ALEAFIA HEALTH INC.
Management's Discussion and Analysis
For the three and six months ended June 30, 2019

*This Management's Discussion and Analysis (MD&A) of Aleafia Health Inc. (formerly Canabo Medical Inc.), (the **"Company" or "Aleafia Health"**) is dated **August 14 2019** and provides an analysis of the financial operating results for the three and six months ended June 30, 2019 for the Company. This MD&A should be read in conjunction with the Company's unaudited Interim Condensed Consolidated Financial Statements for the three and six months period ended June 30, 2019 and notes thereto (the "Interim Financial Statements"), and the audited consolidated financial statements and accompanying notes for the year ended December 31, 2018 and the notes thereto, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") for consolidated financial statements. All amounts are in Canadian dollars unless otherwise specified.*

*The MD&A has been prepared by reference to the MD&A disclosure requirements established under National Instrument 51-102 "Continuous Disclosure Obligations" (NI 51-102) of the Canadian Securities Administrators. Additional information, and the Company's annual information form, are available on our website at www.aleafiahealth.com or through the Sedar website at www.sedar.com. The common shares of the Company are traded on the Toronto Stock Exchange ("**TSX**") under the symbol "ALEF".*

Cautionary Statement Regarding Forward-Looking Information

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

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

- *the Company's business objectives and milestones and the anticipated timing of execution;*
- *the performance of the Company's business and operations;*
- *the intention to expand the business, operations and potential activities of the Company;*
- *the methods used by the Company to deliver cannabis;*
- *the projected increase in production capacity;*
- *the competitive conditions of the cannabis industry;*
- *the competitive and business strategies of the Company;*
- *the Company's anticipated operating cash requirements and future financing needs;*
- *the anticipated future gross revenues and profit margins of the Company's operations;*
- *the Company's expectations regarding its revenue, expenses and operations;*
- *the Company's intention to build brands and develop cannabis products targeted to specific segments of the market;*

- *the ongoing and proposed expansion of the Company's facilities, products or services, including associated costs and any applicable Health Canada licensing;*
- *the current political, legal and regulatory landscape surrounding medical and recreational cannabis and expected developments in any jurisdiction in which the Company operates or may operate;*
- *the receipt of any regulatory and stock exchange approvals required at any given time;*
- *the applicable laws, regulations and any amendments thereof;*
- *expectations with respect to the advancement and adoption of new product lines and ingredients;*
- *expectations with respect to future production costs and capacity;*
- *expectations with respect to the renewal and/or extension of the Company's permits and licenses;*
- *the ability to protect, maintain and enforce the Company's intellectual property rights;*
- *the ability to successfully leverage current and future strategic partnerships and alliances;*
- *the ability to attract and retain personnel;*
- *anticipated labour and materials costs;*
- *the Company's competitive condition and expectations regarding competition, including pricing and demand expectations and the regulatory environment in which the Company operates; and*
- *anticipated trends and challenges in the Company's business and the markets and jurisdictions in which the Company operates or may operate.*

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

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

expressly qualified in their entirety by this cautionary statement. For a description of material factors that could cause the Company's actual results to differ materially from the forward-looking statements in this MD&A, please see "Risk Factors" in the Company's annual information form available on the Company's profile at www.SEDAR.com.

Company Overview

Aleafia Health Inc. ("Aleafia Health" or the "Company") was originally incorporated under the Business Corporations Act (British Columbia) as Wyn Metals on February 2, 2007. On March 26, 2018, concurrent with the completion of a business combination with Canabo Medical Inc., the Company changed its name to "Aleafia Health Inc." On June 27, 2018, the Company continued into Ontario under the Business Corporations Act (Ontario). For further information on these transactions, please refer to the Company's Annual Information Form dated April 29, 2019.

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

Following the completion of the Arrangement, on March 19, 2019, the Common Shares of the Company ceased trading on the TSXV and commenced trading on the TSX under its existing symbol "ALEF". Emblem Shares were delisted from the TSXV on March 18, 2019. The Company's Common Shares are listed under the symbol "ALEF" on the Toronto Stock Exchange, "ALEAF" on the OTC, "ARAH" on the Frankfurt Stock Exchange (FRA) and "THCX" on the New York Stock Exchange (NYSE).

Aleafia Health is a vertically integrated and federally licensed Canadian cannabis company offering health and wellness services. The Company's four primary business units are Cannabis Cultivation & Products, Health & Wellness Clinics, Cannabis Education and Consumer Experience with e-commerce, retail distribution and provincial supply agreements.

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

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

As at June 30, 2019, the Company had not generated a profit and had accumulated a deficit of $59,931,810. The Company's operations and expenditures primarily have been funded by the issuance of equity and debt. The Company's ability to continue its operations and to realize its assets at their carrying value is dependent upon obtaining additional financing and generating revenues sufficient to cover its operating costs.

Aleafia Farms Acquisition

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

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

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

Expanding Production Capacity

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

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

The Company is actively implementing an expansion strategy at its Port Perry Facility and Paris Facility. The Company received local regulatory approval for a 26-acre secure outdoor cannabis grow expansion at the Port Perry Facility. Port Perry Facility's current indoor annual dried cannabis production capacity is 500 kg. In May 2019, the Company completed the requisite capital improvements to its 26-acre secure outdoor grow expansion for a total aggregate cost of approximately $500,000. The Company expects its secure outdoor grow production at its Port Perry Facility to produce 60,000 kg of dried cannabis flower following a full growing season. On June 7, 2019, the Company was granted a new Standard Cultivation License (the "New License") by Health Canada. The New License is effective as of June 7, 2019 and is valid until October 13, 2020 and is conditioned upon the Company meeting certain requirements. The New License allows for cannabis cultivation in the outdoor grow area of the Port Perry Facility of approximately 292,000 sq. ft. The Company has secured a Health Canada license amendment for the entire 1.1 million sq. ft Port Perry outdoor cultivation facility. The Company expects its first outdoor grow harvest in 2019.

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

The Paris Facility is also undergoing an expansion that the Company expects would add an additional 50,000 kg of annual extraction capacity. The expansion commenced in February 2017 and is expected to be completed in Q3 2019, pending appropriate market demand for extracts. To date the Company has invested an aggregate of $12 million on the expansion with approximately $10 million aggregate capital expenditures remaining to complete the expansion. An additional investment of $4 million for equipment is also remaining. The Paris Facility has secured a partial occupancy permit from the local municipal government in respect of the expansion. The Company has submitted a licence amendment application to Health Canada and will take steps to acquire the final municipal occupancy permit prior to the operationalization of the site.

The Company's Niagara Facility consists of a 160,000 sq. ft. modern, fully automated greenhouse with advanced growing equipment, acquired for an aggregate purchase price of $9.6 million. The Niagara Facility has nearly completed all required modification and capital improvement in order to be eligible for license by Health Canada. The improvements were commenced in August 2018 and are expected to be completed in August 2019 with a total aggregate cost of $14.5 million. The Company has spent $11.5 million to date with $3 million remaining. Effective July 12, 2019, the facility is 100% grow-ready.

Overview of Niagara Greenhouse

- The Niagara greenhouse facility is 160,000 sq.ft. with a modern, automated moving container bench system.

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

- Upon completion of the secure outdoor grow expansion and the Niagara greenhouse retrofitting, the Company expects to produce 36,000 kg of dried cannabis flower on an annual basis at this location.

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

None of the proceeds from the issuance of Convertible Debenture units (see Liquidity and Capital Resources) will be used to fund the remaining facility expansion activities. The Company has allocated existing capital on hand for the expansion of the facilities.

Education Services

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

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

The Company has launched FoliEdge Academy, a cloud-based cannabis education and certification platform. FoliEdge Academy features proprietary, interactive courses customized for large organizations including public and private sector employers, unions, insurance & healthcare providers, and educational institutions. The course content will form an important element of the Company's scalable, cannabis health and wellness ecosystem, integrating with the Company's medical cannabis network with over 60,000 patients seen to date.

Strategic Investments and Acquisitions

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

- **CannTrust Inc.**

  In 2018, the Company entered into strategic genetic supply agreements with CannTrust Inc. through which the Company has received various strains of high-quality starter genetics for its licensed production facility in Port Perry, Ontario. Pursuant to the terms of these agreements, CannTrust has certain rights of first refusal to purchase product from Aleafia.

- **Joint Ventures with Serruya Private Equity**

  On November 23, 2018, the Company, through its wholly-owned subsidiary Aleafia Brands Inc., acquired a 51% interest in Flying High Brands Inc. ("**Flying High**"), a domestic and international (excluding the United States) cannabis brands joint-venture and, through its wholly-owned subsidiary Aleafia Retail Inc., a 9.9% interest in One Plant (Retail) Corp. ("**One Plant**"), a Canada-wide cannabis retail joint venture.

  Flying High Brands Inc. has entered into exclusive, definitive Licensing & Distribution Agreements (the "Agreements") with four California-based cannabis companies representing over 100 product skus across a wide variety of consumer formats, including:

  * Edibles: cookies, chocolate, olive oil, gummies;
  * Beverages: tea, sodas; and
  * Topicals: balms, body oils, transdermal patches.

  The Agreements provide the exclusive rights to the formulas, production and packaging technologies to produce, market and sell the California brands in Canada in exchange for royalties paid on product sales.

  With new formats including edibles, beverages, extracts and topicals to be legal in the Canadian market in October 2019, the newly licensed California brands will form the basis of Aleafia Health's legalization 2.0 strategy. A recent Deloitte study entitled Nurturing New Growth: Canada gets ready for Cannabis 2.0 estimates the annual market size for these new formats at $2.7 billion. The Company will provide further updates on the brand portfolio as the legalization of new products approaches.

  One Plant Aleafia Health's cannabis retail joint-venture entered into agreements with one of the 25 Cannabis Retail License Operator's in the Province of Ontario. Under the terms of the agreements, One Plant will provide certain management services and financing in connection with the Ontario retail cannabis store, which is currently open and located in Ajax, Ontario operating under the business name Smok.

  Concurrently, SPE Finance LLC acquired 5,000,000 Common Shares in Aleafia Health at $2.00 per share and Aleafia Health completed a $1 million equity investment in Flying High and a $4 million equity investment in One Plant.

- **Acquisition of Emblem**

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

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

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

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

- **Joint Ventures with Acnos Pharma GmbH**

  On May 6, 2019, the Company announced that it intends to enter the German medical cannabis market via its joint venture (the "**Joint Venture**") with German pharmaceutical wholesaler Acnos Pharma GmbH. The Company concurrently announced that it had entered into a supply and license agreement with the Joint Venture. Emblem, a wholly owned subsidiary of the Company, is the majority shareholder of the Joint Venture, with Acnos owning the remainder of the Joint Venture.

- **Supply Agreement with Aphria Inc.**

  On September 11, 2018, Emblem entered into an agreement with Aphria under which Aphria will supply up to 175,000 kg equivalents of cannabis products over a five-year term with the opportunity for subsequent five-year renewals. This supply constitutes a significant portion of the Emblem's cannabis supply in connection with the production of the Company's products. As such the Company's ability to produce its products as currently intended will be dependent on the parties carrying out the obligations under this agreement. To date there have been some issues with the Company not receiving shipments ordered under the agreement and the Company is working with Aphria to remedy those issues. Given the contract is only in the fourth month of a 60-month term, the Company's current demand for cannabis and the Company's inventory on hand, the Company does not currently view the supply shortfall as a material concern. Aleafia Health will continue to work with Aphria to ensure that its supply obligations are fulfilled.

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

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

Segmented Information

The Company operates in one reportable operating segment. The company focuses on the medical and recreational cannabis industry, which includes support services such as Canabo Clinics and Growise Clinics.

Summary of Quarterly Results

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

The following information should be read in conjunction with the Company's unaudited consolidated financial statements for the three- and six-months period ended June 30, 2019 and notes thereto and the audited condensed consolidated financial statements of Aleafia Health Inc. for the year ended December 31, 2018, including the notes thereto.

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

Selected financial information					
Quarter ended	Total Revenue	Net loss	Basic and diluted loss per share	Total assets	Liabilities
	$				
30-Jun-17	-	228,831	0.01	2,090,392	988
30-Sep-17	400	369,397	0.01	3,330,808	13,726
31-Dec-17	15,366	873,903	0.02	17,945,090	7,028,386
31-Mar-18	127,374	1,685,068	0.02	71,979,742	8,094,336
30-Jun-18	1,136,829	1,494,661	0.01	70,612,075	7,295,422
30-Sep-18	1,683,465	3,395,299	0.03	76,210,345	7,688,306
31-Dec-18	357,698	11,957,547	0.10	97,864,431	5,931,222
31-Mar-19	1,524,958	20,230,180	0.12	420,774,387	33,216,391
30-Jun-19	3,839,475	11,477,155	0.04	448,032,197	62,129,514

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

The Company recorded a net loss for the three months ended June 30, 2019 and 2018 of $11,477,155, and $1,494,661 respectively. Net losses for the six months ended June 30, 2019 and 2018 was $31,707,335 and $3,179,729 respectively.

Key highlights for the quarter ended June 30, 2019 include;

Revenue

Revenue volume by revenue streams is as follows:

Revenue	$					
	Q2, 2019	Q1, 2019	Q4, 2018	Q3, 2018	Q2, 2018	Q1, 2018
Health and wellness	1,419,299	994,166	157,698	1,254,319	1,136,829	127,374
Farms and products	2,420,176	530,792	200,000	429,146	-	-
Total	**3,839,475**	**1,524,958**	**357,698**	**1,683,465**	**1,136,829**	**127,374**

During the three months ended June 30, 2019, revenue increased by $2,702,646 compared to the same period in the prior year and increased $2,314,518 compared to the prior quarter. The increase in revenue for the three months ended June 30, 2019 from the prior quarter was primarily due to the sale of cannabis for $2,420,176 and the sale of cannabis is 63% of the total revenue.

During the six months ended June 30, 2019, revenues increased by $4,100,230 compared to the same period in the prior year. Revenue for the six months ended June 30, 2019 included the sale of $2,950,968 in bulk cannabis.

The primary drivers of the revenue for the three months and six months ended June 30, 2019 are revenue from consultation and sale of cannabis.

Gross profit before fair value adjustments

Gross margin, excluding the impact of fair value changes, for the three and six months ended June 30, 2019 was 27% and 15% respectively compared to 66% and 66% for the same periods in prior year. The decrease in the gross margin was a result of higher production costs incurred on ramp up activities of cannabis due to expansion, lower average selling prices per gram earned from our wholesale cannabis customers and the negative impact of excise tax, the cost of which was not passed on to the consumers.

Gross Profit before fair value adjustments						
	For the three months ended			For the six months ended		Year ended
	June 30 2019	March 31 2019	June 30 2018	**June 30 2019**	June 30 2018	**December 31 2018**
		$		$		$
Revenue						
Consulting services	800,266	626,368	557,563	1,426,634	585,062	1,548,728
Research	619,033	367,798	603,822	986,831	679,141	1,152,048
Sale of cannabis	2,531,781	530,792	-	3,062,573	-	629,146
	3,951,080	1,524,958	1,161,385	5,476,038	1,264,203	3,329,922
Excise taxes	111,605	-	-	111,605	-	-
Net revenue	3,839,475	1,524,958	1,161,385	5,364,433	1,264,203	3,329,922
Cost of Sales						
Doctor services	545,036	462,520	390,076	1,007,556	430,744	1,129,654
Cost of goods sold	2,250,195	1,324,826	485	3,575,021	513	554,217
	2,795,231	1,787,346	390,561	4,582,577	431,257	1,683,871
Gross profit before fair value adjustments	1,044,244	(262,388)	770,824	781,856	832,946	1,646,051
Gross margin before fair value adjustments	27%	-17%	66%	15%	66%	49%

Operating Expenses

Operating expenses						
	For the three months ended			For the six months ended		Year ended
	June 30 2019	March 31 2019	June 30 2018	**June 30 2019**	June 30 2018	**December 31 2018**
		$		$		$
Wages and benefits	1,023,999	2,988,213	453,226	4,012,212	1,497,533	3,508,313
General and administration	1,727,636	1,415,235	467,263	3,142,871	699,761	2,055,769
Sales, marketing and promotion	1,552,997	283,849	161,807	1,836,846	278,663	933,430
Business advisory fees	2,272,023	907,328	421,474	3,179,351	421,474	1,216,657
Consulting and legal expenses (incl.share based)	1,277,935	5,971,200	164,540	7,249,135	287,240	2,441,409
Amortization and depreciation	3,928	867,712	150,426	871,640	281,135	1,659,003
Share-based payments	4,210,195	7,960,761	493,250	12,170,956	614,925	10,783,955
	12,068,713	20,394,298	2,311,986	32,463,011	4,080,731	22,598,536

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

The overall increase in operating expenses during the three and six months ended June 30, 2019, as compared to the prior comparative periods, was primarily due to rapid organic and inorganic growth of the Company as well as the assumption of operating expenses from newly acquired subsidiaries. Increases were significant in consulting, legal and business advisory services which are related to the amalgamation of Emblem. The increase in wages and salaries was attributable to recruitment and onboarding costs relating to senior management hires and severance amounts paid to certain departing Emblem employees resulting from post-merger synergy implementation.

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

As a result of these activities;

- During the three months ended June 30, 2019, wages and benefits increased by $570,773 compared to the prior year primarily attributable to the hiring of additional full-time employees, due to the expansion of the Company. Wages and benefits decreased $1,964,214 compared to the prior quarter primarily due to restructuring of personnel at Emblem following completion of the Arrangement.

  For the six months ended June 30, 2019 wages and benefits increased $2,514,679 compared to the same period in the prior year. The increase in wages was primarily due to the recruitment of senior management personnel and severance payout to the employees of Emblem.

- During the three months ended June 30, 2019, business advisory services increased $1,850,549 compared to the prior year and decreased $1,364,695 compared to the prior quarter.

For the six months ended June 30, 2019 business advisory services increased $2,757,877 compared to the same period in the prior year. Business advisory services was primarily related to the acquisition of Emblem.

- During the three months ended June 30, 2019, consulting and legal fees increased $1,113,395 compared to the prior year due to increased activities within the Company and decreased $4,693,265 compared to the prior quarter primarily due to the completion of the acquisition of Emblem.

  For the six months ended June 30, 2019 consulting and legal fees increased $6,961,895 compared to the same period in the prior year. The costs are largely in connection with the acquisition of Emblem.

- During the three months ended June 30, 2019, share based compensation increased $3,716,945 compared to the prior year and decreased $3,750,566 compared to the prior quarter relating to stock options issued to employees, directors and consultants.

  For the six months ended June 30, 2019 share based compensation increased $11,556,031 compared to the same period in the prior year. The costs are primarily due to the acquisition of Emblem.

- General and administration expenses are composed of rent and facility, supply and maintenance, office supplies and services and travel and entertainment. The general and administration expense increased $1,260,373 for the three months ended June 30, 2019 compared to the prior year and increased $312,401 compared to the prior quarter. The increase is primarily attributable to the expansion of the facilities.

  For the six months ended June 30, 2019, the general and administration expense increased $2,443,110 compared to the same period in the prior year. Increases are mainly a result of commencing grow operations at the facility in Port Perry and the addition of medical clinics.

- Sales, marketing and promotion expenses relate to events designed to recruit doctors for the Company's clinic network and educate patients on the use of medical cannabis. The sales, marketing and promotion expense increased $1,391,190 for the three months ended June 30, 2019 primarily due to the brand and website developments compared to the prior year and increased $1,269,148 compared to the prior quarter.

  For the six months ended June 30, 2019, sales, marketing and promotion expense increased $1,558,183 compared to the same period in the prior year.

Adjusted EBITDA (Non-IFRS Measure)

The Company's "Adjusted EBITDA" is a non-IFRS measure used by management that does not have any standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other companies. Management defines the Adjusted EBITDA as the income (loss) from operations, as reported, before interest and tax, adjusted for removing share-based compensation expense, depreciation and amortization, and further adjusted to remove acquisition-related business advisory, consulting and legal costs. Management believes Adjusted EBITDA is a useful financial measure to assess its operating performance on an adjusted basis as described above.

The following table presents Adjusted EBITDA for the three months ended June 30, 2019, June 30, 2018 and March 31, 2018:

Adjusted EBITDA Non-IFRS Measure [1]

($)	Three months ended **June 30 2019**	June 30 2018	March 31 2019
Adjusted EBITDA Reconciliation [1]			
Income (loss) from operations - as reported	**($9,168,494)**	($1,565,718)	($20,452,137)
Share-based compensation expense (per income statement)	**$4,210,195**	$493,250	$7,960,761
Business advisory fees (acquisition-related)	**$2,272,023**	$421,474	$907,328
Consulting and legal expenses (acquisition-related)	-	-	$5,971,200
Depreciation and amortization (per income statement)	**$3,928**	$150,426	$867,712
	$6,486,146	$1,065,150	$15,707,001
Adjusted EBITDA	**($2,682,348)**	**($500,568)**	**($4,745,136)**

1. Adjusted EBITDA is earnings before interest, tax, depreciation and amortization, share-based compensation expense, and further adjusted to remove acquisition and transaction-related costs.

Share Structure

The Company has the following securities issued and outstanding as of June 30, 2019:

Securities issued and outstanding	
	June 30, 2019
Common Stock	274,755,719
Warrants	47,400,757
Stock Options	20,202,105
Fully Diluted	342,358,581

Condensed Cash Flow Statement

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

Condensed cash flow highlights		
	For the six months ended	
	June 30 2019	June 30 2018
	$	
Cash balance, beginning of period	26,406,978	1,057,231
Cash used in operating activities	(21,417,314)	(2,531,596)
Cash used in investing activities	7,975,796	6,222,626
Cash provided by financing activities	45,011,951	24,337,785
Cash balance, end of period	57,977,411	29,086,046

The early stages of the Company's growth have been focused on raising capital to fund start-up costs acquiring and expanding cannabis growing facilities and securing the necessary Health Canada licensing.

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

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

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

The Company's net increase in cash of $31,570,433 during the six months ended June 30, 2019, is mainly driven by the cash acquired on amalgamation of $15,988,886 and financing activities of $45,011,951 offset by cash used in operating activities of $21,417,314 and cash used in investing activities of $7,975,796.

Liquidity

Contractual obligations:

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

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

Year	Amount($)
2019	6,773
2020	13,546
2021	5,210

On June 27, 2019, the Company issued convertible debenture units ("**Convertible Debenture Units**") and additional over-allotment option convertible debenture units ("**Additional Convertible Debenture Units**") at a price of $1,000 per unit for aggregate gross proceeds of $40,250,000 less issue costs (with net proceeds to the Company of approximately $37,660,000). The Convertible Debenture Units and the Additional Convertible Debenture Units consist of $1,000 principal amount 8.5% (paid semi-annually) interest bearing unsecured convertible debentures of the Company and 680 common share purchase warrants (each a "**Warrant**"). Each Warrant entitles the holder thereof to purchase one Common Share at an exercise price of $1.55 until June 27, 2022 (the "**Expiry Date**"). If at any time prior to the Expiry Date, the volume weighted average trading price of the Common Shares on the Toronto Stock Exchange is greater than $3.10 for 20 consecutive trading days, the Company may, within 15 days of the occurrence of such event, accelerate the Expiry Date of the Warrants upon delivery of a notice (including a press release). Any unexercised Warrants will automatically expire on the Expiry Date.

In consideration for the services provided by the agents in connection with the offering of the Convertible Debenture Units, the Company paid an aggregate cash commission fee of $2,415,000 and issued an aggregate of 1,915,900 non-transferable broker warrants (each a "**Broker Warrant**") to the Agents. Each Broker Warrant is exercisable for one Common Shares at a price of $1.47 per Common Share until June 27, 2022.

The net proceeds received by the Company pursuant to the offering of Convertible Debenture Units will be used for working capital requirements and other general corporate purposes. In addition, the Company believes it prudent to have capital on hand for new investment opportunities, including investments in product development and expenses associated with the recreational cannabis market as it evolves. While the Company has not identified any specific investments or projects, nor any probable or significant acquisitions it wishes to undertake, the Company believes it to be in its best interest to have access to capital as opportunities arise. The Company has allocated existing capital on hand for the expansion of its facilities.

Year to date ended June 30, 2019, the cash and cash equivalents increased by $37,879,585 since December 31, 2018. The Company had a working capital of $75,935,362.
The cash and cash equivalents increased by $20,658,388 and the working capital by $24,668,205 during the three months ended June 30, 2019.

The table below summarizes total capitalization as at June 30, 2019, March 31, 2019 and December 31, 2018:

Capitalization			
	June 30, 2019	**March 31, 2019**	**December 31, 2018**
	$		
Lease Liability	500,130	-	-
Convertible debt	51,461,703	20,652,293	-
Long term debt	457,572	464,401	-
Total debt	52,419,405	21,116,694	-
Total shareholders equity	385,902,683	387,557,996	91,933,209
Total capitalization	438,322,088	408,674,690	91,933,209

Total capitalization as of June 30,2019 increased by $346,388,879 compared to December 31, 2018, due to an increase in debts of $52,419,405 and equity of $293,969,474 largely from the issuance of shares in relation to the Emblem acquisition.
During the three months ended June 30,2019 the increase in capitalization was $29,647,398 which comprised of convertible debts $31,302,711. The total shareholders equity includes share capital, warrants, contributed surplus and deficit.

Off-Balance Sheet Arrangements

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

Transactions Between Related Parties

During the quarter ended June 30, 2019 and year ended December 31,2018, the Company had the following transactions with the officers and directors of the Company.

Related parties		
	June 30, 2019	December 31, 2018
	$	
Wages and benefits	1,307,305	972,128
Business advisory fees	-	658,778
Consulting fees	169,750	133,127

The transactions noted above occurred in the normal course of operations. As at June 30, 2019, the Company owed $700,000 to directors and officers.

Critical Accounting Estimates

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

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

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

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

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

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

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

Change in Accounting Policy

The Company changed its accounting policy to the adhere the regulators requirements with respect to production costs related to biological assets on a prospective basis. Previously, production costs of biological assets were expensed in the period incurred. Under the revised accounting policy, the Company capitalizes production costs related to biological assets. Prior period financial statements will not be re-stated as these costs are immaterial.

New Accounting Standards Issued but Not Yet Effective

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

The Company has not early adopted any amendment, standard or interpretation that has been issued by the IASB but is not yet effective. The following accounting standards were issued and are not yet effective as of June 30, 2019:

IFRS 3 – Definition of a Business

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

- Clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs;
- Narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs;

- Add guidance and illustrative examples to help entities assess whether a substantive process has been acquired;
- Remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs; and
- Add an option concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

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

New Accounting Standards Adopted During the Quarter

Adoption of IFRS 16 Leases ("IFRS 16")

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

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

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

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

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

On January 1, 2019, the Company adopted IFRS 16 Leases ("IFRS 16") using the modified retrospective approach which does not require restatement of prior period financial information as it recognizes the cumulative effect as an adjustment to opening retained earnings and applies the standard prospectively.

On adoption of IFRS 16, the Company's lease liabilities related to contracts classified as leases are measured at the discounted present value of the remaining minimum lease payments, excluding short-term and low-value leases. The right of-use assets recognized were measured at amounts equal to the present value of the lease obligations. The weighted average incremental borrowing rate used to determine the lease liability at adoption was approximately 15%. The right-of-use assets and lease liability recognized relate to the Company's premises under lease.
The cumulative effect of initially applying IFRS 16 was recognized as a $1,070,775 right-of-use asset (Note 7) with a corresponding lease liability (Note 7).
In applying IFRS 16 for the first time, the Company used the following practical expedients permitted by the standard:

- Apply a single discount rate to a portfolio of leases with similar characteristics;
- Account for leases with a remaining term of less than 12 months as at January 1, 2019 as short-term leases;
- Account for lease payments as an expense and not recognize a right-of-use asset if the underlying asset is of low dollar value; and
- The use of hindsight in determining the lease term where the contract contains terms to extend or terminate the lease.

Upon the adoption of IFRS 16, the Company adopted the following significant accounting policy effective January 1, 2019:
Leases
A contract is a lease (or may contain a lease) if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. A lease liability is recognized at the commencement of the lease term at the present value of the lease payments that are not paid at that date. At the commencement date, a corresponding right-of-use asset is recognized at the amount of the lease liability, adjusted for lease incentives received, retirement costs and initial direct costs. Depreciation is recognized on the right-of-use asset over the lease term. Interest expense is recognized on the lease liabilities using the effective interest rate method and payments are applied against the lease liability. Payments received for the sublease of right-of-use assets are recognized as sublease revenue.
Key areas where management has made judgments, estimates, and assumptions related to the application of IFRS 16 include:

- The incremental borrowing rates are based on judgments including economic environment, term, currency, and the underlying risk inherent to the asset. The carrying balance of the right-of-use assets, lease liabilities, and the resulting interest expense and depreciation expense, may differ due to changes in the market conditions and lease term.

  Lease terms are based on assumptions regarding extension terms that allow for operational flexibility and future market conditions.
  Financial Instruments

As of June 30, 2019, the Company had financial instruments consisting of the following items:

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

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

Risks and Uncertainties

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

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

Internal Controls Over Financial Reporting

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

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

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

As at June 30, 2019, management concluded that the disclosure controls and procedures and internal controls over financial reporting were adequate and provide such reasonable assurances.

Notable Subsequent Events

On July 2, 2019, the Company received multiple Export Permits from Health Canada, which allowed the Company to begin its first international cannabis product shipment. The permits allow specifically for the export of the Company's branded medical cannabis oils, including drops and sprays.

On July 11, 2019, the Company has been added to the Cannabis ETF (THCX), which trades on the NYSE. THCX seeks to track the Innovation Labs Cannabis Index which is a portfolio of 35 stocks expected to benefit from growth of the legal marijuana, CBDF and hemp industries.

On July 12, 2019, the wholly owned subsidiary of the Company, Aleafia Farms Inc., secured a License Amendment under Health Canada's Cannabis Regulations authorizing cannabis cultivation for the entirety of the Company's Port Perry Outdoor Grow facility.

Outstanding Data

As at August 14, 2019,

(i) there are 274,755,719 Common Shares outstanding;

(ii) there are 47,400,757 Warrants outstanding;

(iii) there are 20,202,105 Options outstanding;

(iv) there are 40,250 units of Aleafia convertible debt outstanding;

(v) there are 20,580 units of legacy Emblem convertible debt outstanding