

ALEAFIA HEALTH INC.
Management's Discussion and Analysis
For the three and nine months ended September 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 **November 12, 2019** and provides an analysis of the financial operating results for the three and nine months ended September 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 nine months period ended September 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 the Company's 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’s shares were delisted from the TSXV on March 18, 2019. The Company’s Common Shares are listed under the symbol “ALEF” on the TSX, “ALEAF” on the OTC and “ARAH” on the Frankfurt Stock Exchange (FRA).

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.

Expanding Production Capacity

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**”). With its outdoor grow facility, the Company is a low-cost producer, while selling high-margin, value added products produced at its Paris Facility. The Niagara Facility is currently in the process of obtaining the applicable Health Canada license necessary to commence operations.

	Cultivation Area	Cultivation Capacity
Facility	sq. ft.	KGs (annual)
Niagara Facility	160,000	25,000
Port Perry Facility	3,746,160	103,000
Paris Facility	17,000	1,500
TOTAL	3,923,160	129,500

Across its three facilities, the Company can cultivate approximately 129,500 kg of dried cannabis flower. Of this total cultivation capacity, 32,600 kg can be produced currently at licensed and operational facilities, while the remainder can be produced pending receipt of required Health Canada approval of the Port Perry Phase II expansion and the Niagara Greenhouse (see “**Licenses**”).

Facilities and Construction

The Company has overseen three major cannabis production facility expansions simultaneously. It is anticipated that with the completion of the facility build-outs Aleafia Health’s cash expenditures will be significantly reduced and when licensed, greatly increase the Company’s cultivation and production capacity.

Port Perry Facility

The Company completed the requisite capital improvements to its Port Perry Facility 26-acre secure outdoor grow expansion for a total aggregate cost of approximately \$1 million, including the new drying building. Subsequent to the reporting period, the Company completed its inaugural 2019 outdoor grow harvest, which yielded approximately 10,300 kg of dried flower.

2.6M sq. ft. Phase II Expansion: On September 4, 2019, the Company acquired the farmland directly adjacent to its Port Perry facility for a cash purchase price of \$1.2 million. The expansion adds an additional 2.6 million sq. ft. (60 acres) of cultivation area, for a total of 3.7 million sq. ft (86 acres). Fencing and much of the security infrastructure at the expanded site has been completed.

Based on 2019 results, it is anticipated that the expanded facility can produce 1,200 kg per acre, due to benefiting from a number of advantages in the 2020 growing season, including starting several weeks earlier than in 2019, which may improve actual results. The Company will also utilize more automation which will further speed up the drying and harvesting process, which was the most labour intensive and costly phase of the growing season.

The Port Perry Facility Phase II expansion has \$1.5 million in capital expenditures remaining, including new drying, harvesting and storage buildings. Of this amount, there is

approximately \$0.2 million in outstanding expenses remaining for capital improvements which are necessary for submission of the formal Site Evidence Package to Health Canada for the Company's Licence Amendment application.

New Drying Building: The entire harvest was dried and cured on-site at the Company's newly constructed drying building at Port Perry. The building is 5,000 sq. ft. and features a 20 ft. high ceiling and a purpose-built climate control and dehumidification system to maximize throughput efficiency.

Paris Facility

The licensed and operational Paris Facility features cultivation rooms and handles all extraction, packaging and order fulfillment for Aleafia Health's medical, adult-use and international sales. The 15,000 sq. ft. of indoor cultivation at the Paris Facility is primarily used for premium dried flower products.

Additional extraction machinery has been added at the Company's licensed and operational Paris Facility to ensure adequate extraction capacity to process the 2019 outdoor grow harvest.

Paris Facility Phase II Expansion: As of October 4, 2019, the Company has completed the Phase II expansion, which the Company expects will add an additional 115,000 kg of annual extraction capacity. The expanded facility has \$2.9 million in capital expenditures remaining, which is allocated to construction holdbacks for work which has already been substantially completed, along with \$2.2 million for budgeted production machinery.

The 30,000 sq. ft. expansion is entirely dedicated to the extraction, production, packaging and distribution of high-margin, value-added cannabis health and wellness products.

The facility is purpose-built to meet European Union Good Manufacturing Practices ("**EU-GMP**") certification requirements. EU-GMP certified facilities demonstrate the highest level of pharmaceutical-grade quality and securing the certification will allow Aleafia Health to begin exporting finished goods including cannabis oils and capsules to the European Union market.

Niagara Facility

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 entire Niagara Facility is now materially complete and can be operationalized within approximately two weeks of securing a Health Canada Cultivation Licence. The modern 160,000 sq. ft. greenhouse features the advanced automation and a moving container bench system which allows for a perpetual, year-round harvest. The Niagara Facility has \$0.6 million in capital expenditures remaining, all of which is allocated to construction holdbacks for work which has already been substantially completed.

Licenses

As with all Licensed Producers, securing required Health Canada approvals for cannabis production activities remains an important factor in the success of the Company's business.

On June 7, 2019, the Company was granted an amended Standard Cultivation License (the "**New License**") by Health Canada at the Port Perry Facility, allowing for cannabis cultivation on approximately six acres. On July 15, 2019, the Company secured a Health Canada license amendment for the remainder of the 1.1 million sq. ft Port Perry Facility. The Company received an amended Standard Cultivation Licence from Health Canada for the Drying Building at the Port Perry Facility on October 10, 2019 and the building was operationalized the following day.

The Niagara Facility Cultivation Licence application remains under review by Health Canada.

The Licence Amendment application for the Phase II expansion of the Port Perry Facility, which adds an additional 2.6 million sq. ft., is expected to be submitted in the fourth quarter of 2019 in order to increase the probability that the amended licence is issued by the beginning of the 2020 outdoor growing season.

Health and Wellness Services

Education of both the medical community and the general public is a key priority of Aleafia Health. The Company has developed and implemented a proprietary training program for all its staff to help those with chronic medical conditions. This training program extends to partner clinics with which the Company also works. This mixture of in-house clinics and clinic 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 believes it is well positioned to capture increased market share of medical cannabis sales due its unique, integrated health and wellness ecosystem including clinics.

FoliEdge Academy

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 clinic network, which includes over 70,000 patients seen to date. Aleafia Health carries on the business of FoliEdge Academy through a wholly-owned subsidiary.

Strategic Partnerships and Investments

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

Joint Venture with Compass Cannabis Clinics and Fire & Flower: On September 6, 2018, Emblem Corp. (wholly-owned by Aleafia Health) acquired an equity stake in Compass Cannabis Clinics, a major Cannabis retailer. This is also paired with five-year supply and preferred vendor agreement. Similarly, Aleafia Health indirectly owns interest in, and has a supply agreement with leading Cannabis retailer Fire & Flower.

One Plant (Retail) Corp: One Plant (Retail) Corp., in which the Company owns a 9.9 per cent equity interest, has entered into agreements with a number of the cannabis retail license operator's in the Province of Ontario. One of these retail locations is currently open to the public and located in Ajax, Ontario operating under the business name Smok. The Company believes that One Plant will operate further cannabis retail locations in Ontario.

Flying High Brands Inc.: Flying High Brands Inc. has entered into exclusive, definitive Licensing & Distribution Agreements with four international cannabis companies representing over 100 product SKUs across a wide variety of consumer formats, including edibles, topicals and beverages. The Agreements provide exclusive rights to certain formulas, production and packaging technologies to produce, market and sell brands in Canada in exchange for royalty payments.

Acquisition of Emblem: On March 14, 2019, the Company completed the acquisition of Emblem pursuant to the Arrangement Agreement (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 were 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.

Aleafia Health Germany: On May 6, 2019, the Company announced that it intended to enter the German medical cannabis market via its joint venture ("**Aleafia Health Germany**") with German pharmaceutical wholesaler Acnos Pharma GmbH. 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.

Australian Expansion: During the reporting period, the Company completed its first international product shipment, delivering medical cannabis oils for distribution by Australian Licensed Producer CannaPacific Pty. Limited (“**CannaPacific**”). The Company owns a 10 per cent stake in CannaPacific.

Other Developments

Supply Agreement with Aphria Inc.: On October 8, 2019 the Company announced that Emblem had terminated its supply agreement with Aphria Inc. dated September 11, 2018 in accordance with its terms as a consequence of Aphria’s failure to meet its obligations. There are currently several unresolved disputes between the parties relating to the termination. Emblem will be referring the matter to arbitration pursuant to the requirements of the supply agreement. Emblem will take such steps as are necessary to enforce its rights under the supply agreement and to recover any damages arising from the termination.

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.

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 Health 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 nine-months period ended September 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/ (Net gain)	Basic and diluted loss (gain) per share	Total assets	Liabilities
	\$				
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
30-Sep-19	5,289,531	(1,859,125)	(0.01)	457,337,123	64,304,525

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 gain for the three months ended September 30, 2019 of \$1,859,125 and a net loss for the three months ended September 30, 2018 of \$3,395,299. Net losses for the nine months ended September 30, 2019 and 2018 were \$29,848,208 and \$6,575,029 respectively.

TABLE: Condensed Statement of Comprehensive (Loss) Income			
(\$,000s)	Three months ended		
	30-Sep-19	30-Jun-19	% Change
Gross Revenue	5,290	3,951	34%
Net Revenue	4,958	3,839	29%
Gross profit before fair value ("FV") adjustments	2,032	557	265%
Gross profit	12,397	2,900	327%
Total expenses	8,460	12,069	-30%

Gain (loss) from operations	3,938	(9,168)	n/a
Net (loss) income	1,859	(11,477)	n/a
Adjusted EBITDA	(2,526)	(4,538)	n/a

TABLE: Key Financial & Operational Metrics			
	Three months ended		
(\$,000s)	30-Sep-19	30-Jun-19	% Change
Financial Results			
Cannabis net revenue	3,826	\$2,420	58%
Net medical cannabis revenue	1,450	1,011	43%
Net adult-use revenue	2,152	1,409	53%
Net bulk LP-to-LP revenue	224	0	n/a
Balance Sheet			
Cash, cash equivalents & marketable securities	57,172	63,533	-10%
Cannabis Inventory & Biological Assets	21,474	7,217	198%
Working Capital	83,411	75,935	10%
Operational Results - Cannabis			
Active registered patients	10,298	6,959	48%

Revenue

Revenue volume by revenue streams is as follows:

During the three months ended September 30, 2019, revenue increased by \$3.5 million compared to the same period in the prior year and increased \$1.1 million compared to the prior quarter. The increase in revenue for the three months ended September 30, 2019 from the prior quarter was primarily due to the increase in sales of cannabis by \$1.4 million.

During the nine months ended September 30, 2019, revenues increased by \$7.6 million compared to the same period in the prior year.

The primary drivers of the revenue for the three and nine months ended September 30, 2019 are revenue from consultation and sale of cannabis in both the medical and adult-use markets.

Gross profit before fair value adjustments

Gross margin, excluding the impact of fair value changes, for the three and nine months ended September 30, 2019 was 41 per cent and 23 per cent respectively compared to 77

per cent and 73 per cent for the same periods in 2018. 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 the Company's wholesale cannabis customers and the negative impact of excise tax, the cost of which was not passed on to consumers.

Gross Profit before fair value adjustments							
	For the three months ended				For the nine months ended		Year ended
	September 30 2019	June 30 2019	March 31 2019	September 30 2018	September 30 2019	September 30 2018	December 31 2018
	\$				\$		\$
Revenue							
Consulting services	714,808	800,266	626,368	423,685	2,141,442	1,008,747	1,548,728
Research	417,755	619,033	367,798	612,224	1,404,586	1,247,634	1,152,048
Sale of cannabis	4,156,968	2,531,781	530,792	429,146	7,219,541	429,146	629,146
	5,289,531	3,951,080	1,524,958	1,465,055	10,765,569	2,685,527	3,329,922
Excise taxes	331,310	111,605	-	-	442,915	-	-
Net revenue	4,958,220	3,839,476	1,524,958	1,465,055	10,322,654	2,685,527	3,329,922
Cost of Sales							
Doctor services	496,849	545,036	462,520	336,286	1,504,405	726,362	1,129,654
Cost of goods sold	2,181,872	2,250,105	1,324,826	-	5,756,803	485	554,217
Realized fair value adjustment of biological asset	247,854	487,186	-	-	735,040	-	-
	2,926,575	3,282,327	1,787,346	336,286	7,996,248	726,847	1,683,871
Gross profit (loss) before fair value adjustments	2,031,646	557,149	(262,388)	1,128,769	2,326,406	1,958,680	1,646,051
Gross margin before fair value adjustments	41%	15%	-17%	77%	23%	73%	49%

Operating Expenses

Operating expenses							
	For the three months ended				For the nine months ended		Year ended
	September 30 2019	June 30 2019	March 31 2019	September 30 2018	September 30 2019	September 30 2018	December 31 2018
	\$				\$		\$
Wages and benefits	2,484,302	1,023,999	2,988,213	864,315	6,496,514	2,402,543	3,508,313
General and administration	2,321,092	4,558,568	7,670,284	1,130,357	14,549,944	2,396,021	5,430,608
Business advisory fees	402,886	2,272,023	907,328	1,051,702	3,582,237	1,473,177	1,216,657
Amortization and depreciation	2,840,207	3,928	867,712	1,104,035	3,711,847	1,385,170	1,659,003
Share-based payments	411,209	4,210,195	7,960,761	1,457,476	12,582,165	2,072,401	10,783,955
	8,459,696	12,068,713	20,394,298	5,607,885	40,922,707	9,729,312	22,598,536

The overall increase in operating expenses during the three and nine months ended September 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 with 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. However, total expenses have declined significantly over the course of 2019.

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 September 30, 2019, wages and benefits increased by \$1,619,988 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 increased by \$1,460,304 compared to the prior quarter primarily due to hiring of additional full-time employees following the expansion of Company operations and severance amounts paid to certain departing Emblem employees resulting from post-merger synergy implementation.

For the nine months ended September 30, 2019 wages and benefits increased by \$4,093,792 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 former employees of Emblem.

For the nine months ended September 30, 2019 business advisory services increased by \$2,109,060 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 September 30, 2019, share based compensation decreased by \$1,046,267 compared to the prior year and decreased \$3,798,986 compared to the prior quarter relating to stock options issued to employees, directors and consultants.

For the nine months ended September 30, 2019 share based compensation increased by \$10,509,764 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, professional fees and travel. The general and administration expense increased by \$1,190,735 for the three months ended September 30, 2019 compared to the prior year due to Project Elevate costs and decreased by \$2,237,476 compared to the prior quarter. The decrease is primarily due to tight control of expenses.

For the nine months ended September 30, 2019, the general and administration expense increased by \$12,153,923 compared to the same period in the prior year. Increases are mainly a result of commencing grow operations at the Port Perry Facility and Paris Facility, the addition of medical clinics and the acquisition of Emblem.

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 to remove share-based compensation expense, depreciation and amortization, fair value adjustments of biological assets 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 September 30, 2019 and June 30, 2019:

Adjusted EBITDA Non-IFRS Measure		
(\$)	Three months ended	
	September 30 2019	June 30 2019
Adjusted EBITDA Reconciliation¹		
Operating Income (loss) - as reported	3,937,584	(9,168,494)
Add: Share-based compensation expense	411,209	4,210,195
Add: Business advisory fees, consulting and legal expenses	402,886	2,272,023
Add: Depreciation and amortization	2,840,207	3,928
Add: Realized fair value adjustment of biological assets	247,854	487,186
Less: Unrealized fair value adjustment of biological assets	(10,365,635)	(2,343,072)
	(6,463,479)	4,630,260
Adjusted EBITDA	(2,525,895)	(4,538,234)

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

Share Structure

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

Securities issued and outstanding	
September 30, 2019	
Common Stock	276,837,273
Warrants	68,646,159
Stock Options	25,537,632
Fully Diluted	371,021,064

Condensed Cash Flow Statement

The condensed consolidated cash flow position of the Company can be summarized as follows:

Condensed cash flow highlights	For the nine months ended	
	Septemeber 30 2019	Septemeber 30 2018
		\$
Cash balance, beginning of period	26,406,978	1,057,231
Cash used in operating activities	(29,343,568)	(3,764,154)
Cash used in investing activities	15,847,611	6,916,819
Cash provided by financing activities	38,675,686	18,611,083
Cash balance, end of period	51,586,707	22,820,979

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 licenses.

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, disposition of land and exercise of warrants and options.

The Company's net increase in cash of \$25,179,729 during the nine months ended September 30, 2019, is mainly driven by the cash acquired on amalgamation with Emblem of \$22,050,853, disposition of land of \$8,709,818 and financing activities of \$38,675,685 offset by cash used in operating activities of \$29,343,568 and cash used in investing activities of \$14,913,060.

Liquidity

As at September 30, 2019, the Company had \$51.6 million in cash and cash equivalents, and \$5.6 million in marketable securities. Based on current business operations and

model, we believe that we have sufficient cash resources and access to financing to operate our business and make interest payments on convertible debt. The Company prioritizes prudent allocation of capital and will continue to do so moving forward.

Broader industry trends may affect the Company's ability to consistently generate greater revenue, including regulatory hurdles surrounding the roll-out of adult-use retail dispensaries in Canadian provinces. Securing outstanding Health Canada approvals to operationalize the Company's production facilities (see "**Licenses**") is also an important factor.

The Company has adequate working capital to fund current operations, with a surplus of \$83,411,351 as at September 30, 2019.

Contractual obligations as at September 30, 2019:

Commitments	Less than 2 years \$	2 to 5 years \$	Total \$
Cannabis supply agreement	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
	<u>107,479,656</u>	<u>228,775,529</u>	<u>336,255,185</u>

On October 8, 2019 the Company announced that Emblem had terminated its supply agreement with Aphria Inc. dated September 11, 2018 in accordance with its terms as a consequence of Aphria's failure to meet its obligations. There are currently several unresolved disputes between the parties relating to the termination. Emblem will be referring the matter to arbitration pursuant to the requirements of the supply agreement. Emblem will take such steps as are necessary to enforce its rights under the supply agreement and to recover any damages arising from the termination.

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

<u>Year</u>	<u>Amount(\$)</u>
2019	4,023
2020	16,093
2021	4,782

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 per cent (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.

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. 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.

Debenture holders converted \$2,900,000 debentures to 1,972,784 common shares for the value of \$2,900,000 in the quarter ended September 30, 2019.

For the nine months ended September 30, 2019, the cash and cash equivalents increased by \$25,179,729 and working capital increased by \$57,658,315 since December 31, 2018.

The cash and cash equivalents decreased by \$6,390,704 and the working capital increased by \$7,475,989 during the three months ended September 30, 2019 compared to the three months ended June 30, 2019.

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

Capitalization				
	Septemeber 30, 2019	June 30, 2019	March 31, 2019	December 31, 2018
	\$			
Lease Liability	1,314,493	500,130	-	-
Convertible debt	50,238,454	51,461,703	20,652,293	-
Long term debt		457,572	464,401	-
Total debt	51,552,947	52,419,405	21,116,694	-
Total shareholders equity	393,032,598	385,902,683	387,557,996	91,933,209
Total capitalization	444,585,545	438,322,088	408,674,690	91,933,209

Total capitalization as of September 30, 2019 increased by \$352,652,336 compared to December 31, 2018, due to an increase in debt of \$51,552,947 and equity of \$301,099,389 largely from the issuance of shares in relation to the Emblem acquisition.

During the three months ended September 30, 2019 the increase in capitalization was \$6,263,457 which comprised of reduction of convertible debts by \$1,223,249 and issuance of shares in the aggregate amount of \$2,900,000 to debenture holders. 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 September 30, 2019 and year ended December 31, 2018, the Company had the following transactions with the officers and directors of the Company.

	Three Months Ended Sept 30, 2019	Three Months Ended Sep 30, 2018	Nine Months Ended Sept 30, 2019	Nine Months Ended Sept 30, 2018
Wages & Benefits	\$230,854	\$170,750	\$914,805	\$787,418

The transactions noted above occurred in the normal course of operations. As at September 30, 2019, the Company owed \$520,312 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 crop up to the point of harvest, harvesting costs, selling costs, sales price, wastage and expected yields for the cannabis crop. 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.

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 adhere to regulatory 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 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 September 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 per cent. 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 \$1,590,651 right-of-use asset with a corresponding lease liability.

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 September 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.

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

Outstanding Data

As at November 12, 2019,

- (i) there are 277,872,744 Common Shares outstanding;

- (ii) there are 68,646,159 Warrants outstanding;
- (iii) there are 25,537,632 Options outstanding;
- (iv) there are 37,350 units of Aleafia convertible debt outstanding;
- (v) there are 24,764 units of legacy Emblem convertible debt outstanding