ALEAFIA HEALTH INC.
(formerly Canabo Medical Inc.)

CONSOLIDATED FINANCIAL STATEMENTS
(expressed in Canadian Dollars)

Periods Ended December 31, 2018 and 2017

April 17, 2019

To the Shareholders of Aleafia Health Inc.:

The accompanying consolidated financial statements of Aleafia Health Inc. were prepared by management, which is responsible for the integrity and fairness of the information presented, including responsibility for significant accounting estimates and judgments. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards.

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

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

Manning Elliott LLP, the Company's independent auditors, have performed an independent audit of the consolidated financial statements and their report follows. The auditors have full and unrestricted access to the Audit Committee to discuss their audit and related findings.

Signed:

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

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

MANNING ELLIOTT
ACCOUNTANTS & BUSINESS ADVISORS

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Aleafia Health Inc.

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Aleafia Health Inc. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of comprehensive loss, changes in equity and cash flows for the periods then ended, and the related notes, including a summary of significant accounting policies (collectively referred to as the "consolidated financial statements").

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and 2017, and its financial performance and its cash flows for the periods then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information, which comprises the information included in the Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

Our opinion on the consolidated financial statements does not cover the other information and does not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Consolidated Financial Statements

Our responsibility is to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of the users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Fernando Costa.

Manning Elliott LLP

CHARTERED PROFESSIONAL ACCOUNTANTS
Vancouver, British Columbia
April 17, 2019

ALEAFIA HEALTH INC.
Consolidated Statements of Financial Position
As at December 31, 2018 and 2017
(Expressed in Canadian dollars)

	Note	2018	2017
		$	$
ASSETS			
CURRENT			
Cash and cash equivalents		26,406,978	1,057,231
Accounts receivable		2,028,332	123,979
Prepaid expenses		222,817	15,162
Inventory	12	356,359	-
Biological assets	13	233,333	-
		29,247,819	1,196,372
PREPAID DEPOSITS FOR PROPERTY, PLANT AND EQUIPMENT		3,749,289	-
PROPERTY, PLANT AND EQUIPMENT	7	13,779,799	1,636,430
INVESTMENT	14	4,000,000	-
INTANGIBLE ASSETS	8	34,373,642	10,048,000
GOODWILL	5,6	12,713,882	5,064,288
		97,864,431	17,945,090
LIABILITIES			
CURRENT			
Accounts payable and accrued liabilities	10	3,281,020	564,386
Deferred revenue		213,763	-
Vendor take-back loan mortgage	5	-	4,000,000
		3,494,783	4,564,386
DEFERRED INCOME TAX LIABILITY		2,436,439	2,464,000
		5,931,222	7,028,386
SHAREHOLDERS' EQUITY			
SHARE CAPITAL	9	104,455,368	12,285,030
WARRANTS	9	748,228	-
CONTRIBUTED SURPLUS	9	14,954,088	8,323,573
DEFICIT		(28,224,475)	(9,691,899)
		91,933,209	10,916,704
		97,864,431	17,945,090

NATURE OF OPERATIONS (Note 1)
COMMITMENTS AND CONTINGENCIES (Notes 9(f) and 17)
SUBSEQUENT EVENTS (Note 19)

Approved and authorized for issue on behalf of the Board on April 17, 2019

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

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

ALEAFIA HEALTH INC.
Consolidated Statements of Comprehensive Loss
For the periods ended December 31, 2018 and 2017
(Expressed in Canadian dollars)

		2018	**2017**
		$	$
REVENUE			
Consultation services		1,548,728	15,766
Research		1,152,048	-
Sale of cannabis		629,146	-
		3,329,922	15,766
COST OF SALES			
Doctor services		1,129,654	-
Cost of goods sold - cannabis		554,217	-
GROSS PROFIT BEFORE FAIR VALUE ADJUSTMENT		1,646,051	-
Unrealized gain on changes in fair value of biological assets	13	1,142,240	-
GROSS PROFIT		2,788,291	15,766
EXPENSES			
Wages and benefits	10	3,508,313	799,231
General and administration		2,055,769	189,937
Sales, marketing and promotion		933,430	114,014
Business advisory fees	10	1,216,657	-
Consulting and legal fees	10	2,441,409	220,447
Amortization and depreciation		1,659,003	60,463
Share-based payments	9,10	10,783,955	8,323,573
		22,598,536	9,707,665
LOSS BEFORE OTHER INCOME AND TAXES		(19,810,245)	(9,691,899)
OTHER INCOME			
Interest income		169,843	-
Gain on disposal of equipment		100,000	-
		(19,540,402)	(9,691,899)
DEFERRED INCOME TAX			
Deferred income tax recovery		1,007,826	-
NET LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD		(18,532,576)	(9,691,899)
LOSS PER SHARE – Basic and diluted		(0.16)	(0.24)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING		117,162,267	39,977,615

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

ALEAFIA HEALTH INC.
Consolidated Statements of Changes in Equity
For the periods ended December 31, 2018 and 2017
(Expressed in Canadian dollars)

	Common Shares		Warrants				
	Number of shares	Amount	Number of warrants	Amount	Contributed Surplus	Deficit	Total
		$		$	$	$	$
Issued on incorporation	1	-	-	-	-	-	-
Shares issued for cash	32,169,999	30	-	-	-	-	30
Shares issued for cash	9,840,000	2,460,000	-	-	-	-	2,460,000
Shares issued for cash	7,660,000	3,830,000	-	-	-	-	3,830,000
Subscription receivable	-	(5,000)	-	-	-	-	(5,000)
Common shares issued for business acquisition	24,000,000	6,000,000	-	-	-	-	6,000,000
Share-based payments	-	-	-	-	8,323,573	-	8,323,573
Net loss for the period	-	-	-	-	-	(9,691,899)	(9,691,899)
Balance, December 31, 2017	73,670,000	12,285,030	-	-	8,323,573	(9,691,899)	10,916,704
Shares issued for cash	24,171,000	30,213,750	12,085,500	-	-	-	30,213,750
Share issuance costs	-	(1,934,840)	-	-	-	-	(1,934,840)
Broker's warrants	-	(1,241,212)	2,005,380	1,241,212	-	-	-
Shares deemed to be issued on RTO (Note 6)	38,103,461	26,291,388	-	-	-	-	26,291,388
Warrants deemed to be issued on RTO (Note 6)	-	-	203,350	159,777	-	-	159,777
Options deemed to be issued on RTO (Note 6)	-	-	-	-	163,729	-	163,729
Warrants issued to CannTrust	-	-	500,000	286,657	-	-	286,657
Shares issued from warrants exercised	3,959,600	6,929,300	(3,959,600)	-	-	-	6,929,300
Shares issued from broker's warrants exercised	1,606,040	2,961,570	(1,606,040)	(939,418)	-	-	2,022,152
Shares issued from options exercised	3,838,711	6,060,382	-	-	(4,317,169)	-	1,743,213
Subscription receivable	-	(100,000)	-	-	-	-	(100,000)
Shares issued for Flying High Brands Inc.	6,000,000	12,060,000	-	-	-	-	12,060,000
Shares issued for cash	5,000,000	10,000,000	-	-	-	-	10,000,000
Shares issued for services	1,500,000	930,000	-	-	-	-	930,000
Share-based payments	-	-	-	-	10,783,955	-	10,783,955
Net loss for the year	-	-	-	-	-	(18,532,576)	(18,532,576)
Balance, December 31, 2018	157,848,812	104,455,368	9,228,590	748,228	14,954,088	(28,224,475)	91,933,209

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

ALEAFIA HEALTH INC.
Consolidated Statements of Cash Flows
For the periods ended December 31, 2018 and 2017
(Expressed in Canadian dollars)

	2018	2017
	$	$
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES		
Net loss for the period	(18,532,576)	(9,691,899)
Items not involving cash:		
Amortization	1,659,003	60,463
Business advisory fees	1,216,657	-
Deferred income tax recovery	(1,007,826)	-
Share-based payments	10,783,955	8,323,573
Unrealized gain on changes in fair value of biological assets	(233,333)	-
	(6,114,120)	(1,307,863)
Changes in non-cash working capital balances:		
Accounts receivable	(1,052,873)	(123,979)
Prepaid expenses and deposits	(3,886,072)	(15,162)
Inventory	(354,808)	-
Accounts payable and accrued liabilities	1,330,308	564,386
Deferred revenue	(219,899)	-
Cash used in operating activities	(10,297,464)	(882,618)
INVESTING ACTIVITIES		
Acquisition of Aleafia Farms	-	(3,900,000)
Acquisition of property plant and equipment	(12,143,184)	(445,181)
Cash acquired on business amalgamation	6,916,819	-
Investments	(4,000,000)	-
Cash used in investing activities	(9,226,365)	(4,345,181)
FINANCING ACTIVITIES		
Proceeds from issuance of shares, net of issuance costs	28,278,910	6,285,030
Proceeds from warrants exercised	8,951,453	-
Proceeds from options exercised	1,643,213	-
Proceeds from shares issued to Serruya	10,000,000	-
Repayment of vendor take-back mortgage	(4,000,000)	-
Cash provided by financing activities	44,873,576	6,285,030
CHANGE IN CASH	25,349,747	1,057,231
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	1,057,231	-
CASH AND CASH EQUIVALENTS, END OF PERIOD	26,406,978	1,057,231
SUPPLEMENTAL CASH DISCLOSURES		
Interest paid	$ -	$ -
Income taxes paid	$ -	$ -
NON-CASH TRANSACTIONS		
Shares issued for acquisition of FHBI	$ 12,060,000	$ -
Shares issued for business combination	$ -	$6,000,000
Vendor take-back loan	$ -	$4,000,000

The accompanying notes are an integral part of these consolidated financial statements.

1. NATURE OF OPERATIONS

Aleafia Health Inc. (the "Company or Aleafia") formerly Canabo Medical Inc. ("Canabo") was incorporated under the laws of the Province of British Columbia on February 2, 2007 and continued under the laws of the Province of Ontario on June 27, 2018. On November 9, 2016 the Company acquired Canabo Medical Corporation and on March 26, 2018 completed a business amalgamation described in Note 6. The business amalgamation was treated as a reverse acquisition transaction for accounting purposes. The historical operations, assets and liabilities of Aleafia Inc. are included as the comparative figures as at December 31, 2017 and for the period ended December 31, 2017, which is deemed to be the continuing entity for financial reporting purposes. The Company changed its name to Aleafia Health Inc. and on March 19, 2019 graduated from the TSX Venture Exchange to the TSX exchange. The Company trades under the symbol ALEF.

The Company is engaged in the business of providing medical services to patients suffering from chronic pain and disabling illnesses through its health clinics operated by qualified health care practitioners. During the period ended December 31, 2017 and as described in Note 5, Aleafia Inc. acquired a 100% interest in Aleafia Farms Inc. ("Aleafia Farms"). Aleafia Farms is a licensed producer of medical cannabis in Canada pursuant to Health Canada's Cannabis Act & Regulations (formerly Access to Cannabis for Medical Purposes Regulations). On July 30, 2018, the Company acquired a modern, fully automated 160,000 sq. feet greenhouse in Grimsby, Niagara region. Operations at the Aleafia Farms Port Perry facility have commenced, and Grimsby facility is expected to begin during the spring of 2019.

Canabo operates a network of clinics across Canada offering medical consultation services to determine the suitability of medical cannabis in treating patients with chronic pain and other disabling illnesses. The other principal activity of the business is the growing and the sale of cannabis as regulated by the Access to Cannabis for Medical Purposes Regulations ("ACMPR") in Canada. The head office and principal business of the Company is 2nd floor, 8810 Jane Street, Concord, Ontario.

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

As at December 31, 2018, the Company had not generated a profit and had accumulated a deficit of $28,224,475. The Company's operations and expenditures have been funded by the issuance of equity.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements were authorized for issue in accordance with a resolution from the Board of Directors on April 17, 2019.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of presentation

The consolidated financial statements have been prepared on the historical cost basis, with the exception of financial instruments which are measured at fair value, as explained in the accounting policies set out below. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information. The functional currency of the Company and its subsidiaries is the Canadian dollar.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

a) Consolidation

These consolidated financial statements comprise the financial statements of the Company and its Canadian subsidiaries, as presented below. Subsidiaries are those entities which the Company controls by having the power to govern the financial and operational policies of the entity. This control is generally evidenced through owning more than 50% of the voting rights or currently exercisable potential voting rights of a company's share capital. All intercompany transactions and balances have been eliminated.

	Percentage ownership interest	
	2018	2017
Aleafia Inc.	100%	100%
Canabo Medical Corporation	100%	100%
2412550 Ontario Inc. (amalgamated with Aleafia Inc.)	-	100%
Aleafia Farms Inc.	100%	100%
Flying High Brands Inc.	51%	-
Mexican Hat Holdings Ltd. (inactive)	100%	100%
Aleafia Brands Inc.(inactive)	100%	-
Aleafia Retail Inc. (inactive)	100%	-
2672533 Ontario Inc. (inactive)	100%	-

b) Cash and cash equivalents

Cash in the consolidated statements of financial position is comprised of cash in banks and on hand, and short-term deposits with an original maturity of three months or less, which are readily convertible into a known amount of cash.

c) Biological assets

The Company measures biological assets consisting of cannabis plants at fair value less cost to sell up to the point of harvest, which becomes the basis for the cost of finished goods inventories after harvest. Seeds are measured at fair market value. Unrealized gains or losses arising from changes in fair value less cost to sell during the year are included in the results of operations of the related year. The Company expenses all direct and indirect costs related to the transformation of its biological assets into inventory. Such costs include labour, supplies, materials and facility costs including amortization of related production equipment. These costs are presented on the consolidated statements of comprehensive loss as expenses recorded in wages and benefits, general and administrative and amortization and depreciation.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Inventory

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

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

e) Property, plant and equipment

The Company's property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

The cost of an item of property, plant and equipment includes expenditures that are directly attributable to the acquisition or construction of the asset. The cost includes the cost of materials and direct labour, site preparation costs, installation and assembly costs, and any other costs directly attributable to bringing the assets to the location and conditions necessary for the assets to be capable of operating in the manner intended by management. The cost of property, plant and equipment also includes any applicable borrowing costs. Borrowing costs are capitalized to property, plant and equipment until such time that the constructed asset is substantially complete and ready for its intended use.

Property, plant and equipment are depreciated at the following annual rates and methods:

Computer equipment and software	30% on a declining balance basis
Office furniture and equipment	20% on a declining balance basis
Buildings	25 years on a straight-line basis
Leasehold improvements	Straight line over the term of the lease

Estimates for depreciation methods, useful lives and residual values are reviewed at each reporting period and adjusted, if appropriate.

Significant components of property, plant and equipment that are identified as having different useful lives are depreciated separately over their respective useful lives. Depreciation methods, useful lives and residual values, if applicable, are reviewed and adjusted, if appropriate, on a prospective basis at the end of each fiscal year as a change in estimate. Gains and losses on disposal of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of the property, plant and equipment and are recognized in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Share-based payments

Share-based payments to employees and others providing similar services are measured at the estimated fair value of the instruments issued on the grant date and amortized over the vesting period. Share-based payments to non-employees are measured at the fair value of the goods or services received or the fair value of the equity instruments issued if it is determined the fair value of the goods or services cannot be reliably measured and are recorded at the date the goods or services are received. The amount recognized as an expense is adjusted to reflect the number of awards expected to vest. The offset to the recorded cost is to equity settled share-based payments reserve.

Consideration received on the exercise of stock options is recorded as share capital and the related equity settled share-based payments reserve is transferred to share capital. Charges for options that are forfeited before vesting are reversed from equity settled share-based payment reserve.

Share-based compensation expense relating to deferred share units is accrued over the vesting period of the units based on the quoted market price on the date of issuance. As these awards can be settled in cash, the expense and liability are adjusted each reporting year for changes in the underlying share price.

g) Provisions

Provisions are recognized when it is probable that the Company is required to settle an obligation (legal or constructive), as a result of a past event, and the obligation can be reliably estimated. The provision represents the Company’s best estimate of the amounts required to settle the obligation at the end of the reporting year. When a provision is determined using the expected cash flow method, the carrying amount is the present value of those cash flows (when the effect of the time value of money is material). When some or all of the amounts required to settle a provision are expected to be recoverable from a third party, a receivable is recognized when it is virtually certain reimbursement is receivable and the expected reimbursement can be reliably measured.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Loss per share

The Company presents basic and diluted loss per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the year. Diluted loss per share does not adjust the loss attributable to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive.

i) Income taxes

Current income taxes is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted, and includes any adjustments to tax payable or receivable in respect of previous years.

Deferred income taxes are recorded using the liability method whereby deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the statement of financial position date. Deferred tax is not recognized for temporary differences which arise on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting, nor taxable profit or loss.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

j) Financial instruments

Financial assets are initially measured at fair value plus, in the case of a financial asset not at fair value through profit and loss (“FVTPL”) transaction costs.

Financial assets are subsequently measured at,

(i) FVTPL

(ii) amortized cost

(iii) debt measured at fair value through other comprehensive income (“FVOCI)

(iv) equity investments designated at FVOCI; or

(v) financial instruments designated at FVTPL

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Financial instruments (continued)

The classification is based on whether the contractual cash flow characteristics represent "solely payment of principal and interest" as well as the business model under which the financial assets are managed.

Financial liabilities held by the Company are initially measured at fair value and subsequently measured at amortized cost.

The table below summarizes the categories under IAS 39 and the new measurement under IFRS 9 for the financial assets and financial liabilities.

	Classification	
	IAS 39	**IFRS 9**
Financial assets		
Cash and cash equivalents	FVTPL	FVTPL
Accounts receivable	Loans and receivable	Amortized cost
Investments	Amortized cost	FVTPL
Other financial assets	Available for sale, loans and receivables and FVTPL	FVOCI or FVTPL
Financial liabilities		
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost

(k) Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed for impairment at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit, or "CGU"). The recoverable amount of an asset or a CGU is the higher of its fair value, less cost to sell, and its value in use. If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is recognized immediately in profit or loss by the amount by which the carrying amount of the asset exceeds the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount and the carrying amount that would have been recorded had no impairment loss been recognized previously.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Impairment of financial assets

Financial assets, other than those classified as FVTPL, are assessed for indicators of impairment at the end of the reporting years. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

(m) Business combinations

Acquisitions of businesses are accounted for using the acquisition method. At the acquisition date, the identifiable assets acquired, and the liabilities assumed are recognized at their fair value, except deferred tax assets or liabilities, which are recognized and measured in accordance with IAS 12 – Income Taxes. Subsequent changes in fair values are adjusted against the cost of acquisition if they qualify as measurement year adjustments. The measurement year is the year between the date of the acquisition and the date where all significant information necessary to determine the fair values is available and cannot exceed 12 months. All other subsequent changes are recognized in the consolidated statements of comprehensive loss.

The purchase price allocation process resulting from a business combination requires management to estimate the fair value of identifiable assets acquired including intangible assets and liabilities assumed including any contingently payable purchase price obligation due over time. The Company uses valuation techniques, which are generally based on forecasted future net cash flows discounted to present value. These valuations are closely linked to the assumptions used by management on the future performance of the related assets and the discount rates applied. The determination of fair value involves making estimates relating to acquired intangibles assets, property and equipment and contingent consideration. In certain situations, goodwill or a bargain purchase gain may result from a business combination. Goodwill is measured as the excess of the consideration transferred over the net amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the excess is recognized immediately in the consolidated statements of comprehensive loss as a bargain purchase gain. Acquisition related costs are recognized in the consolidated statements of comprehensive loss as incurred.

(n) Intangible assets

Intangible assets consist mainly of license to grow cannabis, power contracts, brand names and licenses, patient lists and scientific and medical research assets. Acquired license to grow cannabis, power contracts and similar assets are carried at cost less accumulated amortization and impairment. Intangible assets with indefinite lives are not amortized but are tested for impairment annually and whenever there is an indication that the intangible asset may be impaired. Any impairment of intangible assets is recognized in the statement of operation and comprehensive loss but increases in intangible asset values are not recognized.

Estimated useful lives of intangible assets are shorter of the economic life and the year the right is legally enforceable. The assets' useful lives are reviewed, and adjusted if appropriate, at each financial statement of financial position date.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Intangible assets (continued)

At each financial position reporting date, the carrying amounts of the Company's long-lived assets, including property and equipment and intangible assets, are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs.

Finite-lived intangible assets are recorded at cost less accumulated amortization and accumulated impairment losses. Amortization is provided on a straight-line basis over the following terms:

Health Canada License	25 years
OPA Power Contracts	14 years
Brand Names and Licenses	5 to 15 years
Patient Lists	10 years
Scientific and Medical Research	7 years

The estimated useful life and amortization method are reviewed at the end of each reporting year, with the effect of any changes in estimate being accounted for on a prospective basis.

(o) Goodwill

Goodwill represents the excess of the price paid for the acquisition of an entity over the fair value of the net identifiable tangible and intangible assets and liabilities acquired on the date of acquisition less any impairment losses. Goodwill is allocated to the Cash Generating Units ("CGU") to which it relates. Goodwill is measured at historical cost and is evaluated for impairment annually and more often if events or circumstances indicate there may be impairment.

Impairment is determined for goodwill by assessing if the carrying value of a CGU, including the allocated goodwill, exceeds its recoverable amount determined as the greater of the estimated fair value less costs to sell and the value in use. Impairment losses recognized in respect of a CGU are first allocated to the carrying value of goodwill and any excess is allocated to the carrying amount of assets in the CGU. Any goodwill impairment is recorded in income in the year in which the impairment is identified. Impairment losses on goodwill are not subsequently reversed.

(p) Segment reporting

An operating segment is a component of the Company that engages in business activities. An operating segment may earn revenue and incur expenses, including revenue and expenses incurred by virtue of activities with any of the Company's other operations. An operating segment has discrete financial information available that is regularly reviewed by the Company's Chief Operating Decision Maker ("CODM") to assess performance or make resource allocation decisions. The CODM has been identified as the Chief Executive Officer. The Company has three operating segments, health and wellness, farms and products and corporate and other.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Revenue recognition

The Company derives revenue from 1) providing medical consultation services to patients suffering from chronic pain and disabling illnesses, 2) conducting medical research associated with the use of medical cannabis and 3) the sale of and distribution of cannabis in Canada in accordance with the ACMPR up to and including October 16, 2018. On October 17, 2018, the ACMPR was superseded by the Cannabis Act which regulates the production, distribution and possession of Cannabis for both medical and adult recreational access in Canada. Revenue is recognized upon transfer of control of the promised goods or services to customers in an amount that reflects the consideration the Company expects to receive in exchange for those goods or services. Performance obligations are satisfied, and revenue is recognized, either over time or at a point in time. Certain activities may give rise to deferred revenue, which are contract liabilities under IFRS 15 and relate to payments received in advance of performance under contracts with customers. Contract liabilities are recognized as revenue as (or when) the Company satisfies its performance obligations under the contracts.

<u>Medical consultation</u>
The Company provides medical services to patients on a scheduled appointment fixed fee basis. Performance of the service is considered complete at the conclusion of the appointment and revenue is recognized at a point in time.

<u>Medical research</u>
The Company provides customers with access to non-specific patient data relating to the use of medical cannabis in the treatment of various illnesses as well as the opportunity to conduct targeted research on the impact medical cannabis may have on specific ailments. Customers are billed a subscription fee for access to data or negotiated contract amounts related to targeted research. In the case of subscription fees, revenue is recognized evenly over the subscription year and revenue from targeted research amounts are recognized based on the extent of progress towards completion of the specific performance obligations related to each individual research project.

<u>Sale of Cannabis</u>
Revenue from the sale of cannabis is recognized when the Company transfers control of the good to the customer upon delivery. As at December 31, 2018, the Company has one customer only, CannTrust.

(r) Joint arrangements

A joint arrangement classified as such when the arrangement provides joint control to the parties. Joint control is the contractually agreed sharing of control of an arrangement which exists only when decisions about the relevant activities require unanimous consent of parties sharing control. The Company recognizes joint arrangements as either joint ventures or joint operations depending on the circumstances of each arrangement. The assets, liabilities and results of joint operations are included within the respective line items of the Consolidated Statements of Financial Position, Consolidated Statements of Comprehensive Loss, Consolidated Statements of Changes in Shareholders Equity and Consolidated Statements of Cash Flows where an arrangement is classified as a joint operation. Arrangements classified as a joint venture are accounted for using the equity method of accounting. The Company's interest in an investee is initially recorded at cost and is subsequently adjusted for the Company's share of changes in the net assets of the investee, less any impairment in the value of individual investments, and any dividends paid. Currently the Company has not classified any arrangements as a joint venture or a joint operation.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

Biological assets and inventory

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

Estimated useful lives and impairment considerations

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

Business combinations

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

Research revenue

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

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

Share-based compensation and warrants

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

4. RECENT ACCOUNTING PRONOUNCEMENTS

New accounting standards adopted effective January 1, 2018:

IFRS 9 Financial Instruments

IFRS 9, "Financial Instruments: Classification and Measurement" is effective for annual years beginning on or after January 1, 2018. The Company adopted IFRS 9 retrospectively, without restatement of prior year financial statements. IFRS 9 replaces the provisions of IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39") that relate to the recognition, classification, and measurements of financial assets and financial liabilities, derecognition of financial instruments and impairment of financial assets. IFRS 9 uses a single approach to determine whether a financial asset is classified and measured at amortized cost or fair value. The approach in IFRS 9 is based on how the Company manages its financial instruments and the contractual cash flow characteristics of the financial asset. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9. The application of IFRS 9 did not impact the Company's classification and measurement of financial assets and liabilities, and there was also no impact to the carrying value of any of the Company's financial assets or liabilities on the date of transition.

IFRS 15 Revenue from Contracts with Customers

The Company adopted IFRS 15, "Revenue from Contracts and Customers" effective January 1, 2018. IFRS 15 introduced a single model for recognizing revenue from contracts with customers. This standard applies to all contracts with customers, with some exceptions, including some that are accounted for under other IFRS. The model features the following five- steps contract – based analysis of transactions to determine whether, how much and when revenue is recognized:

1. Identify the contract with a customer.
2. Identify the performance obligation(s).
3. Determine the transaction price.
4. Allocate the transaction price to the performance obligation(s) in the contract and,
5. Recognize revenue when or as the Company satisfies the performance obligation(s).

The underlying principle is to recognize revenue to depict the transfer of promised goods or services to a customer at an amount that reflects the expected consideration in exchange for goods or services. The adoption of this standard did not have any impact on the Company's consolidated financial statements.

New accounting standards effective for years beginning on or after January 1, 2019 - Standards issued, but not effective, up to the date of issuance of the Company's consolidated financial statements are listed below. This listing of standards and interpretations issued are those that the Company reasonably expects to have an impact on disclosures, financial position or performance when applies at a future date. The following new standards, amendments and interpretations have not been early adopted in these consolidated financial statements:

4. RECENT ACCOUNTING PRONOUNCEMENTS (continued)

IFRS 16 Leases

In January 2016, the IASB issued IFRS 16 "Leases" ("IFRS 16") that sets out the principles for recognition, measurement, presentation and disclosure of leases for both lessee and lessor. IFRS 16 introduces a single lessee accounting model and requires lessees to recognize assets and liabilities for all leases, except when the term is 12 months or less or when the underlying asset has a low value. The effective date of IFRS 16 for the Company is January 1, 2019 and the Company will apply the standard retrospectively with the cumulative effect of initially applying the standard recognized as an adjustment to the opening balance of retained earnings or deficit at that date, subject to permitted practical expedients. Therefore, the Company will not restate comparative information.

The adoption of IFRS 16 will result in the recognition of a right-of-use asset and a lease liability measured at the present value of the future lease payments on the consolidated statements of financial position for a majority of its leases that are considered operating leases under IAS 17 "Leases". An amortization expense on the right-of-use asset and an interest expense on the lease liability will replace the operating lease expense. IFRS 16 will change the presentation of cash flows relating to leases in the Company's consolidated statements of cash flows, but does not cause a difference in the amount of cash transferred between the parties of a lease. The Company is currently finalizing the quantification of the impact of IFRS 16 on its consolidated financial statements. As at January 1, 2019, it is estimated that total liabilities would increase by $1,057,000 and assets would increase by approximately $1,057,000. The Company is continuing to assess the overall impact of the new standard, including the required changes to the disclosures in its consolidated financial statements.

IFRIC 23 Uncertainty over Income Tax Treatments

IFRIC 23, Uncertainty over Income Tax Treatments, provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The Interpretation is applicable for annual years beginning on or after January 1, 2019. Earlier application is permitted. The Interpretation requires: (a) an entity to contemplate whether uncertain tax treatments should be considered separately, or together as a group, based on which approach provides better predictions of the resolution; (b) an entity to determine if it is probable that the tax authorities will accept the uncertain tax treatment; and (c) if it is not probable that the uncertain tax treatment will be accepted, measure the tax uncertainty based on the most likely amount or expected value, depending on whichever method better predicts the resolution of the uncertainty. The Company intends to adopt the Interpretation in its financial statements for the annual year beginning on January 1, 2019. The Company has not yet determined the potential the impact of the adoption of this standard on the consolidated financial statements.

5. BUSINESS COMBINATION AND ASSET ACQUISITION

Aleafia Farms Inc.

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

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

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

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

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

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

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

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

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

5. BUSINESS COMBINATION AND ASSET ACQUISITION (continued)

Flying High Brands Inc.

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

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

6. BUSINESS AMALGAMATION

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

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

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

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

6. BUSINESS AMALGAMATION (continued)

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

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

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

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

7. PROPERTY, PLANT AND EQUIPMENT

	Computer and software	Equipment and furniture	Leasehold improvements	Land	Buildings	Total
COST	$	$	$	$	$	$
Incorporation, January 17, 2017	-	-	-	-	-	-
Business acquisition (Note 5)	-	-	-	735,000	495,712	1,230,712
Additions	5,382	140,581	113,758	27,852	157,608	445,181
Balance, December 31, 2017	5,382	140,581	113,758	762,852	653,320	1,675,893
Business acquisition (Note 6)	76,623	71,443	3,079	-	-	151,145
Additions	123,962	2,858,844	-	1,050,000	8,110,378	12,143,184
	205,967	3,070,868	116,837	1,812,852	8,763,698	13,970,222
ACCUMULATED DEPRECIATION						
Incorporation, January 17, 2017	-	-	-	-	-	-
Additions	807	14,058	5,687	-	18,911	39,463
Balance, December 31, 2017	807	14,058	5,687	-	18,911	39,463
Additions	74,323	21,527	26,112	-	28,998	150,960
Balance, December 31, 2018	75,130	35,585	31,799	-	47,909	190,423
CARRYING AMOUNTS						
As at December 31, 2017	4,575	126,523	108,071	762,852	634,409	1,636,430
As at December 31, 2018	130,837	3,035,283	85,038	1,812,852	8,715,789	13,779,799

8. INTANGIBLE ASSETS

	License	OPA power contracts	Brand name	Patient list	SRED	Total
	$	$	$	$	$	$
Incorporation, January 17, 2017	-	-	-	-	-	-
Additions (Note 5)	9,770,000	299,000	-	-	-	10,069,000
Amortization	(21,000)	-	-	-	-	(21,000)
Balance, December 31, 2017	9,749,000	299,000	-	-	-	10,048,000
Additions (Note 5 and 6)	12,260,000	-	308,765	12,415,920	849,000	25,833,685
Amortization	(390,800)	(21,357)	(47,515)	(955,071)	(93,300)	(1,508,043)
Balance, December 31, 2018	21,618,200	277,643	261,250	11,460,849	755,700	34,373,642

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

i) the purchase of Aleafia Farms and (Note 5)
ii) the acquisition of Flying High Brands Inc. (Note 5)
iii) the amalgamation with Canabo Medical Inc. (Note 6)

The transactions and the allocation of the purchase price are described in detail in notes 5 and 6 respectively.

9. SHARE CAPITAL

a) Authorized

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

b) Escrow shares

As at December 31, 2018, there were 4,264,650 common shares is escrow.

c) Issued and Outstanding

As at December 31, 2018, there were 157,848,812 common shares

<u>During the period ended December 31, 2017, the Company had the following transactions:</u>

On January 17, 2017, Aleafia Inc. issued an incorporation share for a nominal value.

On March 21, 2017, Aleafia Inc. issued 32,169,999 common shares for gross proceeds of $30. As the fair market value of these shares was $8,042,500, accordingly, the Company recorded share-based payments of $8,042,470 and a credit to contributed surplus. The fair value of the shares was determined using stock prices in recent financings.

On April 20, 2017, Aleafia Inc. issued 9,840,000 common shares at $0.25 per share with gross proceeds of $2,460,000. As at December 31, 2017, the subscription receivable was $5,000.

On October 4, 2017, in connection with the business acquisition (note 5) Aleafia Inc. issued 24,000,000 common shares with a fair value of $6,000,000.

On December 15, 2017, Aleafia Inc. issued 7,660,000 common shares at $0.50 per share for gross proceeds of $3,830,000.

<u>During the year ended December 31, 2018, the Company had the following transactions:</u>

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

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

9. SHARE CAPITAL (continued)

c) Issued and Outstanding (continued)

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

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

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

The Company issued 6,000,000 common shares with fair values of $12,060,000 pursuant to terms of the investment arrangements with SPE Finance LLC ("Serruya") in Flying High Brands described in Note 5.

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

d) Warrants

In addition to the issuance of subscribers and broker's warrants as described in Note 9(c) above, the Company issued 500,000 warrants to CannTrust Inc. ("CannTrust") pursuant to a genetic supply agreement with CannTrust. Warrants are exercisable at $0.55 per share until June 11, 2020. The fair value of the 500,000 warrants was $286,657 and was estimated using the Black-Scholes option pricing model.

As at December 31, 2018 the Company had following warrants outstanding:

	Number of warrants	**Weighted average exercise price**	**Weighted average remaining contractual life (in years)**
		$	
Balance, incorporation and December 31, 2017	-	-	-
Broker warrants issued	2,005,380	1.42	0.75
Subscriber warrants issued	12,085,500	1.75	0.75
Warrants issued CannTrust	500,000	0.55	1.50
Deemed to be issued on business amalgamation	203,350	0.50	-
Warrants exercised	(5,565,640)	1.59	-
Balance, December 31, 2018	**9,228,590**	**1.67**	**0.80**

At December 31, 2018, the Company had outstanding warrants entitling the holders to acquire additional common shares as follows:

Expiry date	**Number of warrants**	**Exercise price**
		$
September 27, 2019	268,460	1.25
September 27, 2019	8,460,130	1.75
June 11, 2020	500,000	0.55
	9,228,590	

9. SHARE CAPITAL (continued)

e) Stock Options

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

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

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

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

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

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

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

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

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

9. SHARE CAPITAL (continued)

e) Stock Options (continued)

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

	Modification of stock options	**April 10, 2018**	**April 23, 2018**	**June 28, 2018**
Share price	$1.57	$0.68	$0.60	$0.67
Weighted average risk free interest rate	2.21%	2.02%	2.16%	2.01%
Weighted expected life	3.5 years	4.38	4.11 years	4.0 years
Weighted average expected volatility	115%	109%	109%	109%
Weighted expected dividends	Nil	Nil	Nil	Nil
Forfeiture rate	0%	0%	0%	0%

	August 2018	**September 2018**	**October 2018**
Share price	$0.67	$1.21	$3.07
Weighted average risk free interest rate	2.01%	2.22%	2.42%
Weighted expected life	3.73 years	3.75 years	3.75 years
Weighted average expected volatility	109%	109%	109%
Weighted expected dividends	Nil	Nil	Nil
Forfeiture rate	0%	0%	0%

The following table reconciles the stock option activity during the year ended December 31, 2018:

	Number of options	**Weighted average exercise price**
		$
Balance, Incorporation date	-	-
Granted	5,000,000	0.25
Balance, December 31, 2017	5,000,000	0.25
Options deemed to be issued on business amalgamation	1,690,000	0.63
Granted	11,050,000	1.23
Exercised	(3,838,711)	0.46
Cancelled/forfeited	(1,250,000)	1.03
Balance, December 31, 2018	12,651,289	1.01
Vested, December 31, 2018	5,018,750	0.45
Unvested, December 31, 2018	7,632,539	1.38

9. SHARE CAPITAL (continued)

e) Stock Options (continued)

The following table summarizes information relating to outstanding and exercisable stock options as at December 31, 2018:

Expiry date	Exercise price	Remaining life (years)	Number of stock options vested	Number of stock options unvested
June 7, 2022	$0.25	3.43	2,806,250	-
November 25, 2021	$0.90	2.90	225,000	
February 22, 2022	$0.73	3.10	100,000	25,000
October 4, 2022	$0.45	3.76	362,500	25,000
April 10, 2023	$1.25	4.28	100,000	100,000
April 23, 2023	$0.63	4.31	250,000	307,539
April 23, 2023	$0.60	4.31	675,000	675,000
June 28, 2023	$0.82- $1.25	4.49	500,000	750,000
August 1, 2023	$0.65	4.59	-	900,000
August 14, 2023	$0.65	4.62	-	1,200,000
September 1, 2023	$0.85	4.67	-	200,000
September 9, 2023	$1.03	4.69	-	750,000
September 11, 2023	$1.50	4.70	-	175,000
September 23, 2023	$2.02	4.73	-	200,000
October 1, 2023	$2.61	4.75	-	2,000,000
October 5, 2023	$2.65	4.76	-	250,000
October 9, 2023	$2.69	4.78	-	75,000
			5,018,750	7,632,539

f) Share Commitments

Patient operating agreement

On March 28, 2017, Canabo Medical Inc. signed a Patient Operating Agreement (“Agreement”) with Peak Pulmonary Consulting Inc. (“Peak Medical Group”). The Peak Medical Group will provide medical marijuana treatments and therapies within the Pinnacle Medical Centers through its wholly-owned subsidiary CieloMed. Pinnacle Medical Centers currently provide medical services to over 55,000 patients in Alberta.

Under the terms of the Agreement, Peak Medical Group will provide physicians and clinic space to assess up to 20,000 new patients under the Company’s medical marijuana assessment, prescribing, educational procedures and protocols. Training for up to 60 Peak Medical Group

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

9. SHARE CAPITAL (continued)

f) Share Commitments (continued)

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

10. RELATED PARTY BALANCES AND TRANSACTIONS

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

Key management includes directors and key officers of the Company, including the President, CEO and Chief Financial Officer.

The following amounts are due to related parties:

	2018	2017
	$	$
Accounts payable and accrued liabilities	26,718	201,431

As at December 31, 2018, the amount of $26,718 was due to directors and officers. As at December 31, 2017, the Company has accrued $200,000 for bonuses payable to directors of the Company.

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

During the year ended December 31, 2018, the Company had the following transactions with the officers and directors of the Company.

	2018	2017
	$	$
Wages and benefits	972,128	200,000
Business advisory fees	658,778	-
Consulting fees	133,127	141,310
Share-based payments	2,598,977	4,368,693

11. MANAGEMENT OF CAPITAL

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

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

12. INVENTORY

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

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

As of December 31, 2018, the Company had $356,359 of dried plant inventory.

13. BIOLOGICAL ASSETS

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

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

As of December 31, 2018, the biological assets strain 1 were on average 33% complete and strain 2 on average 93% complete. As of December 31, 2018, it was estimated that the Company's biological assets would yield approximately 58,333 grams of medical cannabis when harvested.

13. BIOLOGICAL ASSETS (continued)

The following table depicts the changes in the fair value measurement (unrealized gain/loss resulting from fair value changes on growth of biological assets) and the fair value of biological assets as of December 31, 2018 as required by IFRS 13 fair value measurement.

Biological assets

Biological asset are comprised of:	$
Balance as at December 31, 2017	-
Changes in fair value less costs to sell due to biological transformation	1,142,240
Transferred to inventory upon harvest	(908,907)
Balance as at December 31, 2018	233,333

Inventory

Inventory comprised of harvested , dried plants	$
Balance as at December 31, 2017	-
Transferred from biological assets	908,907
Inventory sold during the year	(552,548)
Balance as at December 31, 2018	356,359

Significant assumptions

Selling price per gram ($)	4.25
Average yield per plant (grams)	125

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

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

1. The harvest yield is 125 grams per plant.
2. The selling price is between $3.50 and $5.00 per gram.

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

- Selling price per gram- a decrease in the average selling price per gram by 5% would result in the biological asset value decreasing by $11,667 and inventory decreasing by $1,195.
- Harvest yield per plant- a decrease in the harvest yield per plant of 5% would result in the biological asset value decreasing by $11,000.

During the year ended December 31, 2018, the Company recorded an unrealized gain of $1,142,240 in fair value of biological assets. As at December 31, 2018, the unrealized gain on biological assets was $233,333.

14. INVESTMENT

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

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

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

15. SEGMENTED INFORMATION

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

Operating segments

	Health and wellness	Farms and products	Corporate and other	Total
Revenue				
Medical consultation	1,548,728	-	-	1,548,728
Research revenue	1,152,048	-	-	1,152,048
Sale of Cannabis	-	629,146	-	629,146
	2,700,776	629,146	-	3,329,922
Cost of sales				
Cost of goods sold	(1,131,323)	(552,548)	-	(1,683,871)
Gross profit before fair value adjustment	1,569,453	76,598		1,646,051
Unrealized gain on changes in fair value of biological assets	-	1,142,240	-	1,142,240
Gross profits	1,569,453	1,218,838	-	2,788,291
Expenses				
Wages and general and administrative	2,963,577	1,612,706	5,579,295	10,155,578
Amortization	71,144	476,077	1,111,782	1,659,003
Share-based payments	-	-	10,783,955	10,783,955
Loss before other income and taxes	(1,465,268)	(869,945)	(17,475,032)	(19,810,245)
Other income	-	100,000	169,843	269,843
	(1,465,268)	(769,945)	(17,305,189)	(19,540,402)
Deferred income taxes				
Deferred income tax recovery	-	163,700	844,126	1,007,826
Net loss	**(1,465,268)**	**(606,245)**	**(16,461,063)**	**(18,532,576)**

15. SEGMENTED INFORMATION (continued)

	Health and wellness	**Farms and products**	**Corporate and other**	**Total**
Current assets	19,441,315	1,429,051	8,377,453	29,247,819
Non-current assets	20,567,331	31,789,281	16,260,000	68,616,612
Total assets	40,008,646	33,789,281	24,637,453	97,864,431
Current liabilities	3,265,498	220,014	9,271	3,494,783
Non-current liabilities	55,895	2,380,544	-	2,436,439

16. FINANCIAL INSTRUMENTS AND FINANCIAL RISKS

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

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

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

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

Fair Value of Financial Instruments

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

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

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

	2018	**2017**
	$	$
FVTPL (i)	30,406,978	1,057,231
Assets - Amortized cost (ii)	885,866	123,979
Liabilities Amortized cost (iii)	2,411,766	4,564,386

(i) Cash and cash equivalents and investment
(ii) Accounts receivable
(iii) Accounts payable

16. FINANCIAL INSTRUMENTS AND FINANCIAL RISK (continued)

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

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

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

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

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

	Fair Value Measurements Using			
	Quoted Prices in Active Markets For Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
	$	$	$	$
Cash and cash equivalents	26,406,978	-	-	26,406,978
Investment	-	4,000,000	-	4,000,000

Risk Management

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

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

Aleafia has identified the below potential risk categories.

(i) *Currency risk*

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

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

16. FINANCIAL INSTRUMENTS AND FINANCIAL RISK (continued)

Risk Management (continued)

(ii) *Interest rate risk*

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

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

(iii) *Credit risk*

Credit risk is the risk of loss associated with the counterparty's inability to fulfill its payment obligations. Financial instruments that potentially subject the Company to concentrations of credit risks consist principally of cash. To minimize the credit risk the Company places these instruments with a high-quality financial institution.

(iv) *Liquidity risk*

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

17. COMMITMENTS AND CONTINGENCIES

The Company has entered long-term arrangements for office and clinic space. The minimum annual lease payments for the years ended December 31:

	$
2019	426,140
2020	388,067
2021	252,984
2022	119,186
2023	19,343

The Company also has a 5 years car lease commitment. The minimum lease payments are as follows:

	$
2019	13,546
2020	13,546
2021	5,210

17. COMMITMENTS AND CONTINGENCIES (continued)

In the normal course of the Company's operations, it may become involved in, named as a party to or the subject of, various legal actions or proceedings related to its business activities. Management maintains insurance coverage and in certain cases will provide an allowance to cover off any potential costs related to any settlements. Management does not believe that any existing litigation or pending litigation will ultimately result in a final judgment against the Company that would have a material adverse impact on the financial position or results of operations of the Company. However, litigation and proceedings are inherently uncertain and accordingly, adverse outcomes could include financial loss.

18. INCOME TAXES

The Company has non-capital losses carried forward of $19,155,000 available to reduce income taxes in future years which expire from 2034 to 2038.

The Company has not recognized any deferred income tax assets. The Company recognizes deferred income tax assets based on the extent to which it is probable that sufficient taxable income will be realized during the carry forward periods to utilize all deferred tax assets.

The following table reconciles the amount of income tax recoverable on application of the statutory Canadian federal and provincial income tax rates:

	2018	2017
Canadian statutory income tax rate	26.5%	26.5%
	$	$
Income tax recovery at statutory rate	(4,911,174)	(2,544,197)
Effect of income taxes of:		
Permanent differences and other	7,745,000	2,206,990
Change in deferred tax assets not recognized	(1,826,000)	337,207
Deferred income tax recovery	1,007,826	-

The temporary differences that give rise to significant portions of the deferred tax assets and liabilities are presented below:

	2018	2017
	$	$
Non-capital loss carry forwards	5,076,000	333,000
Property, plant and equipment	194,000	76,000
Intangible assets	(11,665,439)	(2,536,000)
Share issue costs	522,000	-
Deferred tax assets not recognized	3,437,000	(337,000)
Deferred income tax liability	(2,436,439)	(2,464,000)

19. SUBSEQUENT EVENTS

(i) On January 7, 2019, the Company completed Phase 1 construction and retrofitting of its Niagara Greenhouse facility ("Niagara") located in Grimsby, Ontario. The Company expects to complete Phase II of the construction and retrofitting on the balance facility by the Summer of 2019.

The Company has also submitted the facility's Evidence Package to Health Canada, marking the final stage in the cultivation License application process.

(ii) On January 18, 2019, the Company announced its global expansion with the closing of its previously announced investment in CannaPacific Pty Limited ("CannaPacific") a, federally licensed Australian medical cannabis company located in New South Wales, Australia.

The transaction was completed pursuant to the terms of an Investment Agreement (the Investment Agreement") dated January 17, 2019 between CannaPacific, Aleafia Health and CannaPacific's founder shareholder, Dennis Partners Pty Limited as trustee for Dennis Partners Trust (the" Investment Agreement"). Under the Investment agreement, Aleafia acquired 10% of the ordinary shares of CannaPacific from the founder for AUS $100 and Aleafia agreed to contribute to CannaPacific USD $150,000 in working capital in two tranches of USD $75,000 over a six-month period. Aleafia also acceded to CannaPacific's Shareholders Agreement. The TSX Venture Exchange approved the investment on January 16, 2019.

(iii) On March 14, 2019, the Company and Emblem Corp. ("Emblem") completed a plan of arrangement (the "Arrangement") under the provisions of the Canada Business Corporation Act, pursuant to which among other things, the Company has acquired all of the common shares of Emblem. Pursuant to the Arrangement, the Company's wholly-owned subsidiary 11208578 Canada Inc. amalgamated with Emblem, and each outstanding common share of Emblem was exchanged into 0.8377 (the "Exchange Ratio") of one common share of the Company. Emblem's outstanding options were replaced with options of the Company, and Emblem's outstanding warrants and debentures will be exercisable or convertible, as the case maybe, into common shares of the Company at the Exchange Ratio. The fair value of the consideration given was estimated to be approximately $303,000,000 based on share price of the Company on March 14, 2019. In connection with the Arrangement, the Company issued 2,331,255 common as a success fee to Mackie Research Capital Corporation and paid other acquisition costs as well.

The Company has not finalized the allocation of the purchase price consideration at the time that these consolidated financial statements were approved and as a result was unable to disclose certain information related to the business combination. The Company expects that a significant portion of the purchase consideration will be recorded as Goodwill.

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

(iv) Subsequent to the year ended December 31, 2018, the Company issued 3,499,046 common shares for the exercises of stock options and share purchase warrants and 110,823,349 common shares for the acquisition of Emblem as described in Note 19(iii) above.

(v) Subsequent to the year ended December 31, 2018, the Company granted 695,000 stock options to its employees, of which 650,000 are exercisable based on the market price on date of grant, and 45,000 options are exercisable at $1.64 per share. All options are exercisable for 5 years with vesting terms of 25% every 6 months.