the remainder of the year.

Emblem Corp.

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

Prior to the completion of the Arrangement, Emblem had outstanding three classes of warrants to purchase Emblem shares listed on TSXV. The listed warrants, with the exception of any listed Emblem Warrants that were exercised prior to closing of the Arrangement, remain outstanding as warrants of “Emblem Corp” that upon exercise will entitle the holder thereof to receive the Consideration.

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

The acquisition was accounted for as a business combination as the assets acquired and liabilities assumed constitute a business. The transaction was accounted for using the acquisition method of accounting whereby the assets acquired, and the liabilities assumed were recorded at their estimated fair value at the acquisition date.

The Company applied various valuation techniques in order to measure the assets acquired and the liabilities assumed in the business combination.

(Expressed in Canadian dollars)

4. BUSINESS COMBINATION AND ASSET ACQUISITION (continued)

The initial accounting for this business combination is incomplete and the Company is reporting provisional amounts for the items for which the accounting is incomplete. These provisional amounts may be adjusted during the measurement period, or additional assets or liabilities may be recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

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

Consideration	**$**
Common shares issued (110,823,349 shares at $2.28)	252,677,236
Warrants issued	42,775,100
Replacement share options	5,921,622
Total consideration	**301,373,958**

Net assets acquired	**$**
Net Tangible assets	77,585,324
Emblem Brand	9,025,000
Growwise brand	4,428,000
Symbl brand	1,674,000
License	33,416,000
IP R&D	639,000
SDM Distribution agreement	1,263,000
Deferred income tax liability	(577,624)
	127,452,700
Goodwill acquired	173,921,258
Total net assets acquired	**301,373,958**

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

Had the business combination occurred on January 1, 2019, management estimated that the revenue of the Company would have increased by approximately $1,735,000 and the net loss of the Company would have increased by approximately $20,700,000 for the period ended March 31, 2019. Emblem expenses include approximately $13,100,000 in one-time, non-recurring expenses as a result of the acquisition of Emblem by the Company, including advisory fees and termination payments.

5. BUSINESS AMALGAMATION

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

(Expressed in Canadian dollars)

Following the completion of the Transaction, Aleafia shareholders held approximately 71% of the total issued shares of Canabo. Canabo will continue to be the listed issuer (the "Resulting Issuer"). The Transaction was treated as a Fundamental Acquisition pursuant to the policies of the TSXV and for financial reporting purposes the Transaction was treated as a reverse-take-over.

5. BUSINESS AMALGAMATION (continued)

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

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

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

Consideration	**$**
Fair value of common shares issued	26,291,388
Fair value of stock options deemed to be issued	163,729
Fair value of warrants deemed to be issued	159,777
Total consideration	26,614,894

Net assets acquired	**$**
Current assets	7,840,722
Equipment	151,145
Intangible asset – brand name	308,765
Intangible asset – patient list	12,415,920
Intangible asset – scientific and medical research assets	849,000
Current liabilities	(1,619,986)
Deferred income tax liability	(980,266)
	18,965,300
Goodwill acquired	7,649,594
Total net assets acquired	26,614,894

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

(Expressed in Canadian dollars)

6. PROPERTY, PLANT AND EQUIPMENT

	Computer and software	Equipment and furniture	Leasehold improvements	Land	Buildings and Houses	Total
	$	$	$	$	$	$
Cost						
Balance, December 31, 2018	205,967	3,070,868	116,837	1,812,852	8,763,698	13,970,222
Business acquisition (Note 4)	42,311	2,232,824	5,301,834	13,062,817	22,969,568	43,609,354
Additions	166,267	43,353	-	-	3,878,223	4,087,843
Balance, March 31, 2019	**414,545**	**5,347,045**	**5,418,671**	**14,875,669**	**35,611,489**	61,667,419
Accumulated Depreciation						
Balance, December 31, 2018	(75,130)	(35,585)	(31,799)	-	(47,909)	(190,423)
Additions	(23,492)	(51,742)	(17,375)	-	(32,107)	(124,716)
Balance, March 31, 2019	**(98,622)**	**(87,327)**	**(49,174)**	**-**	**(80,016)**	**(315,139)**
Carrying Value						
As at December 31, 2018	130,837	3,035,283	85,038	1,812,852	8,715,789	13,779,799
As at March 31, 2019	**315,923**	**5,259,718**	**5,369,497**	**14,875,669**	**35,531,473**	**61,352,280**

7. INTANGIBLE ASSETS

	Grow License	OPA Power Contracts	Brand Name	Patient List	SRED	Serruya License	Emblem Brands	License	IP R&D	Agreement	Total
	$	$	$	$	$						$
Additions from incorporation and acquisitions	9,770,000	299,000	308,765	12,415,920	849,000	12,260,000	-	-	-	-	35,902,685
Amortization	(411,800)	(21,357)	(47,515)	(955,071)	(93,300)		-	-	-	-	(1,529,044)
Balance, December 31, 2018	9,358,200	277,643	261,250	11,460,849	755,700	12,260,000	-	-	-	-	34,373,641
Additions (Note 4)	-	-	-	-	-	-	15,127,000	33,416,000	639,000	1,263,000	50,445,000
Amortization	(112,934)	(5,339)	(15,438)	(310,398)	(30,321)	(268,565)	-	-	-	-	(742,995)
Balance, March 31, 2019	**9,245,266**	**272,304**	**245,811**	**11,150,451**	**725,379**	**11,991,435**	**15,127,000**	**33,416,000**	**639,000**	**1,263,000**	**84,075,646**

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

i) the purchase of Aleafia Farms and
ii) the amalgamation with Canabo Medical Inc.
iii) the acquisition of Flying High Brands Inc.
iv) the acquisition of Emblem Corp.

The transactions and the allocation of the purchase price are described in detail in notes 4 and 5 respectively.

8. SHARE CAPITAL

a) Authorized

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

b) Issued and Outstanding

As at March 31, 2019, there were 272,076,966 common shares

During the period ended March 31, 2019, the Company had the following transactions:

The Company issued 575,761 common shares from warrants for gross proceeds of $970,200.

The Company issued 2,331,255 common shares as a success fee in connection with the Emblem transaction described in Note 4. The common shares had a fair value of $5,315,261 and were issued to Mackie Research Corp.

On March 14, 2019 in connection with the acquisition of Emblem, the Company issued 110,823,349 common shares as a purchase consideration. The common shares had a fair value of $252,677,256 and were measured using the market price of the Company's shares.

The Company issued 497,789 common shares for gross proceeds of $234,767 from exercise of stock options.

During the year ended December 31, 2018, the Company had the following transactions:

On March 26, 2018 Aleafia Inc. completed private placement financing by issuing 24,171,000 units ("Unit") at a price of $1.25 per share for gross proceeds of $30,213,750. Each unit consisted of one common share and one-half purchase warrant. Each whole warrant entitles the holder to purchase an additional common share of the Company at $1.75 per share for 18 months. In connection with the financing, the Company incurred cash commission and aggregate professional fees of $1,934,840 and issued broker's warrants of 1,336,920 with exercise price of $1.25 per share and 668,460 with exercise price of $1.75 per share. All broker's warrants are exercisable for 18 months. The fair value of 1,336,920 broker's warrants was $872,855 and was estimated using the Black-Scholes option pricing model applying a market price of $1.25, an exercise price of $1.25, a risk-free rate of 1%, an expected volatility of 115% and an expected dividend yield of 0%. The fair value of 668,460 broker's warrants was $368,357 and was estimated using the Black-Scholes option pricing model applying a market price of $1.252, an exercise price of $1.75, a risk-free rate of 1%, an expected volatility of 115% and an expected dividend yield of 0%. The fair value of the warrants has been recorded as share issue costs.

On March 26, 2018, as a result of the business amalgamation described in Note 6 the Company was deemed to have acquired all of the issued and outstanding common shares of Canabo Medical Inc. in exchange for 38,103,461 common shares of the Company. The estimated fair value of the shares at the time of the transaction is $26,291,388. Pursuant to the terms and conditions of the arrangement, certain common shares were placed in escrow and will be released over a period of time.

The Company issued 3,959,600 common shares from subscriber warrants for gross proceeds of $6,929,300, 1,606,040 common shares from broker's warrants for gross proceeds of $2,022,152.

The Company issued 1,500,000 common shares with a fair value of $930,000 for consulting services.

The Company issued 3,838,711 common shares for gross proceeds of $1,743,213 from exercise of stock options.

The Company issued 6,000,000 common shares with fair values of $12,060,000 pursuant to terms of the investment arrangements with SPE Finance LLC ("Serruya") in Flying High Brands described in Note 4.

(Expressed in Canadian dollars)

The Company issued 5,000,000 common shares to Serruya for gross proceeds of $10,000,000.

c) Warrants

In addition to the issuance of subscribers and broker's warrants as described in Note (b) above, the Company issued 500,000 warrants to CannTrust Inc. ("CannTrust") pursuant to a genetic supply agreement with CannTrust. Warrants are exercisable at $0.55 per share until June 11, 2020. The fair value of the 500,000 warrants was $286,657 and was estimated using the Black-Scholes option pricing model.

As at March 31, 2019 the Company had following warrants outstanding:

	Warrants Outstanding	**Weighted Average Exercise Price**	**Weighted Average Remaining Contactual Life (years)**
		$	
Broker Warrants Issued	1,336,920	1.25	0.50
Broker Warrants Issued	668,460	1.75	0.50
Subscriber Warrants Issued	12,085,500	1.75	0.50
Warrants Issued CannTrust	500,000	0.55	1.25
Warrants Issued Emblem	39,264,852	2.02	1.39
Deemed to be issued on business Amalgamation	203,350	0.50	-
Warrants Exercised and cancelled	(6,120,040)	1.59	
Outstanding and exercisable, March 31, 2019	47,939,042	1.96	0.60

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

	Expiry date	Number of Warrants	Weighted Average Exercise Price
			$
Warrants issued by Aleafia	Sep. 27, 2019 - June 11, 2020	8,674,190	1.69
Warants issued by Legacy Emblem	Dec. 6, 2019 - Dec. 6, 2021	39,264,852	2.02
Outstanding and exercisable, March 31, 2019		**47,939,042**	

Stock Options

d) Stock Options

The Company has adopted a stock option plan (the "Plan"), providing the Board of Directors with the discretion to issue an equivalent number of options of up to 10% of the issued and outstanding share capital. Stock options are granted with an exercise price of not less than the closing share price of the day preceding the date of grant.

On June 5, 2017, the Company granted 5,000,000 stock options to its officers and directors of the Company. The options are exercisable at $0.25 per share with vesting terms of 25% every year and expire on June 5, 2021. The fair value of the 5,000,000 stock options was estimated using the Black-Scholes option pricing model with the assumptions of share price of $0.25 per share; risk free interest rate of 1%; expected life of 4 years and with expected volatility of 115%; dividend and forfeiture rates of nil. The Company recorded $942,800 for the year. During the year ended December 31, 2018, the Company modified the 5,000,000 options. The options vested immediately on the date of modification with extended expiry date of June 5, 2022, all other terms remain the same. As a result of the modification, the Company recorded an incremental fair value of $6,794,514 on the consolidated statements of comprehensive loss.

On March 26, 2018, the Company as a result of the Business Amalgamation described in Note 6 assumed the obligation for all of the issued and outstanding stock options of Aleafia Inc.

On April 10, 2018, the Company granted 1,200,000 stock options to consultants. The options are exercisable at $1.25 per share until April 10, 2023 with vesting terms of 25% every 3 months.

On April 23, 2018, the Company granted 2,350,000 stock options to its officers, directors and consultants, of which 1,000,000 options are exercisable at $0.63 per share until April 23, 2023 with vesting terms of 25% every 6 months and 1,350,000 options are exercisable at $0.60 per share with vesting terms of 25% every 3 months.

On June 28, 2018, the Company granted 1,250,000 stock options to the Chief Executive Officer ("CEO") of the Company, of which 750,000 of the options are exercisable at $0.82 per share with vesting terms of 25% every six months, 250,000 of the options are exercisable at $1.25 per share with vesting terms of 25% every six months and the remaining 250,000 options are exercisable at $0.82 per share with vesting terms based on performance objectives. All 1,250,000 options expire on June 27, 2023.

In August 2018, the Company granted total 2,100,000 stock options to its officers and employees, the options are exercisable at $0.65 per share for 5 years with vesting terms of 25% every 6 months.

In September 2018, the Company granted 1,825,000 stock options to its officers and employees, of which 200,000 options are exercisable at $0.85 per share, 1,250,000 options are exercisable at $1.03 per share, 175,000 options are exercisable at $1.50 per share and 200,000 options are exercisable at $2.02. All options are exercisable for 5 years with vesting terms of 25% every 6 months.

In October 2018, the Company granted 2,325,000 stock options to its officers, of which 2,000,000 are exercisable at $2.61 per share, 250,000 options are exercisable at $2.65 per share and the remaining 75,000 options are exercisable at $2.69 per share. All options are exercisable for 5 years with vesting terms of 25% every 6 months.

The Company recognizes the fair values of the options granted over the vesting periods and recorded $3,989,441 during the year ended December 31, 2018. The fair values of the stock options granted above were estimated using the Black-Scholes option pricing model with the following assumptions:

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

(Expressed in Canadian dollars)

	Number of Options	Weighted Average Exercise Price
		$
Options Outstanding December 31, 2018	12,651,289	1.01
Options deemed to be issued on business amalgamation	4,626,892	1.71
Options Issued	1,960,000	2.04
Options Cancelled	(925,786)	0.73
Options Exercised	(497,789)	0.47
Options outstanding - March 31, 2019	17,814,606	1.34
Vested, March 31, 2019	17,789,606	1.34
Unvested, March 31, 2019	25,000	2.19

Outstanding and Exercisable

Expiry date date	Exercise Price	Remaining life (years)	Number of stock options vested	Number of stock options Unvested
	$			
September 16, 2020	0.60	1.5	83,770	-
December 16, 2020	0.60	1.8	309,949	-
June 15, 2021	0.25	2.2	2,525,000	-
July 31, 2021	0.60	2.3	443,981	-
November 25, 2021	0.90	2.7	203,500	-
February 6, 2022	0.73	2.8	100,000	-
March 10, 2022	3.08	3.0	661,782	-
April 10, 2022	3.10	3.0	11,169	-
October 4, 2022	0.45	3.5	300,000	-
October 30, 2022	2.02	3.6	418,850	-
December 1, 2022	1.95	3.7	125,655	-
April 23, 2023	0.60	4.1	1,350,000	-
April 23, 2023	1.25	4.1	150,000	-
May 1, 2023	1.80	4.1	808,379	-
May 13, 2023	1.25	4.1	10,000	
June 4, 2023	1.79	4.2	41,885	-
June 28, 2023	0.82	4.3	1,000,000	-
June 28, 2023	1.25	4.3	250,000	-
August 1, 2023	0.65	4.3	900,000	-
August 13, 2023	0.65	4.3	1,200,000	-
August 24, 2023	1.62	4.4	104,712	-
August 31, 2023	0.85	4.4	200,000	-
September 8, 2023	1.03	4.4	500,000	-
September 10, 2023	1.50	4.4	175,000	-
September 21, 2023	2.02	4.5	200,000	-
September 25, 2023	1.91	4.5	293,195	-
October 1, 2023	2.61	4.5	2,000,000	-
October 5, 2023	2.65	4.5	250,000	-
October 9, 2023	2.69	4.5	75,000	-
06-Nov-23	1.64	4.6	1,172,779	-
31-Dec-23	1.43	4.8	120,000	-
10-Jan-24	1.64	4.8	295,000	-
10-Feb-24	2.28	4.8	100,000	-
21-Feb-24	2.16	4.9	1,410,000	-
March 17 ,2024	2.19	5.0	-	25,000
			17,789,606	25,000

Share Commitments

Patient operating agreement

On March 28, 2017, Canabo Medical Inc. signed a Patient Operating Agreement ("Agreement") with Peak Pulmonary Consulting Inc. ("Peak Medical Group"). The Peak Medical Group will provide medical marijuana treatments and therapies within the Pinnacle Medical Centers through its wholly-

owned subsidiary CieloMed. Pinnacle Medical Centers currently provide medical services to over 55,000 patients in Alberta.

Under the terms of the Agreement, Peak Medical Group will provide physicians and clinic space to assess up to 20,000 new patients under the Company's medical marijuana assessment, prescribing, educational procedures and protocols.

All resulting patients under this Agreement will also be enrolled in the Company's medical data collection program.

Operational services will be provided by Peak Medical Group under the terms of a share exchange agreement ("SEA") with the Company. Under the terms of the SEA, Canabo will acquire all the issued and outstanding shares of CieloMed on the earlier of: CieloMed assessing a minimum of 20,000 patients under the Company's medical marijuana protocols; or five years from the date of the SEA. At closing, based on an 8-day volume weighted average trading price for the year immediately preceding the execution of the Letter of Intent, the Company will issue up to approximately 1,869,000 common shares (up to 5.1% of the issued and outstanding shares of the Company), representing up to a maximum deemed value of $1,600,000 in the Company's shares. Any shares issued under the SEA will be subject to a 12-month voluntary pooling agreement. The agreement is subject to both parties maintaining certain performance and quality assurance provisions, the execution of the SEA and is subject to TSX-V approval.

Share Exchange Agreement

On May 3, 2017 signed a letter of intent ("LOI") with Aviva Medical Ltd. ("Aviva Medical", formerly, Medica One Ltd.) to enter into a share exchange agreement ("SEA"). The SEA will replace a previous agreement that covered the operations of CMClinics in Hamilton, Stoney Creek and Burlington. Aviva Medical will operate five existing medical marijuana CMClinics in Ontario.

Subsequently the Share Exchange Agreement with Aviva Medical Ltd was cancelled in accordance with the terms of the Agreement as of end of October.

9. RELATED PARTY BALANCES AND TRANSACTIONS

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

Key management includes directors and key officers of the Company, including the President, CEO and Chief Financial Officer.
During the year quarter ended March 31, 2019 and year ended December 31,2018, the Company had the following transactions with the officers and directors of the Company.

(Expressed in Canadian dollars)

	2019	2018
	$	$
Wages and benefits	1,044,684	445,918
Business advisory fees	-	-
Consulting fees	169,750	-
Share-based payments	-	-

The following amounts are due to related parties:

	March 31, 2019	December 31, 2018
	$	$
Accounts payable and accrued liabilities	761,000	26,718

As at March 31, 2019, the amount of $761,000 was due to directors and officers.

The amounts are non-interest bearing, unsecured and are due upon demand.

10. MANAGEMENT OF CAPITAL

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the sourcing and exploration of its resource property. The Company does not have any externally imposed capital requirements to which it is subject.

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

11. INVENTORY

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

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

As of March 31, 2019, the Company had $4,811,986 in finished goods inventory.

(Expressed in Canadian dollars)

12. BIOLOGICAL ASSETS

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

The Company's estimates are subject to change and differences from the anticipated yield will be reflected in the gain or loss on biological assets in future years.

As of March 31, 2019, the biological assets strain 1 and 2 were on average 93.33% complete, and strain 3 on average 40% complete. As of March 31, 2019, it was estimated that the Company's biological assets would yield approximately 78,000 grams of medical cannabis when harvested.

The following table depicts the changes in the fair value measurement (unrealized gain/loss resulting from fair value changes on growth of biological assets) and the fair value of biological assets as of March 31, 2019 as required by IFRS 13 fair value measurement

The carrying value of biological assets are as follows:

Biological assets	
Biological asset are comprised of:	**$**
Balance as at December 31,2018	233,333
Changes in fair value less costs to sell due to biological transformation	204,549
Acquisition of Emblem	392,045
Transferred to Inventory upon harvest(reflected as other current assets)	(78,346)
Balance as at March 31,2019	751,581

Inventory	
Other current asset comprised of harvested , dried plants.	**$**
Balance as at December 31,2018	356,359
Acquisition of Emblem	4,776,012
Transferred from biological assets	78,346
Inventory sold during the year	(398,731)
Balance as at March 31,2019	4,811,986

The Company values medical cannabis plants at fair value. Management determined cost approximates fair value from the date of receiving the vegetative plants from CannTrust until halfway through the flowering cycle of plants. Measurement of the biological transformation of the plant at fair value begins in the fourth week prior to harvest and is recognized evenly until the point of harvest. The number of weeks in the growing cycle is between twelve and sixteen weeks from propagation to harvest. The Company has determined the fair value to sell harvested cannabis and dried cannabis to be $4.00 and $ 4.50 per gram respectively.

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

1. The harvest yield is 125 grams per plant.
2. The selling price is between $4.00 and $4.50 per gram.

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

- Selling price per gram- a decrease in the average selling price per gram by 5% would result in the biological asset value decreasing by $15,750 and inventory decreasing by $1,799.
- Harvest yield per plant- a decrease in the harvest yield per plant of 5% would result in the biological asset value decreasing by $15,750.

The unrealized gain on quarter 1 biological assets was $204,549. The revenue earned in quarter 1 was $ 530,792.

13. INVESTMENT

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

The Company paid $4,000,000 for the issuance of 99 common shares of OPC and as a result owns 9.9% of the outstanding common shares of OPC.

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

14. CONVERTIBLE DEBT

In February 2018, the Company issued additional convertible debentures (the “Feb 2018 Convertible Debt”). The Feb 2018 Convertible Debt was sold at a price of $1,000 for gross proceeds of $25,000,000, under the following terms:
A maturity date of February 2, 2021;
An interest rate of 8% per annum, payable semi-annually;
Convertible at $2.39 per share, subject to adjustment in certain events, at the option of the holder; and
The Company may require the conversion of the full principal amount of the outstanding convertible debentures at the conversion price on not less than 30 days’ notice, should the daily volume weighted average trading price of the outstanding common shares of the Company on the TSXV be greater than $3.45 for any 10 consecutive days.

15. SEGMENTED INFORMATION

Operating segments are components of the Company that engage in business activities from which they earn revenues and incur expenses, the operations of which can be clearly distinguished and the operating results of which are regularly reviewed by the senior management for the purpose of performance assessment.

(Expressed in Canadian dollars)

Operating Segments	**Health and Wellness**	**Farms and Products**	**Corporate and Others**	**Total**
	$	$	$	$
REVENUE				
Medical Consultation Fees	626,368		-	626,368
Research Revenue	367,798	-	-	367,798
Sale of Cannabis	-	530,792	-	530,792
TOTAL REVENUE	**994,166**	**530,792**	**-**	**1,524,958**
Cost of Sales	(495,975)	(1,291,371)	-	(1,787,346)
GROSS PROFIT BEFORE FAIR VALUE ADJUSTMENT	**498,191**	**(760,579)**	**-**	**(262,388)**
Unrealized gain on changes in fair value of biological assets	-	204,549	-	204,549
GROSS PROFIT AFTER FAIR VALUE ADJUSTMENT	**498,191**	**(556,030)**	**-**	**(57,839)**
Expenses				
Wages, general and administration	4,146,248	6,638,076	781,501	11,565,825
Amortization	16,434	827,934	23,344	867,712
Share based payments	-	-	7,960,761	7,960,761
LOSS BEFORE OTHER INCOME AND TAXES	**(3,664,491)**	**(8,022,041)**	**(8,765,606)**	**(20,452,137)**
Other (Income) expense	(440,490)	4,725	257	(435,508)
NET LOSS	**(4,104,981)**	**(8,017,316)**	**(8,107,885)**	**(20,230,180)**

	Health and Wellness	**Farms and Products**	**Corporate and Others**	**Total**
Current assets	35,004,308	14,822,950	11,182,997	61,010,255
Non-current assets	211,707,289	130,668,089	17,388,754	359,764,132
TOTAL ASSETS	**246,711,597**	**145,491,039**	**28,571,751**	**420,774,387**
Current liabilities	5,395,205	4,319,414	28,479	9,743,098
Non-current liabilities	980,265	1,376,334	21,116,694	23,473,293

Quarter ending March 31, 2018

Operating Segments	**Health and Wellness**	**Farms and Products**	**Corporate and Others**	**Total**
	$	$	$	$
REVENUE				
Medical Consultation Fees	52,055	-	-	52,055
Research Revenue	72,319	-	-	72,319
Sale of Cannabis	-	-	-	-
TOTAL REVENUE	**124,374**	**-**	**-**	**124,374**
Cost of Sales	(40,695)	-	-	(40,695)
GROSS PROFIT BEFORE FAIR VALUE ADJUSTMENT	**83,679**	**-**	**-**	**83,679**
Unrealized gain on changes in fair value of biological assets	-	-	-	-
GROSS PROFIT AFTER FAIR VALUE ADJUSTMENT	**83,679**	**-**	**-**	**83,679**
Expenses				
Wages, general and administration	1,371,977	144,385	-	1,516,362
Amortization	10,626	120,083	-	130,709
Share based payments	121,675	-	-	121,675
LOSS BEFORE OTHER INCOME AND TAXES	**1,504,278**	**264,468**	**-**	**1,768,746**
Other (Income) expense			-	-
NET LOSS	**1,504,278**	**264,468**	**-**	**1,768,747**

	Health and Wellness	**Farms and Products**	**Corporate and Others**	**Total**
Current assets	31,581,093	10	27,698	31,608,801
Non-current assets	13,074,369	12,325,737	14,970,835	40,370,941
TOTAL ASSETS	**44,655,462**	**12,325,747**	**14,998,533**	**71,979,742**
Current liabilities	2,216,484	20,971	-	2,237,455
Non-current liabilities	3,393,421	2,464,000	-	5,857,421

(Expressed in Canadian dollars)

16. FINANCIAL INSTRUMENTS AND FINANCIAL RISKS

International Financial Reporting Standards 7, *Financial Instruments: Disclosures*, establishes a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs)

Fair Value of Financial Instruments

The Company's financial assets include cash and cash equivalents and are classified as Level 1. Investments are classified as Level 2. The Company's financial liabilities include accounts payable and the vendor take-back loan. All the Company's financial liabilities are due within 1 year.

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, investments and accounts payable.

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

	March 31, 2019	December 31, 2018
	$	$
FVTPL (i)	47,628,175	30,406,978
Assets - Amortized cost (ii)	5,986,420	2,028,332
Liabilities - Amortized cost (iii)	30,859,792	3,494,783

(i) Cash and cash equivalents, investments and marketable securities
(ii) Accounts receivable.
(iii) Accounts payable, deferred revenue, loans and convertibles

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

Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 - Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, and

Level 3 - Inputs that are not based on observable market data.

The following table sets for the Company's financial assets measured at fair value by level within the fair value hierarchy:

	Fair Value Measurements Using			
	Quoted Prices in Active Markets For Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
	$	$	$	$
Cash	36,835,966	-	-	36,835,966
Marketable securities	6,691,491	-	-	6,691,491
Investments	-	4,100,718	-	4,100,718

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Risk Management.

Effective risk management is fundamental to the success of the organization and is recognized as key in the Company's overall approach to strategy management. Aleafia has a strong, disciplined risk culture where managing risk is responsibility shared by all of the company's employees.

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

Aleafia has identified the below potential risk categories.

(i) *Currency risk*

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

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

(ii) *Interest rate risk*

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

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

(iii) *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. To minimize the credit risk the Company places these instruments with a high-quality financial institution.

(iv) *Liquidity risk*

(Expressed in Canadian dollars)

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. As at December 31, 2018 the Company's financial liabilities consist of accounts payable and deferred revenue, which has a contractual maturity date within one year. Management closely monitors the liquidity position and expects to have adequate sources of funding to finance the Company's projects and operations. Based on the Company's working capital position and the current ratio analysis at December 31, 2018, management regards the liquidity risk is very minimal.

17. COMMITMENTS AND CONTINGENCIES

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

Commitments	**Less than 2 years**	**2 to 5 years**	**Total**
	$	**$**	**$**
Cannabis supply agreements	100,299,000	228,498,000	328,797,000
Plant construction contracts	5,941,000	-	5,941,000
Long term arrangements on office space	1,151,656	277,529	1,429,185
Service contract	88,000	-	88,000
TOTAL	**107,479,656**	**228,775,529**	**336,255,185**

The Company also has car lease commitments. The minimum lease payments are as follows.

Year	**Amount($)**
2019	10,160
2020	13,546
2021	5,210

Certain of Emblem's former executives have been named in a claim that also identifies Emblem in relation to certain services provided by an individual. It is the Company's determination that the claim of $10 million is primarily against the founders of Emblem and not Emblem itself. The claim for damages against Emblem, specifically, is not pleaded with sufficient particularity to allow an accurate assessment of the quantum of damages being sought against Emblem. The likely measure of damages sought will either be the market value of the services the plaintiff provided to Emblem or the degree to which Emblem was enriched by those services. The Company is of the view that the amount of the claim bears no relationship to the value of the services provided. The outcome of this legal matter is subject to negotiations by the officers of the Company and the Company believes it is unlikely to be impacted and accordingly, no amount has been provided for.

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