Annual Information Form

For the year ended December 31, 2018

Dated April 29, 2019

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ABOUT THIS ANNUAL INFORMATION FORM

In this annual information form ("**AIF**" or "**Annual Information Form**"), unless the context otherwise requires, the "**Company**" or "**Aleafia Health**" refers to Aleafia Health Inc. together with its wholly-owned subsidiaries. References to "**Canabo**" refer to Canabo Medical Inc., the name of the Company prior to the completion of the Business Combination (as defined herein). References to "**Aleafia PrivateCo**" refer to Aleafia Inc., prior to its combination with Canabo on March 26, 2018. All financial information in this Annual Information Form is prepared in Canadian dollars and using International Financial Reporting Standards as issued by the International Accounting Standards Board.

This AIF applies to the business activities and operations of the Company for the year ended December 31, 2018, with certain information updated to reflect, among other things, the Arrangement (as defined herein) that was completed on March 14, 2019. While Canabo's financial year end was October 31, the Company changed its financial year end to December 31 at the time of the Business Combination (as defined herein). Unless otherwise indicated, the information in this AIF is given as of December 31, 2018.

Except as otherwise indicated in this AIF, references to "Canadian dollars" or "$" are to the currency of Canada.

This AIF contains company names, product names, trade names, trademarks and service marks of the Company and other organizations, all of which are the property of their respective owners.

The information contained in this AIF, including news releases and other disclosure items of the Company is available on the System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com under the Company's profile. The Common Shares of Aleafia Health are traded on the Toronto Stock Exchange under the symbol "ALEF".

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This AIF 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. The forward-looking statements are contained principally in the sections titled "*Description of the Business*" and "*Risk Factors*".

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, as the case may be.

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 cannabis, 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 cannabis industry involves risks and uncertainties that 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 AIF 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 AIF, please see "*Risk Factors*".**

MARKET AND INDUSTRY DATA

This AIF contains market and industry data and forecasts that were obtained from third-party sources, industry publications and publicly available information. Third-party sources generally state that the information contained therein has been obtained from sources believed to be reliable, but there can be no assurance as to the accuracy or completeness of included information. Although management believes it to be reliable, the Company has not independently verified any of the data from third-party sources referred to in this AIF, or analyzed or verified the underlying studies or surveys relied upon or referred to by such sources, or ascertained the underlying economic assumptions relied upon by such sources.

DEFINITIONS

The following is a glossary of certain general terms used in this Annual Information Form, including the summary hereof. Terms and abbreviations used in the financial statements included in, or appended to, this Annual Information Form are defined separately, and the terms and abbreviations defined below are not used therein, except where otherwise indicated. Words importing the singular, where the context requires, include the plural and vice versa and words importing any gender include all genders.

"**241**" means 2412550 Ontario Inc., previously a wholly-owned subsidiary of Canabo PrivateCo that amalgamated with Aleafia PrivateCo in connection with the Business Combination;

"**255**" means 2557590 Ontario Inc.;

"**ACMPR**" means the *Access to Cannabis for Medical Purposes Regulations*;

"**Amended Aleafia Licence**" means the Health Canada producer's licence issued to Aleafia Farms Inc. on August 31, 2018 and expiring October 13, 2020, see *"Description of the Business – Licences"*;

“**Audit Committee**” is the audit committee of the board of directors of Aleafia Health, currently composed of Lea Ray (Chair), Mark Sandler and Daniel Milliard;

“**BCBCA**” means the *British Columbia Business Corporations Act*;

“**Business Combination**” means the three-cornered amalgamation among Canabo, 241 and Aleafia PrivateCo resulting in the amalgamation of 241 and Aleafia PrivateCo on March 26, 2018, see also *“General Development of the Business – Events Prior to the Business Combination – January 1, 2018-March 27, 2018”*;

“**Business Combination Agreement**” means the business combination agreement dated January 31, 2018 among Canabo, 2412550 Ontario Inc. and Aleafia PrivateCo pursuant to which the parties completed the Business Combination;

“**Canabo PrivateCo**” means Canabo Medical Corporation, the private CBCA corporation acquired by Four River under the Canabo RTO, as defined below in *“Corporate Structure - Name, Address and Incorporation”*;

“**Cannabis Act**” means the *Cannabis Act* (Canada);

“**CannaPacific**” means CannaPacific Pty Ltd., a licensed medical cannabis company in Newcastle, Australia;

“**CBCA**” means the *Canada Business Corporations Act*;

“**CDSA**” means the *Controlled Drugs and Substances Act;*

“**Common Shares**” means common shares of Aleafia Health;

“**ECC**” means Emblem Cannabis Corporation, a wholly-owned subsidiary of the Company;

“**Emblem**” means Emblem Corp., a wholly-owned subsidiary of the Company;

“**Emblem Licence**” means the Health Canada licence issued to ECC on August 26, 2015 as amended, and expiring July 26, 2019, *see “Description of the Business – Licences”*;

“**Emblem Shares**” means the common shares of Emblem acquired by Aleafia Health pursuant to the Arrangement;

“**Flying High**” means Flying High Brands Inc.;

“**Four River**” means Four River Ventures Ltd.;

“**GrowWise Health**” means GrowWise Health Limited, a wholly-owned subsidiary of the Company;

“**Licences**” means the Original Aleafia Licence, the Amended Aleafia Licence and the Emblem License;

“**Licensed Producer**” means a licensed producer, as defined in the *Cannabis Act*;

“**MMAR**” means the *Marihuana Medical Access Regulations*;

“**MMPR**” means the *Marihuana for Medical Purposes Regulations*;

"**NASDAQ**" means the Nasdaq Stock Market LLC;

"**Niagara Facility**" means the 160,000 square foot greenhouse facility located in Grimsby, Ontario, see *"Description of the Business – Facilities"*;

"**NLC**" means the Newfoundland and Labrador Liquor Corp.;

"**OCRC**" means the Ontario Cannabis Retail Corporation;

"**One Plant**" means One Plant (Retail) Corp.;

"**Original Aleafia Licence**" means the Health Canada producer's licence issued to Aero Farms Canada on October 13, 2017 and expiring October 13, 2020, *see "Description of the Business – Licences"*;

"**Original Purchase Agreement**" means the share and asset purchase agreement dated September 25, 2015 between Frank Macdonald and Jacqueline Visconti, as sellers, and Red Leaf and 255; as purchasers, see *"General Development of the Business – Events Prior to the Business Combination – Year Ended December 31, 2017"*;

"**Paris Facility**" means the 25,000 square foot licensed production facility located in Paris, Ontario, see *"Description of the Business – Facilities"*;

"**Port Perry Facility**" means the indoor production facility licensed under the ACMPR (now *Cannabis Act*) located at 2540 Regional Road 19 in Blackstock, Ontario (Port Perry), see *"Description of the Business – Facilities"*;

"**Red Leaf**" means 7984022 Canada Inc.;

"**Red Leaf Assignment Agreement**" means the assignment agreement entered into among Aleafia PrivateCo, Red Leaf and 255 on October 4, 2017 pursuant to which Aleafia PrivateCo was assigned an interest in the Original Purchase Agreement (as defined herein) for all of the issued and outstanding shares of 755064 Ontario Inc. under which Aleafia PrivateCo acquired the Port Perry Facility, see *"General Development of the Business – Events Prior to the Business Combination – Year Ended December 31, 2017"*;

"**Regulations**" means, collectively, the Canadian federal *Cannabis Regulations* and the *Industrial Hemp Regulations*;

"**SEC**" means the United States Securities and Exchange Commission;

"**Subscription Receipts**" means the subscription receipts issued in connection with the Subscription Receipt Offering at a price of $1.25 per Subscription Receipt with each Subscription Receipt entitling the holder thereof to receive, without payment of additional consideration or taking of further action, one unit consisting of one common share and one-half of a common share purchase warrant in the capital of Aleafia PrivateCo, each of which was exchanged on an equivalent basis without additional consideration therefor, into Common Shares and warrants of the Company upon completion of the Business Combination;

"**Subscription Receipt Offering**" means the brokered private placement of Subscription Receipts completed by Aleafia PrivateCo in connection with the Business Combination for aggregate gross proceeds of $30,213,750, see *"General Development of the Business – Events Prior to the Business Combination – Period of January 1, 2018–March 27, 2018"*;

"**TSX**" means the Toronto Stock Exchange;

"**TSXV**" means the TSX Venture Exchange Inc.;

"**TSXV Listing Date**" means the date on which the Common Shares recommenced trading on the TSXV following the completion of the Business Combination; and

"**Vendors**" means Frank MacDonald and Jacqueline Visconti, as sellers, under the Original Purchase Agreement, see *"General Development of the Business – Events Prior to the Business Combination – Year Ended December 31, 2017"*.

CORPORATE STRUCTURE

Name, Address and Incorporation

Aleafia Health Inc. 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 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. and transferred its listing from the NEX board to the TSXV under a new trading symbol "CMM", see *"General Development of the Business – Events Prior to the Completion of the Business Combination – Year Ended December 31, 2016."*

On March 26, 2018, pursuant to the terms of the Business Combination Agreement, Canabo completed the Business Combination by way of a three-cornered amalgamation among Canabo, Canabo PrivateCo's wholly-owned operating subsidiary 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, see *"General Development of the Business – Events Prior to the Completion of the Business Combination – Year Ended December 31, 2016."*

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

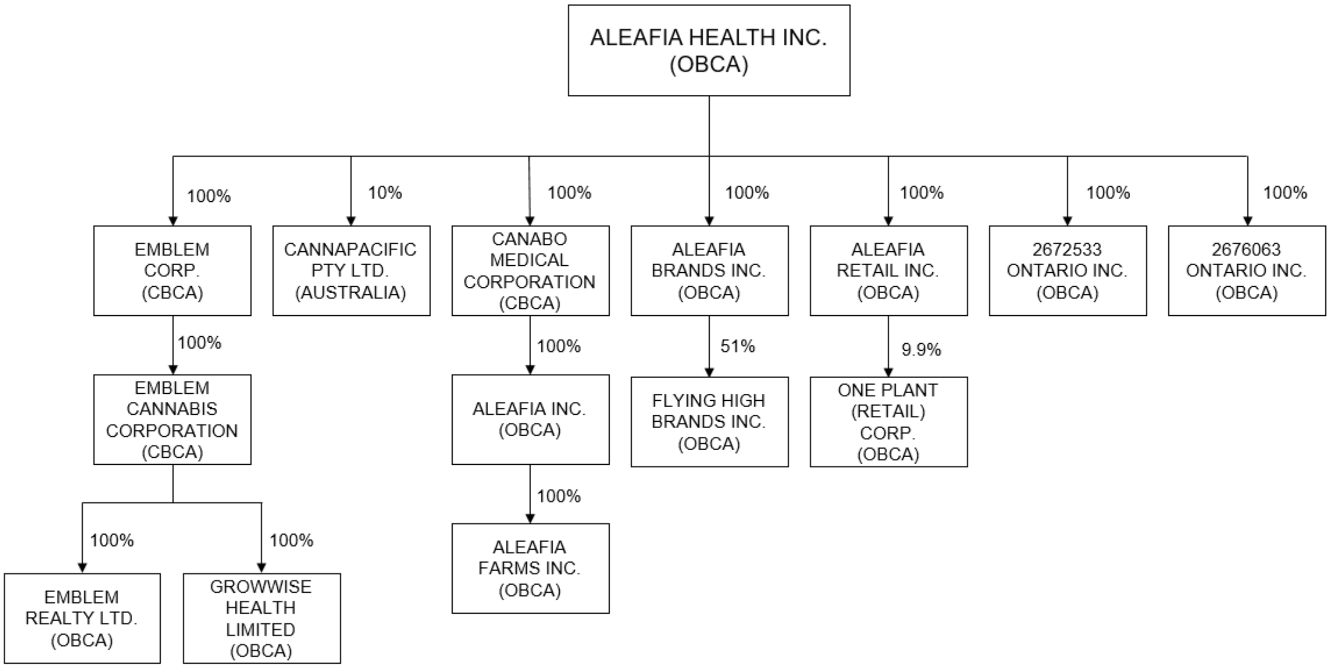
On March 14, 2019, the Company completed a plan of arrangement transaction with Emblem Corp. under the provisions of the *Canada Business Corporations Act,* pursuant to which, among other things, Aleafia Health acquired all of the issued and outstanding common shares of Emblem Corp. following Emblem's 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 *"General Development of the Business ─ Recent Developments"*.

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.

Intercorporate Relationships

The following chart illustrates the Company's corporate structure as at the date of this AIF, together with the governing law of each principal subsidiary and the percentage of voting securities beneficially owned by the Company.



GENERAL DEVELOPMENT OF THE BUSINESS

Aleafia Health is a vertically integrated and federally licensed Canadian cannabis company offering 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. Aleafia Health operates medical cannabis clinics and education centres in Canada staffed with approximately 70 physicians, nurse practitioners and educators, and has provided medical cannabis therapy to more than 60,000 patients seen to date.

Operating as a subsidiary of the Company, Emblem is focused on product innovation, branding, and patient and consumer product distribution. Through ECC, the Company holds an additional Health Canada licence to cultivate, process, and sell cannabis and cannabis derivatives in Canada under the *Cannabis Act*. Emblem's indoor cannabis cultivation facility and product innovation centre is located in Paris, Ontario.

Events Prior to the Business Combination

Year Ended December 31, 2016

On March 22, 2016, Canabo completed a non-brokered private placement of 3,075,000 units for gross proceeds of $153,750. Each unit was issued at a price of $0.05 and consisted of one Common Share and one Common Share purchase warrant exercisable for a period of two years at a price of $0.075 per share.

On September 23, 2016, Canabo completed a brokered private placement of 6,915,000 Common Shares at a price of $0.50 per share for gross proceeds of $3,457,500. Canabo issued broker's warrants to acquire 545,000 Common Shares at an exercise price of $0.50 for a period expiring two years from issuance.

On November 9, 2016, pursuant to a plan of arrangement under an arrangement agreement dated October 6, 2018, the Company (then Four River) completed the acquisition of all of the issued and outstanding common shares and common share purchase warrants of Canabo PrivateCo based on a 1:1 share exchange ratio. Following the completion of the Canabo RTO, Four River changed its name to "Canabo Medical Inc." and transferred its listing from the NEX board to the TSXV under a new trading symbol "CMM". The Company continued to carry on the business of Canabo PrivateCo being the operation of medical clinics for evaluating the suitability of, and prescribing and monitoring of, cannabinoid treatments for patients suffering from chronic pain and disabling illnesses.

Concurrent with the completion of the Canabo RTO the Company consolidated its Common Shares on a 2:1 basis. In connection with the Canabo RTO, the Company issued 27,546,900 post-consolidation Common Shares and 545,000 Common Share purchase warrants to the security holders of Canabo PrivateCo.

On December 22, 2016, Canabo completed a non-brokered private placement with Aphria Inc. ("**Aphria**") issuing 6,000,000 Common Shares at a price of $1.40 per share for gross proceeds of $8,400,000.

Year Ended December 31, 2017

Canabo

In May of 2017, Canabo entered into a collaborative agreement with Terra Life Sciences Inc. of Calgary, Alberta to jointly work on the R&D and clinical application of cannabinoid-based treatments targeted to specific conditions.

In August of 2017, Canabo received approval for a grant from Tilray Canada Ltd. in the amount of $310,000 to study "The effect on opioid use and quality of life in chronic pain patients prescribed medical cannabis".

Aleafia PrivateCo

On January 17, 2017, Aleafia PrivateCo was incorporated pursuant to the *Business Corporations Act* (Ontario).

On October 4, 2017, Aleafia PrivateCo entered into an assignment agreement with Red Leaf (DBA Red Leaf Management) and 255 pursuant to which Aleafia PrivateCo was assigned an interest in the Original Purchase Agreement with the Vendors for all of the outstanding shares of 755064 Ontario Inc. (operating as "**Aero Farms Canada**") 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, for itself and in trust for other third parties, 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.

On December 22, 2017, Aleafia PrivateCo entered into a letter of intent in respect of the Business Combination.

Period of January 1, 2018—March 27, 2018

On January 31, 2018, Canabo, 241 and Aleafia PrivateCo entered into the Business Combination Agreement.

On March 1, 2018, in connection with the Business Combination, Aleafia PrivateCo completed the Subscription Receipt Offering of Subscription Receipts for gross proceeds of approximately $30,213,750 at a price of $1.25 per Subscription Receipt. Each Subscription Receipt entitled the holder thereof to receive, without payment of additional consideration or taking of further action, one unit consisting of one common share and one-half of a common share purchase warrant in the capital of Aleafia PrivateCo, each to be exchanged on an equivalent basis without additional consideration therefor, into Common Shares and warrants of Canabo (the "**Resulting Issuer**") upon completion of the Business Combination. Each whole warrant is exercisable into one common share of Aleafia PrivateCo, and subsequently the Resulting Issuer, following the completion of the Business Combination, at a price of $1.75 for 18 months following the TSXV Listing Date. In connection with the Subscription Receipt Offering, the agents were issued compensation options to purchase the number of units of the Resulting Issuer equal to 6% of the number of Subscription Receipts sold at a price of $1.25 for a period of 18 months from the TSXV Listing Date (reduced to 3% of the number of Subscription Receipts sold to 'President's List' purchasers).

On March 26, 2018, having satisfied all conditions precedent to the completion of the Business Combination, the Subscription Receipts automatically converted into Common Shares and warrants of the Resulting Issuer and the gross proceeds from the Private Placement were released to the Resulting Issuer (being Canabo).

Immediately following the Business Combination, the Resulting Issuer had 135,944,461 Common Shares, 12,288,850 warrants and 6,689,000 stock options and 1,336,920 compensation options issued and outstanding.

Concurrent with the completion of the Business Combination, the Resulting Issuer (continuing to operate under the name Canabo Medical Inc.), changed its name to "Aleafia Health Inc." and continued the business of Canabo and Aleafia PrivateCo. As a result of the Business Combination, Aleafia Health adopted a financial year end of December 31. Following the completion of the Business Combination, the Common Shares of the Resulting Issuer (now Aleafia Health) continued to be listed on the TSXV and recommenced trading under the symbol "ALEF" on March 28, 2018.

Events Following the Business Combination

Period of March 28, 2018–December 31, 2018

On May 31, 2018, the Company announced that it had completed its first cannabis harvest at its Port Perry Facility, see *"Description of the Business – Facilities."*

On June 19, 2018, the Company issued 500,000 common share purchase warrants to CannTrust Holdings Inc. exercisable at a price of $0.55 per common share in connection with the execution of a strategic genetic supply agreement.

On July 30, 2018, the Company acquired the Niagara Facility, a 160,000 square foot greenhouse facility in the Niagara-region in Ontario for $9,600,000, see *"Description of the Business – Facilities."*

On August 27, 2018, the Company submitted an application for cultivation, processing and medical sales, in respect of its Niagara Facility, to Health Canada under the ACMPR (now *Cannabis Act*).

On August 31, 2018, Aleafia Farms Inc. received its Licence from Health Canada allowing it to sell cannabis from its Port Perry Facility to other Licensed Producers, see "*Description of the Business - Licences*".

On September 10, 2018, the Company completed its first sale of cannabis to CannTrust Holdings Inc.

On September 21, 2018, the Company announced that it has been added to the Horizons Marijuana Life Sciences Exchange Traded Fund.

On September 27, 2018, the Company signed a supply memorandum of understanding with CannTrust Holdings Inc. whereby CannTrust has the right to purchase up to 15,000 kg of cannabis from Aleafia Health in 2019. See "*Material Contracts*".

On October 2, 2018, the Company submitted a final application to list its Common Shares on the NASDAQ, subject to NASDAQ and SEC approval.

On October 9, 2018, the Company announced that it will move forward with a secure, low-cost outdoor cannabis grow operation at the Port Perry Facility. The Company obtained local regulatory approval for a 60,000 kg expansion at the Port Perry Facility, however the expansion remains subject to Health Canada approval. See *"Description of the Business – Facilities" and* "*Risk Factors – Port Perry, Niagara and Paris Facilities*".

On October 13, 2018, Health Canada issued the Amended Aleafia Licence, see *"Description of the Business – Licences"*.

On October 17, 2018 the Company announced an expansion to its medical clinic business, adding three (3) new clinics, six (6) new physicians and an expansion of telemedicine services for patients.

On November 2, 2018, the Company entered into a non-binding term sheet with CannaPacific in respect of the proposed acquisition by Aleafia Health of a 10% equity interest in CannaPacific for a purchase price of $150,000 payable in cash. CannaPacific is a licensed Australian medical cannabis company based in Newcastle, Australia.

On November 23, 2018, the Company, through its wholly-owned subsidiary Aleafia Brands Inc., acquired a 51% interest in 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, 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. See "*Material Contracts*".

On December 19, 2018, the Company entered into a definitive agreement with Emblem under which Aleafia Health would acquire, by way of a plan of arrangement under the *Canada Business Corporations Act*, all of Emblem's issued and outstanding common shares of Emblem.

Recent Developments

On January 17, 2019, the Company entered into an investment agreement with CannaPacific and Dennis Partners Pty Limited, as trustee for Dennis Partners Trust, regarding the supply of product to CannaPacific for importation and distribution in Australia, under which Aleafia Health acquired 10% of the ordinary shares of CannaPacific (the "**Investment Agreement**"), see also *"Description of the Business – General – International Expansion".*

On March 14, 2019, the Company completed the acquisition of Emblem pursuant to a plan of arrangement under the provisions of the *Canada Business Corporations Act* (the "**Arrangement**"). Pursuant to the Arrangement, Aleafia Health acquired all of the issued and outstanding Emblem Shares in exchange for Common Shares of Aleafia Health following Emblem's amalgamation with Aleafia Health's wholly-owned subsidiary, 11208578 Canada Inc., to form a new wholly-owned subsidiary of Aleafia Health continuing as "Emblem Corp." Pursuant to the Arrangement, Emblem shareholders are entitled to receive 0.8377 of an Aleafia Health common share for each Emblem Share held prior to the Arrangement (the "**Consideration**") with any fractional Aleafia Health common share being rounded down to the nearest whole Aleafia Health common share. The Emblem Shares were delisted from the TSXV at the close of business on March 18, 2019. In connection with the Arrangement, the Company also acquired several material contracts previously entered into by Emblem, see *"Material Contracts"*.

Prior to the completion of the Arrangement, Emblem had outstanding three classes of warrants to purchase Emblem Shares listed on the TSXV:

- EMC.WT – exercisable at a price of $1.75 with an expiry date of December 6, 2019 (the "**2019 Warrants**") issued pursuant to a warrant indenture between Emblem and Computershare Trust Company of Canada ("**Computershare**") dated December 6, 2016;
- EMC.WT.A – exercisable at a price of $2.15 with an expiry date of November 16, 2020 (the "**November 2020 Warrants**") issued pursuant to a warrant indenture between Emblem and Computershare dated November 16, 2017; and
- EMC.WT.B – exercisable at a price of $2.70 with an expiry date of February 2, 2020 (the "**February 2020 Warrants**") issued pursuant to a warrant indenture between Emblem and Computershare dated February 2, 2018;

(the 2019 Warrants, November 2020 Warrants and February 2020 Warrants are referred to collectively as the "**Listed Emblem Warrants**").

The Listed Emblem 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. The Listed Emblem Warrants remain listed for trading on the TSXV as Emblem Corp. warrants, under their existing trading symbols, and will remain listed on the TSXV until the earliest to occur of their exercise, expiry or earlier delisting.

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

Following 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".

DESCRIPTION OF THE BUSINESS

General

Aleafia Health is a leading, vertically integrated cannabis health and wellness company with four primary business units: Cannabis Cultivation & Products, Health & Wellness Clinics, Cannabis Education, and Consumer Experience with ecommerce, retail distribution and provincial supply agreements.

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

Aleafia Health securely maintains a medical cannabis dataset with over 10 million data points to inform proprietary illness specific product development, treatment best practices, research and educational content and case studies. The Company is committed to creating sustainable shareholder value and has been named the 2019 top performing company of the year by the TSX Venture Exchange.

See "*General Development of the Business - Period Following the Business Combination (March 28, 2018-December 2018)" and* "*General Development of the Business - Recent Developments".*

The Company's sales and growth strategy is centered on five primary areas:

1. Cultivation and Supply:

Aleafia Health owns three cannabis cultivation facilities; the Port Perry Facility, an indoor grow, which is licensed and fully operational, the Niagara Facility, a greenhouse, which is now in a plant-ready state, pending receipt of a Health Canada cultivation licence, and the Paris Facility, a 25,000 square foot facility which is federally licensed for cultivation, processing and sales of both medical and non-medical cannabis (also referred to as adult-use and recreational cannabis) and is fully operational.

In addition to internal production capacity, Aleafia Health has several strategic supply agreements for additional production capacity through ECC's wholesale supply agreements with Natura Naturals Holdings ("**Natura**") and Aphria. The three-year supply agreement with Natura, which commenced in Q4 2018, allows Emblem to access up to 3,000 kg of cannabis flower per year at preferred wholesale pricing. The supply agreement with Aphria contemplates Emblem purchasing up to an aggregate of 175,000 kg equivalents of cannabis products over the five-year term, commencing in May 2019, with an opportunity for five-year renewals.

Following the completion of expansions to, and receipt of regulatory approvals in respect of, each of the Port Perry Facility and Paris Facility, when combined with the Niagara Facility, and including supply agreements, Aleafia Health anticipates aggregate annual production capacity to reach approximately

138,000 kg annually and 50,000 kg of extraction capacity, pending appropriate market demand for extracts. See "*General Development of the Business ─ Period Following the Business Combination (March 28, 2018-December 2018)",* "*General Development of the Business ─ Recent Developments" and "Description of the Business – Facilities".*

2. ***Clinics and Education Centres:***

Clinics & Education Centres

The Company's line of medicinal clinics are operated under the name Canabo Medical Corporation ("**Canabo Clinics**"), and provide medical services and (non-cannabinoid) products to patients suffering from conditions including chronic pain and disabling illnesses. The Canabo Clinics are operated by qualified physicians and nurse practitioners; provide independent medical cannabis evaluations for patients; and gather data for the purposes of medical cannabis research. Aleafia Health has developed specialized training programs for physicians and other health care providers. The Company's physicians and nurse practitioners operate within the federal and applicable provincial frameworks that govern them in Canada and do not refer patients to particular Licensed Producers of cannabis.

All new patients complete a pre-assessment prior to their first visit to a Canabo Clinic where they consult with an internally-trained physician or nurse practitioner. Patients who are authorized to use cannabis products for medical purposes receive an introductory cannabinoid education session with one of Canabo Clinic's educators. These sessions help patients navigate the cannabis regulatory system, providing patient education with respect to treatment with cannabinoids and medical cannabis generally, the different cannabis cultivars and cannabinoid profiles, and how to access medical cannabis from Licensed Producers. The educator acts as a resource for each patient after the initial assessment.

Further, through the acquisition of a subsidiary of Emblem, GrowWise Health, Aleafia Health is now able to serve an increasing number of patients through GrowWise Health education centers with a significant reduction in overhead costs. GrowWise Health has 18 education centres across Ontario and British Columbia, embedded in health care facilities where physicians are actively authorizing cannabis. GrowWise Health educators fill a role similar to a pharmacist in these clinics, providing patients with education on safety and side effects, customized treatment plans and ongoing support, while reducing the administrative burden of cannabis authorization on the physician and their clinic. GrowWise Health is embedded in locations such as the Centres for Pain Management, a large chain of pain clinics in Ontario, as well as specialty clinics and large family health groups.

The services of GrowWise Health complement the current Canabo Clinic model. Once a patient enters the GrowWise Health network, they then have access to ongoing support from their educator, as well as access to a toll-free patient hotline. The GrowWise Health call centre supports patients with administrative tasks such as transferring medical documents between Licensed Producers, identifying alternative products available in the market should their initial product recommendation prove to be ineffective for their condition or should the initial product become unavailable. Additionally, they answer common questions around accessing insurance coverage, compassionate pricing, concerns about domestic and international travel, and potential side effects. This relatively low-cost operation has been shown to notably increase patient success and therefore retention.

The Company is exploring telemedicine to deliver cannabinoid assessment and education while reducing overhead costs of brick and mortar clinics.

FoliEdge Academy

The Company is currently developing a series of proprietary, unique cannabis education and certification courses within its online learning platform FoliEdge Academy. The programs are provided through a learning management system that is delivered on a software-as-a-service (SAAS) basis and are targeted toward physicians, nurses and other healthcare professionals, patients and their family members. The courses will harness Aleafia Health's cannabis expertise, with content developed by experts including Aleafia Health's practicing physicians.

3. Adult-use Cannabis:

The Company currently operates within the adult-use cannabis market in Canada through its subsidiary Emblem and currently under the brand Symbl. Emblem produces a series of products including dried flower, pre-rolls, oil drops, oil capsules and oral sprays which are in market through supply agreements or authorizations with the Provinces of Ontario, British Columbia, Alberta and Saskatchewan, and directly with some retailers including Shoppers Drug Mart, Fire & Flower Inc. ("**Fire & Flower**") and Compass Cannabis Clinics ("**Compass**") for Starbuds Canada.

The Company or its affiliates also have equity stakes in private cannabis retail companies including a 9.9% percent equity stake in One Plant (Retail) Corp. a cannabis retail joint-venture with an affiliate of Serruya Private Equity.

4. Pharmaceutical Development:

Data Collection and Research

Aleafia Health conducts medical cannabis data collection and research on the efficacy of cannabinoid treatment. Custom data collection modules are currently in use at Canabo Clinics to monitor trends and effectiveness of medical cannabis and specific cultivars. Patient confidentiality is maintained utilizing standard clinical research practices. The Company has published research papers in peer-reviewed academic journals. In addition to data collection, the Company also undergoes ethics approval for specific studies and may partner with industry participants to conduct studies with the goal of having them published in peer reviewed journals.

GMP Certification

Aleafia Health is currently in the process of obtaining a European Medical Agency Good Manufacturing Practice ("**GMP**") certification at its Paris Facility which will give the Company the option to operate the facility in order to satisfy certain regulatory requirements for exports of cannabis products to markets in the European Union. While the Paris Facility is being constructed to satisfy GMP specifications, the Company may not operate the facility in order to meet such standards until it is economically attractive to do so as there are additional incremental costs that would be incurred that are unnecessary at this time.

Cannabis Oils

Emblem commenced sales of cannabis oil products to authorized patients in December 2017. Cannabis oil is packaged with an oral syringe to ensure consistency and accuracy in dosage, allowing patients to better titrate and administer each dose consistently, producing the desired effect each time.

Oral Sprays

In September 2018, Emblem announced the launch of its first oral metered-dose spray, "Emblem Atmosphere", which is developed using medium-chain triclycerides (MCT) oil, a pharmaceutical-grade carrier oil derived from coconuts that is flavour-neutral, odourless and shelf-stable. The oral sprays are intended to be administered sublingually, with each spray delivering 0.1 millilitres of oil, or roughly 2 milligrams of active ingredients. Emblem Atmosphere comes in a 15 millilitre cannister, with approximately 150 sprays per bottle. These sprays were developed with Dosecann Inc. under a licencing agreement with Emblem and are currently being sold to the BC Liquor Distribution in the Province of British Columbia under the Symbl brand for the adult-use market.

Oil-filled Capsules

Capsules deliver consistent and accurate dosages which allow physicians and patients to more accurately titrate cannabis intake. The Company expects that oil-filled capsules will to some extent, displace simple oils but that, in the aggregate, capsules will be accretive to the total cannabis oils market. Throughout 2018, Emblem commenced production of oil-filled capsules and commenced sales in Q4 of 2018.

Sustained Release Product

The Company intends to participate in the development of other advanced pharmaceutical dosage formats, including oral sustained release products. In pursuit of this strategy, Emblem entered into a collaboration and licencing agreement with Canntab Therapeutics Limited in connection with the development and commercialization of oral sustained release formulation of cannabinoids. Throughout 2018, Emblem began research and development activities on oral sustained release formulation of cannabinoids.

5. International Expansion:

As governments continue to legalize cannabis usage, the Company intends to consider international expansion opportunities by leveraging its expertise in clinic operations, doctor and patient education, and cannabis cultivation.

Aleafia Health currently has exposure to the German and Australian cannabis markets. On October 23, 2018, ECC entered into a joint venture agreement with Acnos Pharma GmbH ("**Acnos**") for the purpose of exporting Emblem-branded cannabis products to Germany.

On January 17, 2019, the Company entered into the Investment Agreement with CannaPacific and Dennis Partners Pty Limited, as trustee for Dennis Partners Trust. In consideration for the ordinary shares of CannaPacific, Aleafia Health will provide CannaPacific with technical expertise in cannabis cultivation, processing, distribution and medical clinic operations and has contributed $USD150,000 in cash to cover working capital. On April 11, 2019, the Company invested an additional AU$540,000 in ordinary shares of CannaPacific.

Employees

As of the date of this AIF, the Company engages 187 full-time employees. For more information on the Company's executive officers see "*Directors and Officers*."

Intangible Properties

The ownership and protection of Aleafia Health's intellectual property rights is a significant aspect of the Company's future success. The Company relies on trade secrets, technical know-how and proprietary information and it protects its intellectual property by seeking and obtaining registered protection where possible, developing and implementing standard operating procedures to protect trade secrets, technical know-how and proprietary information and entering into agreements with parties that have access to our inventions, trade secrets, technical know-how and proprietary information, such as our partners, collaborators, employees and consultants, to protect confidentiality and ownership. The Company also seeks to preserve the integrity and confidentiality of its inventions, trade secrets, trademarks, technical know-how and proprietary information by maintaining security of its premises and information technology systems.

In addition, the Company has sought trademark protection in many countries, including Canada, Germany and under the European Union Intellectual property Office (EUIPO). The Company's ability to obtain registered trademark protection for cannabis-related goods and services may be limited in certain countries outside of Canada, including the U.S., where registered federal trademark protection is currently unavailable for trademarks covering the sale of cannabis products (a controlled substance); and including the European Union, where laws on the legality of cannabis use are not uniform. Accordingly, the Company's ability to obtain intellectual property rights or enforce intellectual property rights against third party uses of similar trademarks may be limited in certain circumstances. See *"Risk Factors - Intellectual Property".*

Facilities

Port Perry Facility

The Company's Port Perry Facility is located at 2540 Regional Road 19 in Blackstock, Ontario (Port Perry). The Company received its cultivation licence for the Port Perry Facility on October 13, 2017, followed by a cultivation licence amendment, allowing for the bulk sale of dried cannabis flower to other Licensed Producers on August 31, 2018.

The facility's current indoor annual dried cannabis production capacity is 500 kg. Upon completion of the Company's 26-acre secure outdoor grow expansion to the Port Perry Facility, it is anticipated that the Port Perry Facility's annual dried cannabis production capacity will reach up to 60,000 kg once fully optimized.

The Port Perry Facility houses indoor hydroponic cultivation equipment, allowing for the growing of medical grade cannabis. The facility is surrounded by security perimeter fencing and is monitored by security service providers at all times among other security measures which are inspected and approved by Health Canada. It is situated on 74 acres of farmland which the Company also owns. The Company, having received local zoning approval for outdoor cannabis cultivation on this farmland, has commenced a low-cost outdoor grow expansion of its Port Perry Facility, which will result in an additional estimated 60,000 kgs of annual growing capacity when fully operational and licensed by Health Canada.

The Company made its first sale of cannabis from this facility pursuant to a transaction with CannTrust Holdings Inc. on September 10, 2018.

Paris Facility

The Paris Facility is located in Paris, Ontario and 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.

Niagara Facility

The Company's Niagara Facility is located at 378 South Service Road in Grimsby, Ontario (Niagara Region). The Niagara Facility is a greenhouse which was previously used for the cultivation of fresh produce. The Niagara region is an ideal location for cannabis cultivation, due to the Region's temperate micro-climate and the availability of skilled local labour with experience in greenhouse cultivation. The greenhouse has a moving container bench system, allowing for a perpetual, year-round harvest.

The Niagara Facility has completed all required modifications and capital improvements in order to be eligible for license by Health Canada. Pending receipt of a cultivation license from Health Canada, 27% of the grow space at the Niagara Facility is currently grow-ready and the remaining 73% will be grow-ready during Q2 2019 pending completion of a site power upgrade (that for greater certainty is not required for Health Canada licensing purposes).

See *"Risk Factors – Port Perry, Niagara and Paris Facilities"*.

Licences

Original Aleafia Licence

On October 13, 2017, Health Canada issued producer's licence number 10-MM0007/2017 to Aero Farms Canada pursuant to Section 35 of the *ACMPR* (now superceded by the *Cannabis Act*). In connection with the purchase of Aero Farms Canada, on March 6, 2018, Health Canada re-issued the Original Aleafia Licence to Aleafia Farms Inc. The Original Aleafia Licence has an effective term from October 13, 2017 to October 13, 2020 and gives Aleafia Health the right to engage in, among other things, the production of dried cannabis. More specifically, the Original Aleafia Licence permits Aleafia Health to:

a) produce dried cannabis, cannabis plants and cannabis seeds;

b) sell dried cannabis to licensed dealers, for the sole purposes of analytical testing;

c) possess dried cannabis;

d) ship dried cannabis under the same restriction noted in (b);

e) transport dried cannabis;

f) deliver dried cannabis; and

g) destruct dried cannabis, cannabis plants and cannabis seeds.

The Original Aleafia License also restricted the substances inventory to a maximum storage capacity of $6,250,000 and also restricted the sale, provision, shipping, transportation and delivery of cannabis from Aleafia Health to licensed dealers solely for the purpose of conducting analytical testing.

Amended Aleafia Licence

On August 31, 2018, the Original Aleafia Licence was amended. The Amended Aleafia License (number 10-MM0007/2018) was issued by Health Canada to Aleafia Farms Inc., a wholly-owned subsidiary of Aleafia Health. It has an effective term from August 31, 2018 to October 13, 2020.

In addition to the same permissions granted under the Original Aleafia License, the Amended Aleafia License allows the Company to sell (bulk sales), transfer and ship substances authorized for possession under the Amended Aleafia License (i.e., dried cannabis, cannabis plants and cannabis seeds) from and to other Licensed Producers for medical purposes.

Emblem Licence

On August 26, 2015, Health Canada issued producer's license number 10-MM0167 to ECC. The Emblem Licence has a current term ending on July 26, 2019. The Emblem Licence has been amended as follows:

a) July 27, 2016 to authorize the sale of cannabis and to permit increased production;

b) April 28, 2017 to authorize the production of cannabis oils;

c) October 6, 2017 to authorize three additional grow rooms;

d) November 3, 2017 to authorize the sale of cannabis oil;

e) January 31, 2018 to authorize the sale of cannabis resin; and

f) March 22, 2018 to authorize the sale of encapsulated cannabis oils.

In connection with the Emblem Licence, on November 13, 2018, ECC received two import permits (Permit No. IMP-0003-2018 and Permit No. IMP-0004-2018) to receive a single shipment (in the case of each permit) of cannabidiol and tetrahydrocannabinol, respectively, from Echo Pharmaceuticals (located in the Netherlands).

On November 9, 2018, both the Amended Aleafia Licence and the Emblem Licence were successfully migrated from the ACMPR to the *Cannabis Act,* which authorizes the Company to conduct standard cultivation, standard processing, and sale for medical purposes.

Licence Applications and Amendments

In addition to the above-noted Licences, the Company has applied for a number of other licences and/or amendments to existing Licences, as follows:

- Amendment to Emblem License: Building expansion at the Paris Facility (amendment sent April 18, 2019);
- Amendment to Amended Aleafia Licence: Medical sales and outdoor grow at the Port Perry Facility (amendment sent January 18, 2019);
- Application for a cultivation, process and sale licence at the Niagara Facility (submitted August 27, 2018); and
- Application for medical sales licence in connection with 2672533 Ontario Inc., a wholly-owned subsidiary of Aleafia health (submitted January 24, 2019).

See "*Risk Factors - Permits and Licences*".

Regulation of Cannabis in Canada

On October 17, 2018, the *Cannabis Act* came into force as law with the effect of legalizing adult recreational use of cannabis across Canada. The *Cannabis Act* replaced the ACMPR and IHR, both of which came into force under the CDSA, which previously permitted access to cannabis for medical purposes for only those Canadians who had been authorized to use cannabis by their health care practitioner. The ACMPR replaced the MMPR, which was implemented in June 2013. The MMPR replaced the MMAR, which was implemented in 2001. The MMPR and MMAR were initial steps in the Government of Canada's legislative path towards the eventual legalization and regulating recreational and medical cannabis.

The *Cannabis Act* permits the recreational adult use of cannabis and regulates the production, distribution and sale of cannabis and related oil extracts in Canada, for both recreational and medical purposes. Under the *Cannabis Act*, Canadians who are authorized by their health care practitioner to use medical cannabis have the option of purchasing cannabis from a Licensed Producer and are also able to register with Health Canada to produce a limited amount of cannabis for their own medical purposes or to designate an individual who is registered with Health Canada to produce cannabis on their behalf for personal medical purposes.

Pursuant to the *Cannabis Act*, subject to provincial regulations, individuals over the age of 18 are able to purchase fresh cannabis, dried cannabis, cannabis oil, and cannabis plants or seeds and are able to legally possess up to 30 grams of dried cannabis, or the equivalent amount in fresh cannabis or cannabis oil. The *Cannabis Act* also permits households to grow a maximum of four cannabis plants. This limit applies regardless of the number of adults that reside in the household. In addition, the *Cannabis Act* provides provincial and municipal governments the authority to prescribe regulations regarding retail and distribution, as well as the ability to alter some of the existing baseline requirements of the *Cannabis Act*, such as increasing the minimum age for purchase and consumption.

In connection with the new framework for regulating cannabis in Canada, the Federal Government has introduced new penalties under the *Criminal Code* (Canada), including penalties for the illegal sale of cannabis, possession of cannabis over the prescribed limit, production of cannabis beyond personal cultivation limits, taking cannabis across the Canadian border, giving or selling cannabis to a youth and involving a youth to commit a cannabis-related offence.

On July 11, 2018, the Federal Government published regulations in the Canada Gazette to support the *Cannabis Act*, including the *Cannabis Regulations, the Industrial Hemp Regulations* along with proposed amendments to the *Narcotic Control Regulations* and certain regulations under the *Food and Drugs Act*. These regulations, among other things, outline the rules for the legal cultivation, processing, research, analytical testing, distribution, sale, importation and exportation of cannabis and hemp in Canada, including the various classes of licences that can be granted, and set standards for cannabis and hemp products; they include strict specifications for the plain packaging and labelling and analytical testing of all cannabis products as well as stringent physical and personnel security requirements for all federally licensed production sites. They also maintain a distinct system for access to cannabis. With the *Cannabis Act* now in force, cannabis has ceased to be regulated under the CDSA and is instead regulated under the *Cannabis Act*, and both the ACMPR and the *Industrial Hemp Regulations* have been repealed effective October 17, 2018. See "*Risk Factors - Governmental Regulation*".

Provincial Regulatory Framework for Recreational Cannabis

The Federal *Cannabis Act* regulates the commercial production, sale and distribution of cannabis in Canada. The *Cannabis Act* also provides that Canadian provinces and territories will have authority to regulate other aspects of recreational cannabis (similar to what is currently the case for liquor and tobacco products), such as sale and distribution, minimum age requirements (above the federal minimum of 18), places where cannabis can be consumed, and a range of other matters.

On December 20, 2018, the federal government released draft regulations to amend Schedule 4 to the *Cannabis Act* to add three new classes of cannabis that could be legally sold by federal licence holders and provincially and territorially authorized distributors and retailers. Those three new classes would be "edible cannabis," "cannabis extracts," and "cannabis topicals." It is also proposed to amend the *Cannabis Regulations* to establish new regulatory controls to address the public health and public safety risks associated with these new classes of cannabis, including their appeal to youth and the risks of accidental consumption, overconsumption, and foodborne illness, among other risks. These controls would include restrictions on product composition and ingredients, tetrahydrocannabinol (THC) limits, and new requirements pertaining to packaging and labelling, good production practices and record keeping.

Health Canada conducted a consultation period between December 20, 2018 and February 20, 2019. The federal government now has until October 17, 2019 to finalize the regulations. See *"Risk Factors ─ Changes in Laws, regulations and Guidelines".*

Provincial and territorial governments in Canada have made varying announcements and implemented varying regulatory regimes for the distribution and sale of cannabis for adult-use purposes. For example, Québec, New Brunswick, Nova Scotia, Prince Edward Island, Yukon and the Northwest Territories have chosen the government-regulated model for distribution, whereas Saskatchewan and Newfoundland & Labrador have opted for a private sector approach.

Each of these Canadian jurisdictions has established a minimum age of 19 years old, except for Québec and Alberta, where the minimum age will be 18.

<u>Ontario</u>:

Since April 1, 2019, Ontario has allowed for the sale of recreational cannabis by private retailers. On December 13, 2018, the Government of Ontario announced a temporary cap of 25 private retail store authorizations while the cannabis supply stabilizes. As set out in Ontario Regulation 468/18, the Government of Ontario gave the Alcohol and Gaming Commission of Ontario (AGCO) the mandate to hold a lottery to determine who may apply for retail licences. Through a third party fairness monitor, the government announced winners on January 11, 2019, most of whom were not established retail entities. Certain of these retail outlets are now operational throughout the province. On April 11, 2019, the Government of Ontario released its 2019 provincial budget, and committed to moving towards an open allocation of licences where the number of stores is limited only by market demand.

To enable the opening of additional licensed stores, the government plans to develop a process to allow the AGCO to pre-qualify operators that seek to enter the market and participate in future allocations of retail store authorizations. Pre-qualification criteria may include:

- The payment of a fee or obtaining a standby letter of credit;
- Financial information, including information about corporate structure and affiliates;
- Criminal and other background checks; and
- Information confirming lease or ownership interests in potential retail store locations.

When the government is satisfied that there will be a reliable supply, it will issue further retail store authorizations, including in municipalities with populations of less than 50,000 and in First Nation communities.

In Ontario, a suite of provincial legislation guides this new industry: the *Cannabis Licence Act, 2018, Cannabis Control Act*, 2017, the *Ontario Cannabis Retail Corporation Act*, 2017 and the *Liquor Control Act.*

Under the provincial *Cannabis Control Act*, 2017, all distribution and retail sales of recreational cannabis in Ontario are currently restricted to the OCRC, a subsidiary of the Liquor Control Board of Ontario, and are sold online through the Ontario Cannabis Store ("**OCS**"). Cannabis retail store operators are only permitted to purchase cannabis from the OCRC, which prescribes a minimum price for cannabis or classes of cannabis. The OCRC has entered into supply agreements with multiple Licensed Producers, establishing a wholesale distribution network to supply legal private retailers.

Ontario's legislative framework for cannabis imposes a number of other restrictions on retailers, producers and municipalities, including:

- The requirement of private retailers to obtain both a retail operator licence and a retail store authorization. Retail store authorizations will only be issued to persons holding a retail operator licence. Separate retail store authorizations are required for each cannabis retail store but a licensed retail operator may hold more than one retail store authorization and operate multiple stores. Private retailers are not permitted to sell cannabis on-line, but may only sell cannabis in person at an authorized retail store;

- The requirement of anyone who supervises or manages employees, oversees or coordinates the sale of cannabis, manages compliance issues or has signing authority to purchase cannabis, enters into contracts or hires employees to have a cannabis retail manager licence;

- The limitation on federally Licensed Producers (and their affiliates) to operating one retail cannabis store, which must be located at the site listed on the federal licence. The term "affiliate" is defined in Ontario Regulation 468/18 made under the *Cannabis Licence Act* dated November 14, 2018 and includes any corporation in which the Licensed Producer owns or has a right to acquire over 9.9% of the securities, a partner in the same partnership, a trust in which the Licensed Producer has a substantial interest, a member of the same joint venture, a person or entity that has influence that could amount to control of the Licensed Producer, and a corporation in which the Licensed Producer has voting or legal control or a majority of the economic interest;

- The prohibition on any person to allow for the promotion of products by Licensed Producers by way of providing any material inducement to cannabis retailers;

- The permission for municipalities and reserve band councils to opt out of the retail cannabis market by resolution. Municipalities that opt out may later lift the prohibition on retail cannabis stores by subsequent resolution, this decision will be final and a prohibition cannot be re-imposed. Municipalities may not pass a bylaw providing for a further system of licensing over the retail sale of cannabis; and

- The imposition of further restriction through future regulation.

<u>*British Columbia*</u>: The Government of British Columbia's *Cannabis Control and Licensing Act* and *Cannabis Distribution Act* have created a hybrid distribution and sales model under which recreational cannabis will be sold in that province through both public and privately-operated stores, with the provincial Liquor Distribution Branch handling wholesale distribution. BC's public retailer "BC Cannabis" has opened its first retail store and has had over a dozen more approved by municipalities. There are also a number of private retailers operating at this time.

Alberta: The Government of Alberta has rolled out a cannabis framework providing for the purchase of cannabis products from private retailers that will receive their products from a government-regulated distributor, similar to the distribution system currently in place for alcohol in the province. Under the *Gaming, Liquor and Cannabis Act*, only licensed retail outlets are permitted to sell cannabis with online sales run by the Alberta Gaming and Liquor Commission. To date, Alberta has the largest active cannabis market.

Saskatchewan: Under *The Cannabis Control (Saskatchewan) Act*, the Saskatchewan Liquor and Gaming Authority has issued 51 permits to private stores located in roughly 40 municipalities and First Nation communities across the province, with municipalities having the option of opting out of having a cannabis store if they choose.

Manitoba: The Government of Manitoba has rolled out a "hybrid model" for public/private cannabis distribution. Under the *Liquor, Gaming and Cannabis Control Act*, the supply of cannabis in Manitoba is secured and tracked by the Manitoba Liquor and Lotteries Corp. Licensed private retail stores are permitted to sell recreational cannabis and there are several operating at this time.

Quebec: Under the *Cannabis Regulation Act*, recreational cannabis is sold online and in retail stores operated by the Société québécoise du cannabis, which is a subsidiary of, and under the control and supervision of the Société des alcools du Québec. Stores are in operation and the number of locations is expected continue to increase.

New Brunswick: Under the *Cannabis Control Act*, the Cannabis Management Corporation controls and oversees the sale of recreational cannabis in New Brunswick. Retail sales, whether in stores or online, will be exclusively through Cannabis NB, a subsidiary under the control of the New Brunswick Liquor Corporation. There are currently several government-run stores in operation as well as an online sales portal.

Nova Scotia: Under the *Cannabis Control Act*, the Nova Scotia Liquor Corporation is responsible for the regulation of the retail sale of recreational cannabis in the province, and recreational cannabis is only sold publicly through government-operated storefronts and online sales.

Prince Edward Island: Similar to Nova Scotia and New Brunswick, under the *Cannabis Management Corporation Act*, the sale of recreational cannabis is controlled and supervised by the Cannabis Management Corporation, which will operate retail stores and online sales.

Newfoundland and Labrador: Under the *Cannabis Control Act*, recreational cannabis is sold through licensed private stores, with its crown-owned liquor corporation, the NLC, regulating distribution to private sellers who may sell to consumers. The NLC controls the possession, sale and delivery of cannabis, and set prices. It was also the first initial online retailer.

Yukon: Under the *Cannabis Control and Regulation Act*, the distribution and sale of recreational cannabis is limited to government outlets and government-run online stores, and allows for the later licensing of private retailers; however, only government-run stores are currently operating.

Northwest Territories: The approach of the Government of the Northwest Territories is found under the *Cannabis Legalization and Regulation Implementation Act*, for the distribution and sale of recreational cannabis which relies on the N.W.T. Liquor and Cannabis Commission (NTLCC) to control the importation and distribution of cannabis, whether through retail outlets run by NTLCC-approved vendors or through the NTLCC online store. Currently, five private liquor store operators have been granted licences to sell cannabis. Communities in the Northwest Territories will be able to hold a plebiscite to prohibit cannabis, similar to the options currently available to restrict alcohol.

Nunavut: The *Nunavut Cannabis Act* establishes the licensing system for the retail sale of recreational cannabis. The Nunavut legislation contemplates the sale of cannabis through both public and licensed private retail stores and online. Sales will initially only take place online through the Liquor and Cannabis Commission and its agent. Under the *Nunavut Cannabis Act*, a person can submit an application for a licence to operate a cannabis store, remote sales store, or cannabis lounge. This application process will not be in place until sometime in 2019.

There is no guarantee that the provincial and territorial frameworks supporting the legalization of cannabis for recreational use in Canada will be implemented on the terms outlined above, or at all. See "*Risk Factors - Governmental Regulation*".

RISK FACTORS

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

Governmental Regulation

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

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

With the *Cannabis Act* now in effect, there is no guarantee that provincial legislation regulating the distribution and sale of cannabis for recreational adult-use purposes will be enacted according to the terms announced by such provinces, or at all, or that any such legislation, if enacted, will create the opportunities for growth anticipated by the Company. For example, the Provinces of Québec, New Brunswick, Nova Scotia, Prince Edward Island and the Northwest Territories have announced sales and distribution models that would create government-controlled monopolies over the legal retail and distribution of cannabis for adult use purposes in such provinces, which could limit the Company's opportunities in those provinces. While Ontario had previously committed to a government-regulated model for distribution, on October 17, 2018, the Government of Ontario's Bill-36 received Royal Assent, which, inter alia, enacted the *Cannabis Licence Act, 2018*, creating a licensing scheme for private cannabis retail stores. The OCRC has the exclusive right to: (a) sell cannabis in Ontario online; and (b) sell cannabis in Ontario to a holder of a retail store authorization for the purposes of resale. This private retail model launched on April 1, 2019.

Changes in Laws, Regulations and Guidelines

Under the *Cannabis Act*, every licence issued under the ACMPR that is in force immediately before the implementation of the *Cannabis Act* will be deemed to be a licence issued under the *Cannabis Act*. On July 11, 2018, the regulations made pursuant to the *Cannabis Act* were published. These regulations contemplate the various licences, including cultivation, processing, analytical testing, sale (including medical sales), analytical testing and scientific research. The regulations introduced the nursery and made outdoor cultivation permissible. Finally, the requirements for packaging and labelling of products for both medical and non-medical consumption were explicitly set forth. The impact of changes in the regulatory enforcement by Health Canada under the *Cannabis Act* and its regulations, particularly in respect of product packaging, labelling, marketing, advertising and promotions and product approvals and its impact on the Company's business are unknown at this time.

On December 20, 2018, the federal government released draft regulations to amend Schedule 4 to the *Cannabis Act* to add three new classes of cannabis that could be legally sold by federal licence holders and provincially and territorially authorized distributors and retailers. Those three new classes are "edible cannabis," "cannabis extracts," and "cannabis topicals." It is also proposed to amend the *Cannabis Regulations* to establish new regulatory controls to address the public health and public safety risks associated with these new classes of cannabis, including their appeal to youth and the risks of accidental consumption, overconsumption, and foodborne illness, among other risks. The federal government plans to have these regulations in place no later than October 17, 2019.

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

Trade of Non-medical Cannabis may be Restricted

Article 1206 of the *Canadian Free Trade Agreement* specifically excludes the application of the agreement to cannabis for non-medical purposes. Article 1206 states that the provinces and territories of Canada shall commence negotiations regarding the application of the *Canada Free Trade Agreement* to cannabis for non-medical purposes following Royal Assent of federal legislation legalizing cannabis for non-medical purposes. There is a risk that the outcome of the negotiations will result in the interprovincial and interterritorial trade of cannabis for non-medical purposes in Canada being entirely restricted or subject to conditions that will negatively impact the Company's ability to sell cannabis for non-medical purposes in other provinces and territories.

Reliance on Licence Renewal

The Company's ability to grow, store and sell cannabis in Canada is dependent on its Licences from Health Canada. Failure to comply with the requirements of the Licences or any failure to maintain its Licences would have a material adverse effect on the business, financial condition and operating results of the Company. The Amended Aleafia Licence will expire on October 13, 2020 and the Emblem Licence will expire on July 26, 2019. Although management believes it will meet the requirements of the *Cannabis Act*, for extension of the Licences, there can be no guarantee that Health Canada will extend or renew the Licences or, if it is extended or renewed, that it will be extended or renewed on the same or similar terms. Should Health Canada not extend or renew the Licences, or should it renew the Licences on different terms or not provide the amendments as requested for anticipated capacity increases, the business, financial condition and results of the operations of the Company will be materially adversely affected.

Permits and Licences

The Company is dependent upon its Licences for its ability to grow, store and sell cannabis and other products derived therefrom at the Port Perry and Paris Facilities**.** The Licences are subject to ongoing compliance, reporting requirements and renewal.

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

Port Perry, Niagara, and Paris Facilities

The Port Perry Facility and the Paris Facility are (and the Niagara Facility will be, when operational), integral to the Company's business and adverse changes or developments affecting any of the Port Perry Facility, Paris Facility or the Niagara Facility may impact the Company's business, financial condition and results of operations.

The Company's activities and resources are currently focused on the Port Perry Facility and the Paris Facility, as the Niagara Facility is not yet licensed. Adverse changes or developments affecting the Port Perry Facility or Paris Facility, including but not limited to a force majeure event or a breach of security, could have a material adverse effect on the Company's business, financial condition and prospects. Any breach of the security measures and other facility requirements, including any failure to comply with recommendations or requirements arising from inspections by Health Canada, could also have an impact on the Company's ability to continue operating under its existing licence or the prospect of renewing the licence or could result in a revocation of the licence. In addition, the Company has made an application for an outdoor grow licence at the Port Perry Facility. While the Company expects, with the addition of this licence, that the Port Perry Facility has the potential to significantly increase the Company's cultivation and growing capacity, no assurance can be given that this will be the case.

The Niagara Facility has completed all required modifications and capital improvements in order to be eligible for license by Health Canada. Pending receipt of a cultivation license from Health Canada, 27% of the grow space at the Niagara Facility is currently grow-ready and the remaining 73% will be grow-ready during Q2 2019 pending completion of a site power upgrade (that, for greater certainty, is not required for Health Canada licensing purposes). While the Company has submitted an application for licensing to Health Canada and the Company expects that the Niagara Facility has the potential to significantly increase the Company's cultivation and growing capacity, no assurance can be given that the Company's cultivation and growing capacity will increase significantly. The expectations of management with respect to the increased future cultivation and growing capacity may not be borne out, which could have a material adverse effect on the Company's business, financial condition and results of operations.

The Cannabis Industry in Canada

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

Environmental Regulations and Risks

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

Risks Inherent in an Agricultural Business

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

Supply of Cannabis Seeds

If for any reason the supply of cannabis seeds is ceased or delayed, Aleafia Health would have to seek alternate suppliers and obtain all necessary authorizations for the new seeds. If replacement seeds cannot be obtained at comparable prices, or at all, or if the necessary authorizations are not obtained, Aleafia Health's business, financial condition and results of operations would be materially and adversely affected.

Reliance on Third Party Suppliers, Manufacturers and Contractors

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

On September 11, 2018, Emblem entered into an agreement with Aphria under which Aphria will supply up to 175,000 kg equivalents of cannabis products over a five-year term with the opportunity for subsequent five-year renewals. This supply constitutes a significant portion of the Emblem's cannabis supply in connection with the production of the Company's products. As such the Company's ability to produce its products as currently intended will be dependent on the parties carrying out the obligations under this agreement.

Third Party Transportation

In order for customers of the Company to receive their product, the Company must rely on third party mail and courier services. This can cause logistical problems with and delays in customers obtaining their orders and cannot be directly controlled by the Company. Any delay by third party transportation and/or rising costs associated with these services may adversely affect the Company's financial performance. Moreover, security of the product during transportation to and from the Company's facilities is critical due to the nature of the product. A breach of security during transport could have material adverse effects on the Company's business, financial condition and operating results of the Company. Any such breach could impact the Company's ability to continue operating under its Licences or impede the prospect of renewing its Licences.

Reputational Risk to Third Parties

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

Competition

To date, Health Canada has issued hundreds of licences to produce, cultivate and/or sell cannabis. As a result, the Company expects significant competition from other companies, some of which have longer operating histories and greater financial resources, operating and marketing experience than the Company. Additionally, a large number of companies appear to be applying for production licences, some of which may (a) have significantly greater financial, technical, marketing and other resources; (b) be able to devote greater resources to the development, promotion, sale and support of their products and services; and (c) have more extensive customer bases and broader customer relationships. Should the size of the cannabis market increase as projected the demand for products will increase as well, and in order for the Company to be competitive it will need to invest significantly in research and development, marketing, production expansion, new client identification, and client support. If the Company is not successful in attaining sufficient resources to invest in these areas, the Company's ability to compete in the market may be adversely affected, which could materially and adversely affect the Company's business, its financial conditions and operations.

Intellectual Property

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

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

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

Managing Growth

In order to manage growth and changes in strategy effectively, Aleafia Health must (i) maintain adequate systems to meet customer demand; (ii) expand sales and marketing, distribution capabilities and administrative functions; and (iii) attract and retain qualified employees, including in respect of its management team. While it intends to focus on managing its costs and expenses over the long term, Aleafia Health expects to invest to support its growth and may have additional unexpected costs. It may not be able to expand quickly enough to exploit potential market opportunities. The Company could also fail to successfully integrate acquired entities into the business of the Company.

Unfavourable Publicity or Consumer Perceptions

The Company believes the cannabis industry is highly dependent upon consumer perception regarding the safety, efficacy and quality of cannabis. Consumer perception of the Company's products can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding the consumption of cannabis products. There can be no assurance that future scientific research, findings, regulatory proceedings, litigation, media attention or publicity will be favourable to the medical or recreational cannabis market or any particular product, or consistent with earlier publicity. Future research reports, findings, regulatory proceedings, litigation, media attention or other publicity that are perceived as less favourable than, or that question, earlier research reports, findings or publicity could have a material adverse effect on the demand for the Company's products and the business, results of operations, financial condition and cash flows of the Company. Adverse publicity reports or other media attention regarding the safety, efficacy and quality of cannabis in general, or the Company's products specifically, or associating the consumption of cannabis with illness or other negative effects or events, could have a material adverse effect on the Company's business, financial condition and results of operations. Such adverse publicity reports or other media attention could arise even if the adverse effects associated with such products resulted from consumers' failure to consume such products appropriately or as directed.

Constraints on Marketing Activities

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

New Industry and Market

The Company's business as a Licensed Producer represents a relatively new industry and nascent market. In addition to being subject to general business risks and to risks inherent in the nature of an early stage business, a business involving an agricultural product and a regulated consumer product, the Company will need to build brand awareness in the new industry and market through significant investments in its strategy, its production capacity, quality assurance, and compliance with regulations, especially against competitors who have already spent some time building their brand. These activities may not promote the Company's brand and products as effectively as intended, or at all. This new market and industry into which management is entering will have competitive conditions, consumer tastes, patient requirements and unique circumstances, and spending patterns that differ from existing markets. There are no assurances that this new industry and market will exist or grow as currently estimated or anticipated, or function and evolve in a manner consistent with management's expectations and assumptions. Any event or circumstance that affects this new market and industry may materially and adversely affect the business, financial conditions and results of operations of the Company.

Limited Operating History

Aleafia Health is a relatively early stage company having been established as a result of the Business Combination in early 2018 and, as a result, it has a limited operating history upon which its business and future prospects may be evaluated. Aleafia Health will be subject to all of the business risks and uncertainties associated with any new business enterprise, including the risk that it will not achieve its operating goals. In order for Aleafia Health to meet future operating and debt service requirements, it will need to be successful in its growing, marketing and sales efforts. Additionally, where Aleafia Health experiences increased sales, Aleafia Health's current operational infrastructure may require changes to scale the business efficiently and effectively to keep pace with demand and achieve long-term profitability. If Aleafia Health's products and services are not accepted by new customers, the Company's operating results may be materially and adversely affected.

Effectiveness of Quality Control Systems

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

Limited Experience Operating as a Licensed Producer

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

If the Company is unable to successfully operate as a Licensed Producer, this could substantially reduce its earnings and its ability to generate stable positive cash flow from its operations and may reduce the value of the Common Shares and adversely affect the Company's ability to raise additional capital.

Employee Health and Safety Regulations

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

Reliance on Skilled Workers and Equipment

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

Attraction and Retention of Key Personnel

The Company has a small management team and the loss of a key individual or inability to attract suitably qualified management could have a material adverse effect on the Company's business. While employment and management services agreements are customarily used as a primary method of retaining the services of key personnel, these agreements cannot assure the continued services of such persons. The Company may also encounter difficulties in obtaining and maintaining suitably qualified staff in certain of the jurisdictions in which it conducts business. In addition, there is a risk that management or key personnel will fail to execute in their roles or falter in judgment in certain circumstances, all of which could have an adverse effect on the operations and financial results of the Company.

Product Liability

As a distributor of products designed to be ingested by humans, the Company faces an inherent risk of exposure to product liability claims, regulatory action and litigation if its products are alleged to have caused significant loss or injury. In addition, the sale of the Company's products involves the risk of injury to consumers due to tampering by unauthorized third parties or product contamination. Previously unknown adverse reactions resulting from human consumption of the Company's products alone or in combination with other medications or substances could occur. The Company may be subject to various product liability claims, including, among others, that the Company's products caused injury or illness, include inadequate instructions for use or include inadequate warnings concerning possible side effects or interactions with other substances. A product liability claim or regulatory action against the Company could result in increased costs, could adversely affect the Company's reputation with its clients and consumers generally, and could have a material adverse effect on the Company's results of operations and financial condition of the Company. There can be no assurances that the Company will be able to obtain or maintain product liability insurance on acceptable terms or with adequate coverage against potential liabilities. Such insurance is expensive and may not be available in the future on acceptable terms, or at all. The inability to obtain sufficient insurance coverage on reasonable terms or to otherwise protect against potential product liability claims could prevent or inhibit the commercialization of the Company's potential products.

Product Recalls

Manufacturers and distributors of products are sometimes subject to the recall or return of their products for a variety of reasons, including product defects, such as contamination, unintended harmful side effects or interactions with other substances, packaging safety and inadequate or inaccurate labelling disclosure. If any of Aleafia Health's products are recalled due to an alleged product defect or for any other reason, Aleafia Health could be required to incur the unexpected expense of the recall and any legal proceedings that might arise in connection with the recall. Aleafia Health may lose a significant amount of sales and may not be able to replace those sales at an acceptable margin or at all. In addition, a product recall may require significant management attention. Although Aleafia Health has detailed procedures in place for testing its products, there can be no assurance that any quality, potency or contamination problems will be detected in time to avoid unforeseen product recalls, regulatory action or lawsuits. Additionally, if Aleafia Health is subject to a recall, the reputation of Aleafia Health could be harmed. A recall for any of the foregoing reasons could lead to decreased demand for Aleafia Health's products and could have a material adverse effect on the results of operations and financial condition of Aleafia Health. Additionally, product recalls may lead to increased scrutiny of Aleafia Health's operations by regulatory agencies, requiring further management attention, potential loss of applicable licences and potential legal fees and other expenses.

Regulatory or Agency Proceedings, Investigations and Audits

The Company's business requires compliance with certain laws and regulations. Failure to comply with applicable laws and regulations could subject the Company to regulatory or agency proceedings or investigations and could also lead to damage awards, fines and penalties. The Company may become involved in a number of government or agency proceedings, investigations and audits. The outcome of any regulatory or agency proceedings, investigations, audits, and other contingencies could harm the Company's reputation, require the Company to take, or refrain from taking, actions that could harm its operations or require the Company to pay substantial amounts of money, harming its financial condition. There can be no assurance that any pending or future regulatory or agency proceedings, investigations and audits will not result in substantial costs or a diversion of management's attention and resources or have a material adverse impact on the Company's business, financial condition and results of operation.

Ability to Establish and Maintain Bank Accounts

While Aleafia Health does not anticipate any banking restrictions at this time, there is a risk that banking institutions may not accept payments related to the cannabis industry. Such risks could increase costs for Aleafia Health. In the event financial service providers do not accept accounts or transactions related to the cannabis industry, it is possible that Aleafia Health may be required to seek alternative payment solutions. If the industry was to move towards alternative payment solutions, Aleafia Health would have to adopt policies and protocols to manage its volatility and exchange rate risk exposures. Aleafia Health's inability to manage such risks may adversely affect Aleafia Health's operations and financial performance.

Information Technology Systems and Cyber-Attacks

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

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

Vulnerability to Rising Energy Costs

The Company's cannabis growing operations will consume considerable energy, which will make the Company vulnerable to rising energy costs. Accordingly, rising or volatile energy costs may adversely impact the business of the Company and its ability to operate profitably.

Ability to Achieve or Maintain Profitability

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

Cash Flow From Operations

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

Joint Venture Vehicles

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

Additional Financing and Restrictions

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

Volatile Market Price of the Common Shares

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

Financial markets have historically at times experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities of companies and that have often been unrelated to the operating performance, underlying asset values or prospects of such companies. Accordingly, the market price of the Common Shares may decline even if the Company's operating results, underlying asset values or prospects have not changed. Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. There can be no assurance that continuing fluctuations in price and volume will not occur. If such increased levels of volatility and market turmoil continue, the Company's operations could be adversely impacted and the trading price of the Common Shares may be materially adversely affected.

Dilution

The Company's articles permit the issuance of an unlimited number of Common Shares and shareholders will have no pre-emptive rights in connection with such further issuance. The Company may issue additional securities in the future, which may dilute a shareholder's holdings in the Company. Additional Common Shares will be issued by the Company on: (a) the exercise of options under the Company's stock option plan; (b) the exercise of outstanding warrants; and (c) conversion of any other convertible debt instruments.

Management of Growth

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

Conflicts of Interest

Certain directors and officers of the Company hold, and may in future hold, interests in other companies involved in the same or similar businesses to the Company and as such may, in certain circumstances, have a conflict of interest. Conflicts of interest, if any, which arise will be subject to and governed by procedures prescribed by the Company's governing corporate law statute which requires a director of a company who is a party to, or is a director or an officer of, or has some material interest in any person who is a party to, a material contract or proposed material contract with the Company to disclose his or her interest and, in the case of directors, to refrain from voting on any matter in respect of such contract unless otherwise permitted under applicable law.

Insurance Coverage

The Company has insurance to protect its assets, operations, directors and employees. While the Company believes the insurance coverage addresses all material risks to which it is exposed and is adequate and customary in the current state of operations, such insurance is subject to coverage limits and exclusions and may not be available for the risks and hazards to which the Company is exposed to. In addition, no assurance can be given that such insurance will be adequate to cover the Company's liabilities or will be generally available in the future or, if available, that premiums will be commercially justifiable. If the Company were to incur substantial liability and such damages were not covered by insurance or were in excess of policy limits, or if the Company were to incur such liability at a time when it is not able to obtain liability insurance, the business, results of operations and financial condition could be materially adversely affected.

Litigation

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

Compliance with TSX Requirements

On March 19, 2019, the Company's Common Shares commenced trading on the TSX. Being listed on the TSX creates exposure at a higher level relative to the TSXV. The Company must comply with the TSX guidelines when conducting business, especially when pursuing international opportunities.

On October 16, 2017, the TSX provided clarity regarding the application of Section 306 (Minimum Listing Requirements), Section 325 (Management) and Part VII (Halting of Trading, Suspension and Delisting of Securities) of the TSX Company Manual (collectively, the "**Requirements**") to TSX-listed issuers with business activities in the cannabis sector. In TSX Staff Notice 2017-0009, the TSX notes that issuers with ongoing business activities that violate U.S. federal law regarding cannabis are not in compliance with the Requirements. The TSX reminded issuers that, among other things, should the TSX find that a listed issuer is engaging in activities contrary to the Requirements, the TSX has the discretion to initiate a delisting review. Failure to comply with the Requirements could have a material adverse effect on the Company's business, financial condition and results of operations.

U.S. Border Crossing

Because cannabis remains illegal under U.S. federal law, those employed at or investing in legal and licensed Canadian cannabis companies could face detention, denial of entry or lifetime bans from the U.S. for their business associations with cannabis businesses. Entry happens at the sole discretion of the U.S. customs and border protection officers ("**US Customs Officers**"), who have wide latitude to ask questions to determine the admissibility of a foreign national. The Government of Canada has started warning travelers on its website that previous use of cannabis, or any substance prohibited by U.S. federal laws, could mean denial of entry to the U.S. Canadian travelers attempting to enter the U.S. for reasons related to the cannabis industry may be deemed inadmissible, and business or financial involvement in the legal cannabis industry in Canada or in the U.S. could be sufficient cause for US Customs Officers to deny entry.

NASDAQ Listing

Aleafia Health has submitted an application to become listed on the NASDAQ. While the outcome of this application is unknown at this time, should Aleafia Health be accepted to list on the NASDAQ, there is a risk that different liquidity levels, volumes of trading, currencies and market conditions on the TSXV as compared to NASDAQ may result in different prevailing trading prices between the stock exchanges. As a result, the market price of the Common Shares at any given time may not accurately reflect Aleafia Health's long-term value.

DIVIDENDS

The Company has never paid dividends on its Common Shares and has no present intention to pay dividends. Any decision to pay dividends will be made by the Board in its sole direction, and will depend on numerous factors including profitability, fluctuations in working capital, the sustainability of margins, capital expenditures and other conditions existing at such future time.

CAPITAL STRUCTURE

The authorized share capital of the Company consists of an unlimited number of Common Shares. As at the close of business on December 31, 2018 a total of 157,848,812 Common Shares were issued and outstanding.

Common Shares

Each Common Share carries the right to one vote at all meetings of shareholders. There are no special rights or restrictions of any nature attached to the Common Shares. Each Common Share participates ratably in any dividend declared by the directors and carries the right to receive a proportionate share of the assets of the Company available for distribution to holders of Common Shares in the event of the liquidation, dissolution or winding-up of the Company.

MARKET FOR SECURITIES

Trading Price and Volume

Aleafia Common Shares

Effective March 19, 2019, the Company's Common Shares commenced trading on the TSX under the symbol "ALEF". Prior thereto, the Common Shares traded on the TSXV, also under the symbol "ALEF". The following table sets forth the reported price ranges and volume of trading for each month since January 2018:

Period	High	Low	Volume
April 1 - 26, 2019	$1.94	$1.51	26,424,261
March 2019	$2.48	$1.86	41,473,078
February 2019	$2.93	$2.07	33,438,896
January 2019	$2.44	$1.33	35,679,221
December 2018	$1.79	$1.19	16,776,639
November 2018	$3.08	$1.7	32,310,686
October 2018	$3.95	$1.71	78,241,625
September 2018	$4.70	$0.97	121,802,929
August 2018	$1.10	$0.65	11,869,719
July 2018	$0.78	$0.64	4,048,616
June 2018	$0.94	$0.50	14,944,934
May 2018	$0.65	$0.51	5,434,143
April 2018	$1.01	$0.47	12,087,926
March 2018	$1.25	$0.84	3,315,887
February 2018	N/A	N/A	N/A(1)
January 2018	N/A	N/A	N/A(1)

Notes:

(1) Trading halted in connection with the Business Combination.

Emblem Warrants

The Company's wholly-owned subsidiary, Emblem, maintains three classes of warrants listed on the TSXV as follows. In each case, each Emblem warrant is exercisable into 0.8377 of a Common Share of Aleafia Health, at its then applicable exercise price.

a) **EMC.WT –** exercisable at a price of $1.75 and expiring December 6, 2019:

Period	High	Low	Volume
April 1 - 26, 2019	$0.34	$0.20	296,682
March 2019	$0.475	$0.29	2,093,567
February 2019	$0.38	$0.25	1,341,570
January 2019	$0.33	$0.05	1,347,416
December 2018	$0.245	$0.06	1,083,932
November 2018	$0.35	$0.17	505,454
October 2018	$0.40	$0.20	800,809
September 2018	$0.64	$0.30	2,041,230
August 2018	$0.40	$0.23	587.402
July 2018	$0.34	$0.13	413,240
June 2018	$0.385	$0.235	441,004
May 2018	$0.435	$0.35	409,123
April 2018	$0.52	$0.33	439,453
March 2018	$0.485	$0.39	423.676
February 2018	$0.73	$0.37	2,180,571
January 2018	$1.00	$0.59	3,209,978

b) **EMC.WT.A –** exercisable at a price of $2.15 and expiring November 16, 2020:

Period	High	Low	Volume
April 1 - 26, 2019	$0.36	$0.25	236,662
March 2019	$0.40	$0.25	931,936
February 2019	$0.37	$0.25	485,537
January 2019	$0.31	$0.11	371,262
December 2018	$0.25	$0.105	340,127
November 2018	$0.38	$0.24	387,403
October 2018	$0.41	$0.20	1,441,000
September 2018	$0.59	$0.29	1,295,012
August 2018	$0.39	$0.21	331,516
July 2018	$0.29	$0.18	181,800
June 2018	$0.38	$0.245	187,100
May 2018	$0.50	$0.29	208,229
April 2018	$0.37	$0.20	413,007
March 2018	$0.415	$0.315	210,561
February 2018	$0.58	$0.34	587,900
January 2018	$0.85	$0.52	1,427,196

c) **EMC.WT.B –** exercisable at a price of $2.70 and expiring February 2, 2020:

Period	High	Low	Volume
April 1 - 26, 2019	$0.11	$0.065	377,310
March 2019	$0.195	$0.07	1,968,414
February 2019	$0.16	$0.09	752,696
January 2019	$0.12	$0.04	355,473
December 2018	$0.12	$0.03	545,483
November 2018	$0.20	$0.09	1,174,919
October 2018	$0.23	$0.10	1,095,567
September 2018	$0.37	$0.12	1,436,464

Period	High	Low	Volume
August 2018	$0.13	$0.07	1,575,736
July 2018	$0.11	$0.06	772,233
June 2018	$0.185	$0.095	836,836
May 2018	$0.195	$0.10	729,214
April 2018	$0.25	$0.16	324,395
March 2018	$0.23	$0.12	277,692
February 2018	$0.325	$0.17	1,838,464

Prior Sales

The following table sets forth securities that are not listed or quoted on a marketplace issued by the Company during the year ended December 31, 2018 and current to the date of this AIF:

Date of Issuance	Number of Securities Issued	Type	Issuance / Exercise Price Per Security
26/03/2018	12,085,500	Warrants(1)	$1.75
26/03/2018	1,336,920	Compensation Options(2)	$1.25
26/03/2018	5,000,000	Options(3)	$0.25
10/04/2018	200,000	Options(4)	$1.25
10/04/2018	1,000,000	Options(4)	$1.25
23/04/2018	1,000,000	Options(5)	$0.63
23/04/2018	1,350,000	Options(4)	$0.60
19/06/2018	500,000	Warrants(6)	$0.55
28/06/2018	1,000,000	Options(5)	$0.82
28/06/2018	250,000	Options(5)	$1.25
02/08/2018	900,000	Options(5)	$0.65
14/08/2018	1,200,000	Options(5)	$0.65
01/09/2018	200,000	Options(5)	$0.85
09/09/2018	1,250,000	Options(5)	$1.03
11/09/2018	175,000	Options(5)	$1.50
22/09/2018	200,000	Options(5)	$2.02
27/09/2018	334,230	Units(7)	$1.25
01/10/2018	2,000,000	Options(5)	$2.61
05/10/2018	250,000	Options(5)	$2.65
09/10/2018	75,000	Options(5)	$2.69
30/10/2018	200,000	Units(7)	$1.25
01/01/2019	120,000	Options(5)	$1.43
11/01/2019	295,000	Options(5)	$1.64
11/02/2019	100,000	Options(5)	$2.28
22/02/2019	1,410,000	Options(5)	$2.16
18/03/2019	25,000	Options(5)	$2.19
15/04/2019	66,846	Units(7)	$1.25
22/04/2019	25,000	Options(5)	$1.87
25/04/2019	15,000	Options(5)	$1.64

Notes:

(1) Issued to former shareholders and Subscription Receipt holders of Aleafia PrivateCo upon completion of the Business Combination (of which 73,670,000 Aleafia Shares were issued to former shareholders of Aleafia PrivateCo and of which 24,171,000 Aleafia Shares and 12,085,500 warrants to purchase Aleafia Shares

("**Warrants**") (each whole Warrant entitling the holder thereof to purchase one (1) Aleafia Share at a price of $1.75 per Aleafia Share, for a period expiring 18 months from the completion of the Business Combination) were issued to former Subscription Receipt holders of Aleafia PrivateCo).

(2) Compensation options ("**Compensation Options**") issued to holders of compensation options of Aleafia PrivateCo ("**Aleafia PrivateCo Compensation Options**") in exchange for such Aleafia PrivateCo Compensation Options upon completion of the Business Combination, each entitling the holder, upon exercise thereof, to one unit, each comprised of one Aleafia Share and one-half of one Warrant.

(3) Stock options issued to former holders of stock options of Aleafia PrivateCo upon completion of the Business Combination.

(4) Options vest in equal amounts quarterly over twelve (12) months from the date of issuance; and expire five (5) years from the date of issuance.

(5) Options vest in four (4) equal installments on each of the 6th, 12th, 18th and 24th month following the date of issuance, and expire five (5) years from the date of issuance.

(6) Issued pursuant to an amendment to an existing memorandum of understanding; warrants expire June 11, 2020.

(7) Issued upon exercise of outstanding Compensation Options.

ESCROWED SECURITIES

In connection with, and effective as of, the listing of the Common Shares on the TSX, the TSXV approved the termination of the escrow agreement dated November 9, 2016 relating to Aleafia Health's Common Shares, the escrow agreement dated December 6, 2016 relating to Emblem's previously issued common shares, which were exchanged for Common Shares under the Arrangement, and the legacy escrow agreement dated February 4, 2011 relating to Emblem legacy matters. Upon termination of these escrow agreements, an aggregate of 6,506,355 Common Shares were released from escrow.

DIRECTORS AND OFFICERS

Each of the directors of the Company is elected annually at the annual meeting of shareholders. All directors serve until the next annual meeting of shareholders or until a successor is elected or appointed or until the director is removed at a meeting of shareholders.

The following table sets forth, among other things, the name, province and country of residence, position, period served as a director and/or executive officer and principal occupation during the last five (5) years, for each person who serves as a director and/or executive officer of the Company, as at the date of this AIF.

Name, Residence and Position With the Company	Principal Occupation for the Past Five Years	Director or Executive Officer Since	Number and Percent of Common Shares(6)
Hon. Julian Fantino(1) Ontario, Canada *Chairman of the Board and Director*	Current Chairman of the Board and former Executive Chairman of the Board; Principal of J. Fantino and Associates Inc. (present); Canadian Member of Parliament for the riding of Vaughan (2010 to 2015) and served as the Minister of Veterans Affairs, National Defence and International Cooperation.	March 26, 2018	4,500,000 (1.64%)
Raf Souccar(2)(3) Ontario, Canada *Director*	Former Chief Executive Officer of the Company and former President of the Company; Principal of Raf Souccar Consulting Inc. (2014 to present); Chief Security Officer, Royal Canadian Mint (May 2011 to June 2014).	March 26, 2018	4,500,000 (1.64%)
Daniel Milliard(1)(4) Ontario, Canada *Director*	President and CEO of Indian River Consulting Inc. (2008 to present); General Manager of Islip Flow Controls, an industrial strainer manufacturer (June 2011 to April 2013); Director, Progressive Waste Solutions (2002 to 2016).	March 14, 2019	Nil

Name, Residence and Position With the Company	Principal Occupation for the Past Five Years	Director or Executive Officer Since	Number and Percent of Common Shares[6]
Mark Sandler[(2)(4)] Ontario, Canada *Director*	Senior Partner at Cooper, Sandler, Shine & Bergman LLP, a law firm (present); Bencher of the Law Society of Upper Canada (2003 to 2015); Commissioner, Ontario Securities Commission (2017 to 2019).	April 24, 2018	Nil
Loreto Grimaldi[(2)(3)] Ontario, Canada *Director*	Senior Vice President, General Counsel & Corporate Secretary for ECN Capital Corp., a financial services company (January 2017 to present). Previously, Executive Vice President and Chief Legal Officer of Progressive Waste Solutions, a waste management company (June 2014 to December 2016) and Chief Operating Officer, General Counsel and Secretary of MedAvail Technologies Inc., a healthcare technology company (January 2010 to May 2014).	March 14, 2019	12,850 (0.004%)
William Stewart[(1)(3)] Ontario, Canada *Director*	Principal of William A. Stewart Consulting Services (2012 to present); Fire Chief of the Toronto Fire Services (2003 to 2012).	May 31, 2018	500,000 (0.18%)
Lea Ray[(2)(4)] Ontario, Canada *Director*	Director at Workplace Safety and Insurance Board (2008 to present); Director at Street Capital Group Inc. (March 2015 to present); Director at ProDemnity Insurance Company (June 2017 to present); Director at Tarion Warranty Corporation (April 2010 to April 2019).	October 5, 2018	Nil
Geoffrey Benic Ontario, Canada *Chief Executive Officer*	Current CEO of the Company; Regional Director, Founder and Chairman of Sofilia Logistics Group, Inc. (2004 to 2018); General Manager, Grocery Gateway; Regional Director, United Parcel Service Canada.	June 28, 2018	Nil
Benjamin Ferdinand Ontario, Canada *Chief Financial Officer*	Current CFO of the Company; Managing Director, Platform Strategies at TMX Group (2012 to 2018); Vice-President and Head of Finance, Strategy and Corporate Development for TMX Group (2012 to 2018).	August 2, 2018	Nil
Greg Rossi Ontario, Canada *Chief Operating Officer*	Current Chief Operating Officer of the Company; Supply Chain and Logistics Consultant (2005 to 2018); Director, Operations, CubeRoute; Director, Engineering, Grocery Gateway; Manager, Engineering, United Parcel Service Canada.	August 2, 2018	Nil
Trevor J. Newell Ontario, Canada *Chief Marketing and Technology Officer*	Current Chief Marketing and Technology Officer of the Company; President at Wholesale Energy Systems (2016 to present); Co-Founder and President at SHOP.ca Network Inc. (2011 to 2016).	August 14, 2018	Nil
Nick Bergamini Ontario, Canada *Vice-President, Public Affairs*	Current Vice-President, Public Affairs of the Company; Press Secretary and Director of Communications for the Leader of the Official Opposition in the Ontario Legislature (2016 to 2018); Press Secretary and Chief Spokesman for Canada's Minister of Finance (2014 to 2015).	August 2, 2018	Nil
Dr. Michael Verbora[(5)] Ontario, Canada *Chief Medical Officer*	Chief Medical Officer of the Company (March 2018 to present); Dr. Michael Verbora MPC (2015 to present); Resident Physician at Department of Family Medicine (University of Toronto) (2013 to 2016).	March 26, 2018	189,790 (0.07%)

Name, Residence and Position With the Company	Principal Occupation for the Past Five Years	Director or Executive Officer Since	Number and Percent of Common Shares[(6)]
Dave Shepherd Ontario, Canada *VP, Human Resources*	Vice-President of Human Resources of the Company (January 2019 to present); Director, Human Resources - The Ippolito Group (2008 to 2019); Executive Board Secretary - Food and Beverage Ontario (2011 to 2018); Program Advisory Chair - Conestoga College Cambridge, Ontario (2012 to present).	January 14, 2019	Nil
Keith White Ontario, Canada *President, Clinic Operations*	President, Clinic Operations of the Company (February 2019 to present); Chief Operating Officer, Oshawa Clinic Group (February 2011 to February 2019)	February 15, 2019	Nil

Notes:

(1) Member of the Strategic Planning Committee.
(2) Member of the Governance Committee.
(3) Member of the Human Resources and Compensation Committee.
(4) Member of the Audit Committee.
(5) Dr. Michael Verbora served as a director from March 26, 2018 to March 14, 2019; he has served as Chief Medical Officer of the Company since June 1, 2018.
(6) The information as to Common Shares beneficially owned or controlled or directed, directly or indirectly, by the directors and executive officers, not being within the knowledge of the Company, has been furnished by such directors and executive officers.
(7) Hon. Gary Goodyear served as a director from March 26, 2018 to April 23, 2018 and from May 31, 2018 to March 14, 2019; he also served as President, Clinic Operations of the Company from April 8, 2018 to February 15, 2019.

Ownership of Common Shares

As of the date of this AIF, the directors and executive officers of the Company, as a group, beneficially owned or controlled or directed, directly or indirectly, an aggregate of 9,702,640 Common Shares (approximately 3.57% of the Common Shares, issued and outstanding).

Cease Trade Orders, Bankruptcies, Penalties or Sanctions

Cease Trade Orders, Bankruptcies

To the knowledge of the Company, no director or executive officer of the Company or personal holding company of any of them, is, as of the date of this AIF or was within 10 years before the date of this AIF, a director, chief executive officer or chief financial officer of any company (including the Company) that:

(a) was subject to a cease trade or similar order, or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days (an "**order**") that was issued while the director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer; or

(b) was subject to an order that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer.

Other than as set out below, to the knowledge of the Company, no director or executive officer of the Company, or shareholder holding a sufficient number of securities of the Company to affect materially the control of the Company, or personal holding company of any of them, is, at the date of this AIF, or has been within the 10 years before the date of this AIF, a director or executive officer of any company (including the Company) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

Mr. Loreto Grimaldi was the Chief Legal Officer, General Counsel and Secretary of PCAS Patient Care Automation Services Inc. (and its subsidiaries) when it filed for protection under the *Companies' Creditors Arrangement Act* on March 23, 2012.

Trevor Newell was President and a director of SHOP.CA Network Inc. when it filed for protection under the *Bankruptcy and Insolvency Act* on June 7, 2016.

Penalties or Sanctions

To the knowledge of the Company, no director or executive officer of the Company, or shareholder holding a sufficient number of securities of the Company to affect materially the control of the Company, or personal holding company of any of them, has been subject to:

(a) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or

(b) any other penalties or sanctions imposed by a court or regulatory body that would be likely be considered important to a reasonable investor in making an investment decision.

The foregoing information, not being within the knowledge of Aleafia Health, has been furnished by the respective directors, executive officers and shareholders.

Personal Bankruptcies

To the knowledge of the Company, no director, or executive officer of the Company or shareholder holding a sufficient number of securities of the Company to affect materially the control of the Company, or a personal holding company of any of them, has, within the ten years before the date of this AIF, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement, or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of that person.

Conflicts of Interest

The Company's directors and officers are required by law to act honestly and in good faith with a view to the best interests of the Company and to disclose any conflicts of interest which they may have. If a conflict of interest arises, a director or officer must disclose his or her interest and a director must not attend any part of a meeting of directors during which the matter is discussed and must not vote on any resolution approving such matter.

To the knowledge of the Company, and other than as disclosed in this AIF, there are no known existing or potential material conflicts of interest between the Company, a subsidiary of the Company, and any director or officer of the Company or of a subsidiary of the Company, except that certain of the directors and officers serve as directors and officers of other companies, and therefore it is possible that a conflict may arise between their duties to the Company and their duties as a director or officer of such other companies.

AUDIT COMMITTEE AND RELATED INFORMATION

The following information is provided in accordance with Form 52-110F1 under the Canadian Securities Administrators' National Instrument 52-110 – *Audit Committees* ("**NI 52-110**").

Audit Committee Charter

The Audit Committee Charter (the "**Charter**") is attached as Schedule "A" to this AIF. The Charter was updated effective April 22, 2019.

Composition of the Audit Committee

As of December 31, 2018, the Audit Committee was composed of the following three directors: Lea Ray (Chair), Mark Sandler and William Stewart. The Audit Committee is currently composed of the following three directors: Lea Ray (Chair), Mark Sandler and Daniel Milliard. Each director was and is considered "independent" and "financially literate" (as such terms are defined in NI 52-110).

Relevant Education and Experience

Each member of the Audit Committee is financially literate, i.e., has the ability to read and understand financial statements. Collectively, the Audit Committee has the education and experience to fulfill the responsibilities outlined in the Charter. The following is a description of the education and experience of each member of the Audit Committee that is, in addition to such member's general business experience, relevant to the performance of his or her responsibilities as a member of the Audit Committee.

> *Lea Ray* ─ Ms. Ray is and has been a director and audit committee Chair for a number of boards of directors, including the Workplace Safety and Insurance Board, Street Capital Group Inc., and ProDemnity Insurance Company. She is currently the Chair of Street Capital and Street Capital Bank. She was also a director of Tarion Warranty Company, and was previously the Vice-Chair. Ms. Ray was also the Vice President, Corporate Finance/CFO for Warner Bros. Entertainment Groups of Companies in Canada. Ms. Ray is a Chartered Professional Accountant and holds an ICD.D designation granted by the Institute of Corporate Directors.
>
> *Mark Sandler* ─ Mr. Sandler has been a member of the Ontario bar for almost 40 years. He is the senior partner of Cooper, Sandler, Shime & Bergman LLP, and practices as an appellate and trial lawyer in criminal and regulatory matters. Much of Mr. Sandler's practice has been devoted to "white collar" litigation involving consideration of the accuracy of financial statements, books and records and management disclosures. He served an elected Bencher of the Law Society of Upper Canada for just under 12 years, and chaired its Appeal Panel and Tribunal Committee. He was also a member and Chair of the Board of the Law Foundation of Ontario. Mr. Sandler is also a former Commissioner of the Ontario Securities Commission.
>
> *Daniel Milliard* ─ Mr. Milliard has extensive board experience, public markets experience, and business leadership experience. Mr. Milliard has held positions as a director and audit committee member of Progressive Waste Solutions (2002 to 2016), the Chief Executive Officer of GT Group Telecom (1999 to 2003) and President and Chief Operating Officer of Hyperion Communications (1992 to 1999). Mr. Milliard holds a Bachelor of Science, Business Administration and Management, a Master of Arts, Business Administration and Management, a law degree (JD), a Chartered Director Certificate from McMaster University and a Human Resources and Compensation Committee Certification from McMaster University.

Reliance on Certain Exemptions

At no time since the commencement of the Company's most recently completed financial year has the Company relied on any exemption from NI 52-110.

Audit Committee Oversight

At no time since the commencement of the Company's most recently completed financial year was a recommendation of the Audit Committee to nominate or compensate an external auditor not adopted by the Board.

Pre-Approval Policies and Procedures

To date, the Board has not adopted specific policies and procedures for the engagement of non-audit services.

External Auditor Service Fees

Financial Period Ending	Audit Fees ($)(1)	Audit Related Fees ($)(2)	Tax Fees ($)(3)	All Other Fees ($)(4)
2018	82,805	-	-	-
2017	40,000	-	-	14,410
2016	-	-	-	-

Notes:

(1) "Audit Fees" includes fees for the performance of the annual audit and for accounting consultations on matters reflected in the financial statements.
(2) "Audit-Related Fees" includes fees for assurance and related services that are related to the performance of the review of the financial statements including fees for the AIF and "earn-in" audit work and are not reported under (1).
(3) "Tax Fees" includes fees for tax compliance, tax planning and tax advice.
(4) "All Other Fees" includes fees for valuation services and investigative services.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

There are no outstanding material legal proceedings to which the Company is a party or was a party to during the financial year ended December 31, 2018 or that any of its properties is subject or was subject to, during the financial year ended December 31, 2018, and no proceedings are known to be contemplated against the Company or any of its property.

There have been no penalties or sanctions imposed against the Company by a court relating to securities legislation or by a securities regulatory authority during the financial year ended December 31, 2018 and there have been no other penalties or sanctions imposed by a court or regulatory body against the Company that would likely be considered important to a reasonable investor in making an investment decision. The Company has not entered into any settlement agreement before a court relating to securities legislation or with a securities regulatory authority during the financial year ended December 31, 2018.

INTEREST OF MANAGEMENT & OTHERS IN MATERIAL TRANSACTIONS

No director or executive officer of the Company, any other insider of the Company or any associate or affiliate of any of such individuals or companies has or has had any material interest, direct or indirect, in any transaction within the three most recently completed financial years or during the current financial year that has materially affected or is reasonably expected to materially affect the Company.

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the Common Shares of the Company is Computershare Investor Services Inc., at its principal offices in Toronto, Ontario, 100 University Avenue, 8th Floor, North Tower, M5J 2Y1.

MATERIAL CONTRACTS

Except for contracts entered into in the ordinary course of business, the only material contracts the Company is a party to are the following:

- Supplemental Warrant Indenture dated March 14, 2019 between Emblem, Aleafia Health and Computershare with the Computershare providing for the issue of up to 14,024,391 common share purchase warrants of Emblem with each whole warrant exercisable to acquire one common share of Emblem at an exercise price of $2.70 per Emblem common share at any time prior to February 2, 2020.
- Supplemental Warrant Indenture dated March 14, 2019 between Emblem, Aleafia Health and the Computershare with the Computershare providing for the issue of up to 7,885,734 common share purchase warrants of Emblem with each whole warrant exercisable to acquire one common share of Emblem at an exercise price of $2.15 per Emblem common share at any time prior to November 16, 2020.
- Supplemental Warrant Indenture dated March 14, 2019 between Emblem, Aleafia Health and the Computershare with the Computershare providing for the issue of up to 2,192,834 common share purchase warrants of Emblem with each whole warrant exercisable to acquire one common share of Emblem at an exercise price of $4.75 per Emblem common share at any time prior to January 31, 2020.
- Supplemental Warrant Indenture dated March 14, 2019 between Emblem, Aleafia Health and the Computershare with the Computershare providing for the issue of up to 10,916,601 common share purchase warrants of Emblem with each whole warrant exercisable to acquire one common share of Emblem at an exercise price of $1.75 per Emblem common share at any time prior to December 6, 2019.
- Third Supplemental Warrant Indenture dated March 14, 2019 between Emblem, Aleafia Health and the Computershare with the Computershare providing for the issue of up to 8,717,814 common share purchase warrants of Emblem with each whole warrant exercisable to acquire one common share of Emblem at an exercise price of $0.75 per Emblem common share at any time prior to December 6, 2021.
- Supplemental Trust Indenture dated March 14, 2019 between Emblem, Aleafia Health and the Computershare providing for adjustments to the Conversion Price (as the term is defined therein) as a result of the Arrangement and the assumption of covenants and obligations by the Company.
- Arrangement Agreement, see *"Recent Developments".*
- CannaPacific Investment Agreement, see *"Events Following the Business Combination (March 28, 2018–December 31, 2018)" and "Description of the Business – General – International Expansion".*
- Memorandum of Understanding dated September 25, 2018 between CannTrust Inc. and Aleafia Health Inc. that gives CannTrust the right of first refusal to purchase all bulk dried cannabis produced by Aleafia Health in 2019, up to 15,000kg.
- The Original Aleafia Licence, see "*Description of the Business - Licences".*

- The Amended Aleafia Licence, see *"Description of the Business - Licences".*
- The Emblem Licence, see *"Description of the Business - Licences".*
- Master Joint Venture Agreement between SPE Finance LLC and Aleafia Brands Inc. and Aleafia Health Inc. dated November 22, 2018 regarding the Flying High Brands Inc. joint venture, see "*Events Following the Business Combination (March 28, 2018–December 31, 2018)"*
- Master Joint Venture Agreement between SPE Finance LLC and Aleafia Retail Inc. and Aleafia Health Inc. dated November 22, 2018 regarding the One Plant (Retail) Corp. joint venture, see *"Events Following the Business Combination (March 28, 2018–December 31, 2018)"*
- Warrant Indenture between Aleafia Inc., Computershare and Canabo Medical Inc. dated February 15, 2018 providing for the issue of warrants in connection with the Business Combination.
- Business Combination Agreement between Aleafia Inc., Canabo Medical Inc. and 2412550 Ontario Inc. dated January 31, 2018 in connection with the Business Combination, see *"Corporate Structure".*
- Licence Agreement between International Franchise Inc. and Flying High Brands Inc. dated November 22, 2018, under which International Franchise Inc. agreed to licence to Flying High Brands Inc. an exclusive, royalty-free, non-sublicensable (except to Aleafia Health), non-transferable, non-assignable and revocable licence to use certain intellectual property for the display, marketing, advertisement, promotion, distribution, sale or resale of products anywhere except the U.S.
- Wholesale Cannabis Supply Agreement between ECC and Aphria dated September 11, 2018, which contemplates Emblem purchasing up to 175,000 kg equivalents of cannabis products from Aphria over a five-year term with the opportunity for subsequent five-year renewals. Pursuant to the Agreement, Emblem will pay to Aphria an initial deposit comprised of a cash payment of $12,755,625 and the issuance of 6,952,169 common shares of Emblem.
- Equity investment by Emblem into Compass on September 10, 2018 whereby Emblem purchased $1,000,000 in units of Compass (each a "**Compass Unit**") at a price of $0.60 per Compass Unit, each Compass Unit consisting of one common share in the capital of Compass and one-half of one common share purchase warrant in Compass, with each whole warrant entitling the holder to purchase one (1) additional common share in Compass at a price of $0.75 per common share for a period of twenty-four (24) months from the date of investment.
- Definitive Agreement between ECC and Acnos dated October 24, 2018 regarding the formation of a joint venture under the name of "Emblem Germany" for the purpose of exporting medical cannabis products into Germany. Emblem Germany is owned 60% by ECC and 40% by Acnos.
- Supply Agreement for non-medical cannabis between ECC and Her Majesty the Queen in Right of the Province of British Columbia, as represented by the Administrator of the Cannabis Distribution Act, SBC 2018, c 28 (the "**Province of BC**") dated July 31, 2018. Pursuant to the terms of the agreement, ECC will supply the Province of BC with cannabis products at such quantities as specified in purchase orders issued by the Province of BC as may be issued from time to time at such wholesale prices as determined by the Province of BC. The agreement is for an indefinite term and is subject to the termination by the Province of BC as contemplated therein, including, but not limited to termination upon ninety (90) days' prior written notice.
- Supply Approval between ECC and the Saskatchewan Liquor and Gaming Authority dated October 3, 2018 to supply Saskatchewan with cannabis products to authorized provincial wholesalers and retailers in the province of Saskatchewan under Emblem's Symbl brand.

- Supply agreement between ECC and the operator of the Ontario Cannabis Store (OCS) to supply Ontario with locally-grown cannabis products under Emblem's Symbl brand.

- A strategic partnership between Emblem and Greenspace Brands Inc. ("**GreenSpace**") dated August 1, 2018 under which the parties will develop CBD infused health and beauty products for the recreational cannabis market. Under the terms of the partnership, GreenSpace committed to a five-year exclusive supply agreement with Emblem. In addition, Emblem made a $2,000,000 investment in GreenSpace comprised of $1,000,000 in common shares in the capital of GreenSpace at a subscription price of $0.976 per share and $1,000,000 in unsecured convertible debentures to fund the start-up of GreenSpace's CBD business. Emblem will earn a 4% royalty on all hemp-based product sales and a 7% royalty on all cannabis-based CBD product sales.

- A supply agreement between ECC and the Alberta Gaming and Liquor Commission dated July 4, 2018 to supply the province of Alberta with cannabis products. The agreement became effective upon signing and continues for one (1) year from the date the *Cannabis Act* came into force; the agreement can be extended for an additional two (2) terms of one (1) year each.

- Equity investment into Fire & Flower dated April 18, 2018, under which Emblem purchased $2,000,000 of units of Fire & Flower ("**F&F Units**") at a price of $0.80 per F&F Unit. Each F&F Unit consists of one common share in the capital of Fire & Flower (each, an "**F&F Share**") and one common share purchase warrant entitling the holder thereof to acquire one (1) additional F&F Share at a price of $1.05 per share for a period of two (2) years, subject to adjustments in certain events.

- On February 13, 2019, Emblem transferred its 3,125,000 common shares in Fire & Flower to Fire & Flower for a non-interest bearing unsecured convertible debenture of Fire & Flower with an aggregate principal amount of $2,500,000. This debenture is convertible into Fire & Flower common shares at a price of no more than $0.80 per common share, subject to an adjustment as set forth in the debenture. The debentures of Fire & Flower have been converted into convertible debentures of Fire & Flower Holdings Corp., which has acquired all of the issued and outstanding shares of Fire & Flower.

- Strategic Alliance and Share Exchange Agreement among Canabo Medical Corporation, Canabo Medical Inc., Peak Pulmonary Consulting Inc. ("Peak") and Cielomed Inc. dated March 28, 2017. Under the agreement, upon the earlier of: (i) Peak providing 20,000 patient referrals to the Company or (ii) five years elapse from the date of the agreement, Aleafia Health will issue up to 1,869,000 Common Shares, representing up to a maximum deemed value of $1,600,000.

INTERESTS OF EXPERTS

The annual consolidated financial statements for the year ended December 31, 2018 were audited by Manning Elliott LLP, Chartered Professional Accountants, of Vancouver, British Columbia, Canada. The auditors, appointed by the shareholders, examined the consolidated financial statements in accordance with International Financial Reporting Standards. Manning Elliott LLP confirmed that they are independent with respect to the Company within the meaning of the Rules of Professional Conduct.

ADDITIONAL INFORMATION

Additional information relating to the Company may be found on SEDAR at www.sedar.com and on its website at www.aleafiahealth.com.

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Company's securities and securities authorized for issuance under equity compensation plans, is contained in the Company's management information circular for its previous annual and special meeting of shareholders held on May 31, 2018 and will be contained in its management information circular for its 2019 annual and special meeting of shareholders which is expected to be held on June 17, 2019. For information relating to compensation and corporate governance related matters, please see "Statement of Executive Compensation" and "Statement of Corporate Governance Practices", respectively, in such circular.

Additional financial information is provided in the Company's audited consolidated financial statements and management's discussion and analysis for its most recently completed financial year.

SCHEDULE "A"
AUDIT COMMITTEE CHARTER

Under National Instrument 52-110 – Audit Committees ("**NI 52-110**") reporting issuers are required to provide disclosure with respect to its Audit Committee including the text of the Audit Committee's Charter, composition of the Committee, and the fees paid to the external auditor. The Company provides the following disclosure with respect to its Audit Committee:

ARTICLE 1
PURPOSE AND SCOPE

1.1 Functions of the Audit Committee

The primary functions of the Audit Committee (the "**Committee**") of the Board of Directors of the Company (the "**Board**") are to exercise the responsibilities and duties set forth below, including but not limited to:

(a) assist the Board in fulfilling its responsibilities by reviewing:

(i) the financial reports prepared by management of the Company for filing with the Canadian and U.S. securities regulatory authorities, including the Ontario Securities Commission and the U.S. Securities and Exchange Commission, any stock exchange and any other governmental or regulatory authority exercising authority over the Company (each a "**Regulatory Authority**");

(ii) the Company's financial statements, management's discussion and analysis of the Company's financial condition and results of operations (the "**MD&A**"), and annual and interim profit or loss press releases before the Company discloses the information to the Company's shareholders and to the general public; and

(iii) the Company's internal financial and accounting controls established by management of the Company;

(b) recommend to the Board the external auditor to be nominated for appointment by the shareholders of the Company for the purpose of preparing or issuing an auditor's report;

(c) recommend to the Board the external auditor performing other audit, review or attest services for the issuer;

(d) recommend to the Board the compensation of the external auditor to be fixed by the Board as authorized by the shareholders of the Company;

(e) oversee the work performed by any independent external audit firm, including its conduct of the annual audit and engagement for any other services, as well as review the qualifications and independence of such auditor;

(f) oversee the accounting and financial reporting processes of the Company as established by the Company's management;

(g) recommend, establish and monitor procedures, including without limitation those relating to financial reporting risk management and those designed to improve the quality and reliability of the disclosure of the Company's financial condition and results of operations,

(h) without limiting Section 1.1(g), establish and monitor procedures designed to facilitate:

(i) the receipt, retention and treatment of complaints relating to accounting, internal accounting controls or auditing matters, and

(ii) the receipt of confidential or anonymous submissions by employees of concerns regarding questionable accounting or auditing matters,

(i) assist the Board with respect to the Corporation's compliance with legal and regulatory requirements relating to the Committee's mandate under this Charter;

(j) engage advisors as necessary, and

(k) determine the relevant funding required by the Company for the payment of the independent audit firm, any advisors engaged by the Committee and ordinary administrative expenses of the Committee.

ARTICLE 2
COMPOSITION AND MEETINGS

2.1 Composition

(a) The Committee shall be comprised of a minimum of three directors of the Board as appointed by the Board, each of whom:

(i) meets the applicable independence and/or audit committee composition requirements set forth in:

(A) National Instrument 52-110 — *Audit Committees* of the Canadian Securities Administrators;

(B) Section 10A-3 of, and Rule 10A-3(b)(1) under, the Securities Exchange Act of 1934, as amended (the "**U.S. Exchange Act**"),

(C) the NASDAQ Listing Standards, the TSX-V or TSX Company Manual, as applicable, or the rules of any other applicable stock exchange;

(D) the *Business Corporations Act* (Ontario); and

(E) any other applicable rule, policy or law of any Regulatory Authority, as in effect from time to time (collectively, the "**Applicable Requirements**"); and

(ii) has not participated in the preparation of financial statements or audit of the Company or any current subsidiary of the Company at any time during the past three years.

(b) All members of the Committee shall be "financially literate", which is defined as having a basic understanding of finance and accounting and having the ability to read and understand fundamental financial statements, including a balance sheet, cash flow statement and income statement, that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Company's financial statements.

(c) At least one member of the Committee shall have employment experience in finance or accounting, requisite professional certification in accounting, or other comparable experience or background which results in the individual's financial sophistication, including being or having been a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities. Further, at least one member of the Committee shall qualify as an "audit committee financial expert" (as such term is defined in paragraph 8(b) of General Instruction B of Form 40-F under the U.S. Exchange Act).

(d) The Committee shall ensure that all necessary and proper disclosures shall be made in all applicable filings with the Regulatory Authorities as to composition of the Committee.

(e) Committee members may enhance their familiarity with finance and accounting by participating in education programs conducted by the Company or an outside consultant at the Company's expense.

Independence and financial literacy are to be determined by the Board of Directors in accordance with applicable laws, rules and regulations of the Regulatory Authorities.

2.2 Appointment

(a) The members of the Committee shall be appointed by the Board at the meeting of the Board following each annual meeting of shareholders and shall serve until their successors shall be duly elected and qualified or until their earlier death, resignation or removal.

(b) The Board may fill a vacancy in the membership of the Committee and remove a member of the Committee at any time for any reason.

(c) Unless a Chair is elected by the full Board, the members of the Committee may designate a Chair by majority vote of the full Committee membership. In the absence of the Chair at a duly convened meeting, the Committee shall select a temporary substitute from among its members.

2.3 Meetings

(a) The Committee shall meet on a regularly-scheduled basis at least four times per year or more frequently as circumstances dictate.

(b) At the invitation of the Committee, members of the Company's management, senior personnel of the Company's internal audit function and others may attend Committee meetings as the Committee considers necessary or desirable.

(c) Representatives of the Company's independent external audit firm are entitled to attend and be heard at each Committee meeting.

(d) The Committee shall hold executive sessions without management present at each Committee meeting.

(e) All independent directors may attend Committee meetings, provided that directors who are not members of the Committee shall not be entitled to vote, nor shall their attendance be counted as part of the quorum of the Committee.

(f) The Chair of the Committee or any member of the Committee may call a meeting by notifying the members of the Committee. Ordinarily, meetings of the Committee should be convened with no less than 48 hours' notice having been given. The requirement for notice to a Committee member can be waived in writing by that Committee member or with the consent of no less than the number of Committee members that constitutes a quorum of the Committee, whether before or after such notice is required. Attendance by a Committee member constitutes waiver of notice to such Committee member of such meeting.

(g) The Committee shall report its actions to the members of the Board and the Corporate Secretary of the Company and keep written minutes of its meetings which shall be recorded and filed with the books and records of the Company. Minutes of each meeting will be made available to the members of the Board and the Secretary of the Company.

2.4 Quorum

A majority of the members of the Committee shall constitute a quorum at any meeting of the Committee, but in no case shall a quorum be comprised of less than two members of the Committee, and the action of a majority of those present, after determining a quorum, shall be the act of the Committee.

ARTICLE 3
RESPONSIBILITIES AND DUTIES

3.1 Document Review

(a) The Committee shall review and assess the adequacy of this Charter periodically as conditions dictate, but at least annually, and recommend changes to the Board for its approval, if and when appropriate.

(b) The Committee shall review the Company's audited annual financial statements, the auditors' report thereon and the related financial disclosures, including the MD&A, prior to their filing with any Regulatory Authority, including:

(i) the audit reports of the Company's financial statements and management's assessment of internal control over financial reporting, any memorandum prepared by the Company's independent external audit firm with respect to assessment of internal control over financial reporting, any other pertinent reports and management's responses concerning any such memorandum;

(ii) the qualitative judgments of the independent external audit firm about the appropriateness of accounting principles and financial disclosure practices used or proposed to be adopted by the Company;

(iii) the selection, application and appropriateness of the Company's critical accounting policies, matters of significant judgment and/or significant unusual transactions;

(iv) the development of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus;

(v) management's process for formulating sensitive accounting estimates and the reasonableness of these estimates;

(vi) significant recorded and unrecorded audit adjustments;

(vii) any material accounting issues among management and the independent external audit firm; and

(viii) other matters required to be communicated to the Committee under applicable auditing standards by independent auditors.

After such review, the Committee shall recommend to the Board whether such audited annual financial statements and related MD&A should be filed with the applicable Regulatory Authorities.

(c) The Committee shall review the Company's quarterly financial statements and the related MD&A. After such review, the Committee shall recommend to the Board whether such financial statements and related MD&A should be filed with the applicable Regulatory Authorities. If any Regulatory Authority requires that the independent external audit firm review the Company's interim financial statements prior to their filing with the Regulatory Authority, the Committee shall take steps designed to ensure that such review has been completed.

(d) The Committee shall review any other financial reports and filings as may be deemed appropriate by the Committee or required by any other Regulatory Authority (including financial disclosure in a registration statement, prospectus or other securities offering document of the Company, press releases disclosing, or based upon, financial results of the Company including earnings releases and any other material financial disclosure, including financial guidance provided to analysts, rating agencies or otherwise publicly disseminated) and shall recommend to the Board whether such other financial reports or filings should be included in any external filing.

(e) The Committee shall review any forward-looking financial information prepared by management of the Company that is proposed to be publicly disseminated.

3.2 Independent Audit Firm

(a) Subject to the approval of the Board and the shareholders of the Company as may be required under the *Business Corporations Act* (Ontario), the Committee shall have the sole authority and direct responsibility for the appointment, compensation and oversight of any independent external audit firm engaged for the purpose of preparing or issuing an external audit report or performing other audit, review or attest services for the Company, and each such independent audit firm must report directly to the Committee. The authority of the Committee shall include ultimate authority to approve all audit engagement fees and terms.

(b) The Committee shall approve in advance any and all audit services and permissible non-audit services to be performed by the independent external audit firm in accordance with Applicable Requirements (as defined below) and adopt and implement policies for such pre-approval.

(c) The Committee shall determine funding necessary for compensation of any independent external audit firm and notify the Company of anticipated funding needs of the Committee.

(d) The Committee shall instruct the independent external audit firm that it should report directly to the Committee on matters pertaining to the work performed during its engagement and on matters required by the Applicable Requirements and shall resolve any disagreements between management and the independent external audit firm as to financial reporting matters.

(e) On at least an annual basis, the Committee shall receive from the independent external audit firm a formal written statement identifying all relationships between the independent external audit firm and the Company consistent with the applicable requirements of the Public Corporation Accounting Oversight Board (the "**PCAOB**"), the Canadian Auditing and Assurance Standards Board and/or the applicable Rules of Professional Conduct/Code of Ethics adopted by the order of chartered accountants to which it belongs and the Applicable Requirements. The Committee shall actively engage in a dialogue with the independent external audit firm as to any disclosed relationships or services that may impact its objectivity and independence and take any other action considered appropriate to satisfy the Committee of the independence of the independent external audit firm. The Committee shall establish policies for ensuring receipt from the independent external audit firm of a formal written statement of independence prior to engagement, and then on at least an annual basis, and take appropriate action to oversee the independence of the independent external audit firm.

(f) On an annual basis, the Committee shall discuss with representatives of the independent external audit firm the matters required to be discussed by PCAOB Auditing Standard No. 16 Communications with Audit Committee, as it may be modified or supplemented, or any other applicable standards of the PCAOB.

(g) The Committee shall evaluate the qualifications and performance of the independent external audit firm and shall, at least annually, review the qualifications and performance of the lead partner(s) of the independent external audit firm.

(h) The Committee shall obtain a report from the independent external audit firm annually verifying that the lead partner has served in that capacity for no more than five fiscal years of the Company and that the engagement team collectively possesses the experience and competence to perform an appropriate audit.

(i) The Committee shall review and approve policies for the Company's hiring of partners and employees or former partners and employees of the independent audit firm.

(j) When a change of independent external audit firm is proposed, the Committee shall review all issues related to the change, including the information required to be disclosed by any Regulatory Authority.

(k) The Committee shall review all reportable events, including disagreements, unresolved issues and consultations with the Company's independent external audit firm, whether or not there is to be a change of independent audit firm, and receive and review all reports prepared by the independent audit firm.

3.3 Financial Reporting Processes

(a) In consultation with the Company's management and the independent external audit firm, the Committee shall review annually the adequacy of the Company's internal control over financial reporting and consider, in particular:

(i) the effectiveness of, or weakness or deficiencies in: the design or operation of the Company's internal controls (including computerized information system controls and security), the overall control environment for managing business risks, and accounting, financial and disclosure controls (including, without limitation, controls over financial reporting), non-financial controls, and legal and regulatory controls and the impact of any identified weaknesses in internal controls on management's conclusions;

(ii) any significant changes in internal control over financial reporting that are disclosed, or considered for disclosure, including those in the Company's periodic regulatory filings;

(iii) any issues raised by any inquiry or investigation by any Regulatory Authority;

(iv) the Company's fraud prevention and detection program, including deficiencies in internal controls that may impact the integrity of financial information, or may expose the Company to other significant internal or external fraud losses and the extent of those losses and any disciplinary action in respect of fraud taken against management or other senior employees who have a significant role in financial reporting; and

(v) any related significant issues and recommendations of the independent external audit firm together with management's responses thereto, including the timetable for implementation of recommendations to correct weaknesses in internal controls over financial reporting and disclosure controls.

(b) The Committee shall require the Company's Chief Executive Officer and Chief Financial Officer to submit a report to the Committee prior to the filing of the Company's annual audited financial statements and quarterly unaudited interim financial statements, which is based on their evaluation of internal control over financial reporting, and which discloses:

(i) any and all significant deficiencies and material weaknesses in the design and operation of the internal controls over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize, and report financial data;

(ii) any significant changes in internal control over financial reporting; and

(iii) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting,

(c) The Committee shall direct the actions to be taken and/or make recommendations to the Board of actions to be taken, to the extent such report indicates the finding of any significant deficiencies in internal control over financial reporting or fraud.

(d) In consultation with the Corporate Secretary, the General Counsel or other management members as appropriate, the Committee shall review legal compliance matters that may have a material impact on the Company, the effectiveness of the Company's compliance policies, and any material communications from regulators, as well as management's plans to remediate any deficiencies identified.

(e) The Committee shall:

(i) regularly review the Company's critical accounting policies and accounting estimates resulting from the application of these policies;

(ii) inquire at least annually of both the Company's management and the independent external audit firm as to whether each has any concerns relative to the quality or aggressiveness of management's accounting policies;

(iii) review with the independent external audit firm alternative accounting treatments that have been discussed with management;

(iv) review with management any significant changes in IFRS as issued by the IASB, as well as emerging accounting and auditing issues, and their potential effects; and

(v) review with management matters that may have a material effect on the financial statements.

3.4 Compliance

(a) The Committee shall establish procedures in compliance with applicable law for:

(i) the receipt, retention, and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters; and

(ii) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.

(b) The Committee shall investigate any allegations that any officer or director of the Company, or any other person acting under the direction of any such person, took any action to fraudulently influence, coerce, manipulate, or mislead any firm (including the Company's independent external audit firm) engaged in the performance of an audit of the financial statements of the Company for the purpose of rendering such financial statements materially misleading and, if such allegations prove to be correct, take or recommend to the Board of Directors appropriate disciplinary action.

3.5 Reporting

The Committee shall advise the Corporation's management of the need to disclose in its filings with Regulatory Authorities the approval by the Committee of any non-audit services performed by the independent external audit firm and review the substance of any such disclosure and the considerations relating to the compatibility of such services with maintaining the independence of the independent external audit firm.

3.6 Conflicts of Interest

The Committee shall review the Company's policies relating to the avoidance of conflicts of interest and review and approve all payments to be made pursuant to any related party transactions involving executive officers and members of the Board, as required by any Regulatory Authority. The Committee shall consider the results of any review of these policies and procedures by the Company's independent external audit firm.

3.7 Access to Management and Independent Advice

(a) The Committee shall have unrestricted access to the Company's management and employees and the books and records of the Company and, from time to time may hold unscheduled or regularly scheduled meetings or portions of meetings in executive session or otherwise with the Company's independent external audit firm, the Chief Financial Officer, the Chief Executive Officer or the Corporate Secretary.

(b) The Committee may conduct or authorize investigations into or studies of matters within the Committee's scope of responsibilities and duties as described above, and may seek, retain and terminate accounting, legal, consulting or other expert advice from a source independent of management, at the expense of the Company, with notice to either the Chair of the Board or the Chief Executive Officer of the Company, as deemed appropriate by the Committee. In furtherance of the foregoing, the Committee shall have the sole authority to retain and terminate any such consultant or advisor to be used to assist in the evaluation of such matters and shall have the sole authority to approve the consultant or advisor's fees and other retention terms.

3.8 Duty of the Committee

While the Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Committee to plan or conduct audits, to establish the Company's accounting and financial reporting systems, or to determine that the Company's financial statements are complete and accurate and are in accordance with generally accepted accounting principles.

ARTICLE 4
NO RIGHTS CREATED

This Charter is a broad policy statement and is intended to be part of the Board's flexible governance framework. While this Charter should comply with all Applicable Requirements and the Company's constating documents, including articles and by-laws, this Charter does not create any legally binding obligations on the Board, the Committee or any other committee of the Board or any director or the Company.