ALEAFIA HEALTH INC.
Management's Discussion and Analysis
For the three months ending March 31, 2019

*This Management's Discussion and Analysis (MD&A) of Aleafia Health Inc. (formerly Canabo Medical Inc.), (the **"Company" or "Aleafia Health"**) is dated **May 13, 2019** and provides an analysis of the financial operating results for the three months ended March 31, 2019 for the Company. This MD&A should be read in conjunction with the Company's unaudited Interim Condensed Consolidated Financial Statements for the three months period ended March 31, 2019 and notes thereto (the "Interim Financial Statements"), and the audited consolidated financial statements and accompanying notes for the year ending December 31, 2018 and the notes thereto, which have been prepared in accordance with International Financial 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. Additional information, and the Company's annual information form, are available on our website at www.aleafiahealth.com or through the Sedar website at www.sedar.com. The common shares of the Company are traded on the Toronto Stock Exchange ("**TSX**") under the symbol "ALEF".*

Cautionary Statement Regarding Forward-Looking Information

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

Forward-looking statements relating to the Company include, among other things, statements relating to:

- *the Company's business objectives and milestones and the anticipated timing of execution;*
- *the performance of the Company's business and operations;*
- *the intention to expand the business, operations and potential activities of the Company;*
- *the methods used by the Company to deliver cannabis;*
- *the projected increase in production capacity;*
- *the competitive conditions of the cannabis industry;*
- *the competitive and business strategies of the Company;*
- *the projected listing on the NASDAQ (as defined herein);*
- *the Company's anticipated operating cash requirements and future financing needs;*
- *the anticipated future gross revenues and profit margins of the Company's operations;*
- *the Company's expectations regarding its revenue, expenses and operations;*
- *impacts of potential litigation;*

- *the Company's intention to build brands and develop cannabis products targeted to specific segments of the market;*
- *the ongoing and proposed expansion of the Company's facilities, products or services, including associated costs and any applicable Health Canada licencing;*
- *the current political, legal and regulatory landscape surrounding medical and recreational cannabis and expected developments in any jurisdiction in which the Company operates or may operate;*
- *the receipt of any regulatory and stock exchange approvals required at any given time;*
- *the applicable laws, regulations and any amendments thereof;*
- *medical benefits, viability, safety, efficacy and dosing of cannabis;*
- *the expected growth in the number of patients;*
- *the expected number of grams of medical cannabis used by each patient;*
- *expectations with respect to the advancement and adoption of new product lines and ingredients;*
- *the acceptance by customers and the marketplace of new products and solutions;*
- *the ability to attract new customers and develop and maintain existing customers;*
- *expectations with respect to future production costs and capacity;*
- *expectations with respect to the renewal and/or extension of the Company's permits and licences;*
- *the ability to protect, maintain and enforce the Company's intellectual property rights;*
- *the ability to successfully leverage current and future strategic partnerships and alliances;*
- *the ability to attract and retain personnel;*
- *anticipated labour and materials costs;*
- *the Company's competitive condition and expectations regarding competition, including pricing and demand expectations and the regulatory environment in which the Company operates; and*
- *anticipated trends and challenges in the Company's business and the markets and jurisdictions in which the Company operates or may operate.*

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

Further, any forward-looking statement speaks only as of the date on which such statement is made, and, except as required by applicable law, the Company undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. Certain of the forward-looking statements contained herein concerning medical marijuana, the general expectations of the Company related thereto, and the Company's business and operations are based on estimates prepared by the Company using data from publicly available *governmental sources, as well as from market research and industry analysis and on assumptions based on data and knowledge of this industry which the Company believes to be reasonable. However, although generally indicative of relative market positions, market shares and performance characteristics, such data is inherently imprecise. While the Company is not aware of any misstatement regarding any industry or government data presented herein, the current medical marijuana industry involves risks and uncertainties and are subject to change based on various factors. It is not possible for management to predict all such factors and to assess in advance the impact of each such factor on the Company's business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statement.* ***Readers are cautioned that actual future results may differ materially from management's current expectations and the forward-looking statements contained in this MD&A are expressly qualified in their entirety by this cautionary statement. For a description of material factors that could cause the Company's actual results to differ materially from the forward-looking statements in this MD&A, please see "Risk Factors" in the Company's annual information form available on the Company's profile at www.SEDAR.com.***

Company Overview

Aleafia Health Inc. ("Aleafia Health" or the "Company")was originally incorporated under the BCBCA on February 2, 2007 under the name Wyn Metals Inc. On July 15, 2009, Wyn Metals Inc. changed its name to Award Ventures Ltd. On May 28, 2010, Award Ventures Ltd. changed its name to Auracle Resources Ltd. On July 21, 2014, Auracle Resources Ltd. was dissolved, and on May 1, 2015, was restored under the BCBCA. On June 16, 2015, Auracle Resources changed its name to Four River Ventures Ltd.

On November 9, 2016, pursuant to a plan of arrangement under an arrangement agreement dated October 6, 2018, Four River acquired all of the issued and outstanding common shares and common share purchase warrants of Canabo Medical Corporation ("Canabo PrivateCo") based on a one for one share exchange ratio (the "**Canabo RTO**"). A 2:1 common share consolidation was completed concurrently with the Canabo RTO. Following the completion of the Canabo RTO, Four River changed its name to Canabo Medical Inc. ("**Canabo**") and transferred its listing from the NEX board to the TSXV under a new trading symbol "CMM".

On March 26, 2018, pursuant to the terms of a business combination agreement (the "**Business Combination Agreement**"), Canabo completed a business combination (the "**Business Combination**") by way of a three-cornered amalgamation among Canabo, Canabo PrivateCo's wholly-owned operating subsidiary 2412550 Ontario Inc. ("241") and Aleafia PrivateCo, whereby 241 and Aleafia PrivateCo amalgamated to form "Aleafia Inc." and all shareholders of Aleafia PrivateCo became shareholders of Canabo. Concurrent with the completion of the Business Combination, Canabo changed its name to "Aleafia Health Inc." and continued the business of Canabo and Aleafia PrivateCo. Aleafia Health's Common Shares began trading on the TSXV under the symbol "ALEF" on March 28, 2018.

On June 27, 2018, the Company was continued into Ontario under the *Business Corporations Act* (Ontario).

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

Following the completion of the Arrangement, on March 19, 2019, the Common Shares of the Company ceased trading on the TSXV and commenced trading on the TSX under its existing symbol "ALEF". Emblem Shares were delisted from the TSXV on March 18, 2019.

The Company's head and registered office is located at 8810 Jane Street, 2nd floor, Concord, Ontario and its corporate website is AleafiaHealth.com.

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 primarily have been funded by the issuance of equity. The Company's ability to continue its operations and to realize its assets at their carrying value is dependent upon obtaining additional financing and generating revenues sufficient to cover its operating costs.

Aleafia Farms Acquisition

On October 4, 2017, Aleafia Inc. ("**Aleafia PrivateCo**") entered into an assignment agreement with 7984022 Canada Inc. ("Red Leaf") and 2557590 Ontario Inc. ("255") (the "Vendors") pursuant to which Aleafia PrivateCo was assigned an interest in the Original Purchase Agreement to purchase all of the outstanding shares of 755064 Ontario Inc. as well as certain assets owned by the Vendors, including a facility licensed to produce cannabis at the Port Perry Facility. In return for assigning its interest in the Original Purchase Agreement, Red Leaf received 12,500,000 common shares in Aleafia PrivateCo, and 255 received 11,500,000 common shares in Aleafia PrivateCo. The common shares of Aleafia PrivateCo were issued to Red Leaf and 255 at a deemed price of $0.25 per share. Red Leaf also received $1,000,000 in cash consideration.

On October 13, 2017, 755064 Ontario Inc. (now Aleafia Farms Inc.), a wholly owned subsidiary of Aleafia PrivateCo was awarded a cultivation licence by Health Canada under the ACMPR (now *Cannabis Act*) for the Port Perry Facility.

On December 13, 2017, Aleafia PrivateCo amended the terms of the Original Purchase Agreement and purchased all of the issued and outstanding shares of 755064 Ontario Inc. (now Aleafia Farms Inc.), and immediately thereafter, 755064 Ontario Inc. purchased the Port Perry Facility from the Vendors. The total consideration paid by Aleafia PrivateCo was $6,950,000. In connection with 755064 Ontario Inc.'s purchase of the Port Perry Facility, Aleafia PrivateCo provided the Vendors with a vendor-take-back mortgage in the principal amount of $4,000,000 at a rate of 3% interest per annum. The vendor takeback mortgage matured and was repaid on April 1, 2018. Additionally, the Vendors assigned their interest in certain Ontario Power Authority contracts for the procurement of electricity from solar generators located at the Port Perry Facility.

Expanding Production Capacity

The Company is one of Canada's leading vertically integrated licensed producers of medical cannabis focused on "patient-centric" medical cannabis care.

Through its indirect wholly owned subsidiaries, the Company owns three production facilities located in Blackstock, ON ("**Port Perry Facility**"), Grimsby, ON ("**Niagara Facility**"), and Paris, ON ("**Paris Facility**"). Collectively, these productions facilities total approximately 220,000 sqft.

The Company is actively implementing an expansion strategy at its Port Perry Facility and Paris Facility. The Company has received local regulatory approval for a 30-acre secure outdoor cannabis grow expansion on the same property in which the licensed cultivation facility resides. The Company expects its secure outdoor grow production at its Port Perry Facility to produce 60,000 kg of dried cannabis flower on an annual basis upon completion of the fully funded expansion. The Company expects to begin its first outdoor grow harvest in 2019.

The Paris Facility includes 2,400 square feet of mothering and vegetation rooms and 3,200 aggregate square feet of flowering space together with attendant drying, packaging and fulfillment areas and vault area. A production building at the Paris Facility has been renovated to create four additional grow rooms comprising, in the aggregate, 5,800 square feet. Health Canada licensed three of these grow rooms, totaling approximately 4,200 square feet, in October 2017. Emblem also completed a retro-fit of the three licensed grow rooms in March 2018 in order to improve environmental control therein. The fourth grow room, at approximately 1,600 square feet, is expected to be equipped and licensed for cultivation during 2019.

The Paris Facility is also undergoing an expansion that the Company expects would add an additional 50,000 kg of annual extraction capacity. The expansion is intended to be completed in Q3 2019, pending appropriate market demand for extracts. The Paris Facility has secured a partial occupancy permit from the local municipal government in respect of the expansion. Aleafia Health will submit a licence amendment application to Health Canada and will take steps to acquire the final municipal occupancy permit prior to the operationalization of the site.

On July 30, 2018 the Company closed its acquisition of a 160,000 sq. ft. modern, fully automated greenhouse facility in Niagara including its advanced growing equipment for $9.6 million. The cultivation license from Health Canada is pending.

Overview of Niagara Greenhouse

- The Niagara greenhouse facility is 160,000 sq. ft.and the current retrofitting is on schedule. Both the 160,000-sq. ft. Niagara facility retrofitting, along with the 60,000 kg secure outdoor grow expansion are fully funded.

- Given the modern state of the Niagara greenhouse, the Company is expected to accelerate its production capacity and in turn respond more quickly to its patients' needs.

- Upon completion of the secure outdoor grow expansion and the Niagara greenhouse retrofitting, the Company expects to produce 98,000 kg of dried cannabis flower on an annual basis.

- The advanced automation and strategic layout at the Niagara greenhouse facility require minimal retrofitting and it is expected that the Company will achieve a greater production capacity at a lower cost.

- A cultivation license application has been submitted to Health Canada for the Niagara facility.

Education Services

Education of both the medical community and the general public is a key priority. The Company has developed and implemented a proprietary training program for all its staff to help those with chronic medical conditions that have failed traditional first, second and often third-line approaches. This training program extends to partner clinics with which the Company also works. This mixture of in-house clinics and corporate partners will allow the Company to deliver its services to the maximum number of patients with optimal administrative efficiency.

The Company has brought together experienced leaders from the medical, law-enforcement, government, and business communities with the intention of forming a strong, effective team in which patients, physicians and supporters can feel confident.

Strategic Investments and Acquisitions

The Company continues to invest in strategic opportunities in order to advance its corporate strategic goals. These investments allow the Company to enter into supplementary markets within the cannabis industry in which the Company is currently not active.

- **CannTrust Inc.**

  The Company has entered into strategic genetic supply agreements with CannTrust Inc. through which the Company has received various strains of high-quality starter genetics for its licensed production facility in Port Perry, Ontario. Pursuant to the terms of these agreements, CannTrust has certain rights of first refusal to purchase product from Aleafia.

- **<u>Joint Ventures with Serruya Private Equity</u>**

  On November 23, 2018, the Company, through its wholly-owned subsidiary Aleafia Brands Inc., acquired a 51% interest in Flying High Brands Inc. ("**Flying High**"), a domestic and international (excluding the United States) cannabis brands joint-venture and, through its wholly-owned subsidiary Aleafia Retail Inc., a 9.9% interest in One Plant (Retail) Corp. ("**One Plant**"), a Canada-wide cannabis retail joint venture. Concurrently, SPE Finance LLC acquired 5,000,000 Common Shares in Aleafia Health at $2.00 per share and Aleafia Health completed a $1 million equity investment in Flying High and a $4 million equity investment in One Plant.

- **<u>Acquisition of Emblem</u>**

  On March 14, 2019, the Company completed the acquisition of Emblem pursuant to the Arrangement, under which, among other things, the Company acquired all the outstanding common shares of Emblem. Pursuant to the Arrangement, the Company's wholly-owned subsidiary 11208578 Canada Inc. amalgamated with Emblem, and each outstanding common share of Emblem was exchanged into 0.8377 of one common share of the Company (the "**Exchange Rati**o"). Emblem's outstanding options were replaced with options of the Company, and Emblem's outstanding warrants and debentures are now exercisable or convertible, as the case maybe, into common shares of the Company at the Exchange Ratio. The fair value of the consideration given was estimated to be approximately $301,373,958 based on share price of the Company on March 14, 2019. In connection with the Arrangement, the Company issued 2,331,255 common shares as a success fee to Mackie Research Capital Corporation and paid other acquisition costs as well.

  The combined Company will operate the country's largest national clinic network and will benefit from improved operational scale with planned annual capacity of approximately 138,000 kg (including committed supply agreements), Canadian and expanded global distribution, and a robust branding and product development platform. The Company intends to capitalize on growth opportunities and leverage international expansion across four verticals: Cannabis Production, Health and Wellness, Cannabis Education and the Consumer Experience.

  Emblem also operates a cannabis cultivation and extraction facility in Paris, Ontario (the "**Product Innovation Centre**"). The Product Innovation Centre is fully operational and in addition to cannabis cultivation, produces high-margin derivative products including oils, capsules and sprays. The facility is licensed by Health Canada to cultivate and process cannabis, along with selling cannabis products to medical patients.

  The Product Innovation Centre produces commercial cannabis products including the medical Emblem brand and the adult-use Symbol brand. Emblem is continuing with a major expansion of the Paris facility which will be built to GMP standards and significantly increase Aleafia Health's extraction capacity.

Corporate position on steering business in the United States and other international jurisdictions where cannabis is federally illegal

As cannabis is federally illegal in the U.S., the Company does not engage in any U.S. cannabis related activities as defined in Canadian Securities Administrators Staff Notice 51-352 (Revised). However, the Company will consider opportunities to launch business operations in U.S. and internationally, where legally permitted.

Summary of Quarterly Results

As a result of the Aleafia/Canabo Business Combination completed on March 26, 2018, Aleafia Health Inc. is deemed to be the continuing entity for financial reporting purposes. Therefore, the comparative and historical operations of Aleafia PrivateCo. are presented as the historical information for the continuing entity.

The following information should be read in conjunction with the Company's unaudited consolidated financial statements for the three-month period ended March 31, 2019 and notes thereto and the audited condensed consolidated financial statements of Aleafia Health Inc. for the year ended December 31, 2018, including the notes thereto.

The following table sets out certain selected financial information of Aleafia Health Inc. consolidated financial statements since 2017:

Quarter ending	Net loss	Basic and diluted loss per share	Total assets	Total liabilities
30-Jun-17	228,831	0.01	2,090,392	988
30-Sep-17	369,397	0.01	3,330,808	13,726
31-Dec-17	873,903	0.02	17,945,090	7,028,386
31-Mar-18	1,685,067	0.02	71,979,742	8,094,336
30-Jun-18	1,494,661	0.01	70,612,075	7,295,422
30-Sep-18	3,395,299	0.03	76,210,345	7,688,306
31-Dec-18	11,957,547	0.16	97,864,431	5,931,222
31-Mar-19	20,230,180	0.12	420,774,387	33,216,391

Historical quarterly results of operations and loss per share data do not necessarily reflect any recurring expenditure patterns or predictable trends. The Company has not declared any dividends.

The Company recorded a net loss of $20,230,180 for the quarter ended March 31, 2019 which includes a net loss of $1,784,391 from Emblem's operations post acquisition. Quarter ended March 31, 2018 had a loss of $1,685,068.

Key highlights from the operating statements for the quarter ended March 31, 2019 include;

Revenue

Revenues for the three months ended March 31, 2019 is $1,524,958 compared to $357,698 of prior quarter. Revenues in the first quarter of 2019 included the sale of $530,792 in bulk cannabis of which $169,774 was related to Emblem. The revenue for the last quarter was low due to adjustments of $721,977 related to prior amalgamation and prior quarters.

The primary drivers of the revenue for the three months ended March 31, 2019 are consultation and sale of cannabis.

Revenue volume by revenue streams for the past five quarters is as follows:

Revenue	Q-1-2018	Q-2-2018	Q-3-2018	Q-4-2018	Q-1-2019
Health and Wellness	127,374	1,161,385	1,254,319	157,698	994,166
Farms and Products	-	-	429,146	200,000	530,792
Total	**127,374**	**1,161,385**	**1,683,465**	**357,698**	**1,524,958**

Details of sale of cannabis for past three quarters are as follows;

	# of Batch	Flowers	Trim	Bud & Trim	Dry Bud	Total
For Quarter 3, 2018	1	417,267	11,879	-	-	429,146
For Quarter 4, 2018	1	-	-	200,000	-	200,000
For Quarter 1, 2019	1	-	11,620	169,774	349,398	530,792

Operating Expenses

The Company continues to pursue an aggressive expansion strategy with the hiring of key individuals to round out the executive team and the retrofit of the Niagara facility is well under way involving significant investment in new equipment and the hiring of staff to ready the greenhouse for planting. The Company is also actively negotiating strategic partnerships to further capitalize on the emerging cannabis market.

The overall increase in operating expenses during the three months ended March 31, 2019, as compared to the prior comparative periods, was primarily due to rapid organic and inorganic growth of the Company as well as the assumption of operating expenses from newly acquired subsidiaries. Increases were significant in consulting, legal and business advisory services which are related to the amalgamation of Emblem. The wages and salaries increase was due to the growth of the company with additional departments and senior management.

While the comparative periods have been presented herein, the comparison and discussion of the respective periods is less relevant and meaningful given the changes in scale and size of the company's operations over the prior 12 months.

As a result of these activities;

- The Company has experienced a significant increase in wages and benefits which totaled $2,988,213 for the quarter ended March 31, 2019 and $1,146,464 for the prior quarter. In comparison corresponding amount for the quarter ended March 31, 2018 were $1,044,307. The increase in wages was primarily due to the recruitment of senior management personnel.

- Business advisory services totaled $907,328 for the quarter ended March 31, 2019 and $51,300 for the prior quarter. with no corresponding services in the quarter ended March 31, 2018. Business advisory services was mainly due to the amalgamation of Emblem

- Consulting and legal fees was $5,971,200 for the quarter ended March 31, 2019 and $1,666,767 for the prior quarter as compared to $122,700 for corresponding period in 2018. The costs are mostly in connection with the amalgamation of Emblem.

- Share based compensation for the quarter ended March 31, 2019 was $7,960,761 compared to $8,711,554 for the prior quarter relating to stock options issued to employees' directors and consultants. The amount for the corresponding quarter in 2018 was $121,675.

- Non-cash amortization and deprecation expense for the quarter ended March 31, 2019 was $867,712 and for the prior quarter was $273,833. This reflects the ongoing expansion of the grow operations and the amortization of intangible assets generated from the purchase of Aleafia Farms as well as the amalgamation with Canabo Medical Inc and Emblem Corp. The corresponding amount for 2018 were $130,709.

- General and administration expenses which comprises of rent and facility, supply and maintenance, office supplies and services and travel and entertainment were $1,415,235 for the quarter ended March 31, 2019 and $801,148 for the prior quarter. Increases are a result of commencing grow operations at the facility in Port Perry and the addition of medical clinics. The corresponding amount for 2018 was $232,500.

- Sales, marketing and promotional expenses relate to events designed to recruit doctors for the Company's clinic network and educate patients on the use of medical cannabis. The expense for the quarter ended March 31, 2019 was $283,849 and for the prior quarter was $361,454. The expenses for the corresponding period in 2018 was $116,855.

The inclusion of Emblem's results accounted for 10% of the increase wages, general and administrative expenses; and 9% of the increase in amortization and depreciation expenses.

Share Structure

As of March 31, 2019, the Company has the following securities issued and outstanding:

	Outstanding
Common Stock	272,076,966
Warrants	47,939,042
Stock Options	17,814,606
Fully Diluted	**337,830,614**

Condensed Cash Flow Statement

The condensed consolidated cash flow position of the company can be summarised as follows:

	Quarter ended March 31, 2019	Quarter ended March 31, 2018
	$	$
Cash balance, beginning of period	26,406,978	1,057,231
Cash used in operating activities	(10,299,372)	(1,837,478)
Cash used in the investing activities	(4,188,561)	(121,173)
Cash acquired on business combinations	23,715,218	6,916,819
Cash used in repayment of mortgage - Aleafia Farms	-	(4,000,000)
Cash provided by financing activities	1,201,703	28,278,909
Cash balance, end of period	36,835,966	30,294,308

The early stages of the Company's growth have been focused on raising capital to fund start-up costs purchasing a quality grow facility with adequate expansion potential and securing the necessary Health Canada licensing.

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.

The Company's cash flow from operations consists of revenue generated from consultation, research services and sale of cannabis. The revenue is mainly offset by increases in salaries and wages, consulting fees and professional fees incurred due to the expansion of the Company.

Cash flow from investing activities include cash received from Emblem , less spends related to property, plant and equipment and other investments. Cash flow from financing is driven by proceeds from the issuance of shares, exercise of warrants and options.

The Company's net increase in cash of $10,428,988 is mainly driven by the cash acquired on amalgamation of $23,715,218, and financing activities of $1,201703, offset by cash used in operating activities of $10,299,372 and cash used in investing activities of $4,188,561.

Liquidity and Capital Resources

During the three months ended March 31, 2019, the cash and cash equivalents increased by $10,191,331 with the acquisition of Emblem. The Company had a working capital of $51,267,157.

The table below summarizes total capitalization as at March 31, 2019, and December 31, 2018:

	March 31, 2019	December 31, 2018
Convertible Note	20,652,293	-
Long term Debt	464,401	-
Total Long term Debt	21,116,694	-
Total Equity	387,557,996	91,933,209
Total Capitalization	**408,674,690**	**91,933,209**

Total capitalization increased by $316,741,481 compared to December 31, 2018, due to an increase in debts of $21,116,694 and equity of $295,624,787 from the issuance of shares in relation to the Emblem acquisition.

Off-Balance Sheet Arrangements

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

Transactions Between Related Parties

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.

	2019	2018
	$	$
Wages and benefits	1,044,684	972,128
Business advisory fees	-	658,778
Consulting fees	169,750	133,127
Share-based payments	-	2,598,977

The transactions noted above occurred in the normal course of operations. As at March 31, 2019, the Company owed $761,000 to directors and officers.

Critical Accounting Estimates

The preparation of the 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 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 consolidated financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. 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.

Significant assumptions about the future that management has made as at the date of financial reporting, which could result in a material adjustment to the carrying amounts of assets and liabilities. In the event that actual results differ from assumptions made, these could be related to, but not limited to:

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.

Research revenue - the inputs used in estimating research revenue and deferred revenue.

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.

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.

New Accounting Standards Issued but Not Yet Effective

Certain new standards, interpretations and amendments to existing standards have been issued by the International Accounting Standards Board (**"IASB"**) that are mandatory for future accounting periods. Some updates that are not applicable or are not consequential to the Company may have been excluded from the list below.

The Company has not early adopted any amendment, standard or interpretation that has been issued by the IASB but is not yet effective. The following accounting standards were issued and are not yet effective as of March 31, 2019:

IFRS 3 – Definition of a Business

In October 2018, the IASB issued amendments to IFRS 3 – Definition of a Business which:

- Clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs;

- Narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs;
- Add guidance and illustrative examples to help entities assess whether a substantive process has been acquired;
- Remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs; and
- Add an option concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020, and to asset acquisitions that occurred on or after the beginning of that period. Earlier application is permitted.

New Accounting Standards Adopted During the Quarter

In June 2016, the IASB issued IFRS 16 – Leases. IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. However, lessees are no longer classifying leases as either operating leases or finance leases as it is required by IAS 17. The standard is effective for annual periods beginning on or after January 1, 2019. The adoption of this standard did not have a material impact on the Company's financial statements.

Financial Instruments

As of March 31, 2019, the Company had financial instruments consisting of the following items:

Cash and cash equivalents;
Marketable securities;Accounts receivable;
Investments;
Accounts payable;
Deferred revenue;
Long term debt; and
Convertible debt.

Refer to note 15 in the condensed consolidated financial statements for the assessment of related risks.

Risks and Uncertainties

The Company is subject to various business, financial and operational risks that could materially adversely affect the Company's future business, operations and financial condition. These risks could cause such future business, operations and financial condition to differ materially from the forward-looking statements and information contained in this MD&A and as described in the Cautionary Statement Regarding Forward-Looking Information found in this MD&A.

For a full discussion of the Company's Risks and Uncertainties, please refer to the Annual Information Form for the year ended December 31, 2018, which is available under the profile of the Company on SEDAR at www.sedar.com.

Internal Controls Over Financial Reporting

Disclosure controls and procedures are designed to provide reasonable assurance that material information required to be publicly disclosed by a public company is gathered and reported to the board of directors, the Chief Executive Officer("CEO") and the Chief Financial Officer ("CFO"), on a timely basis so that appropriate decisions can be made regarding public disclosure.

Under the supervision of the Company's Audit Committee and CFO, the Company is implementing additional internal controls over financial reporting (as defined in National Instrument 52-109) to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

It is important to understand that internal controls, no matter how well designed and operated, can only provide reasonable assurance to the management and the Board of Directors with regard to the achievement of the Company's objectives. Even a well-designed internal control system, has intrinsic limitations, including the possibility of human error and the evasion or superseding of the controls or procedures.

As at March 31, 2019, management concluded that the disclosure controls and procedures and internal controls over financial reporting were adequate and provide such reasonable assurances.

Notable Subsequent Events

On April 23, 2019- Aleafia Health Inc. has been added to the Advisor Shares Pure Cannabis ETF (NYSE: YOLO) which is listed on the New York Stock Exchange (NYSE).

Aleafia Health welcomes the increased exposure to U.S. investors resulting from the addition to the trailblazing Pure Cannabis ETF. The addition will provide the new avenue of Aleafia Health and relentlessly focused on the execution of cannabis health and wellness platform.

Outstanding Data

As at May 13, 2019,

(i) the shares outstanding are 274,673,626

(ii) the warrants outstanding and exercisable are 47,939,042

(iii) the options outstanding are 18,054,606