Aleafia Health™

ALEAFIA HEALTH INC.

UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(expressed in Canadian dollars)
For the three and nine months ended
September 30, 2020 and 2019

AleafiaHealth.com

MANAGEMENT'S RESPONSIBILITY

To the Shareholders of Aleafia Health Inc.:

The accompanying unaudited interim condensed consolidated financial statements of Aleafia Health Inc. and its subsidiaries (the "Company") were prepared by management, which is responsible for the integrity and fairness of the information presented, including the many amounts that out of necessity are based on estimates and judgements. These interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards.

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

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

November 11, 2020

"Geoffrey Benic"	*"Benjamin Ferdinand"*
Geoff Benic Chief Executive Officer	Benjamin Ferdinand Chief Financial Officer

ALEAFIA HEALTH INC.

Unaudited Interim Condensed Consolidated Statements of Financial Position

As at September 30, 2020 and December 31, 2019
(Amounts reflected in thousands of Canadian dollars)

	Note	September 30, 2020	December 31, 2019
ASSETS			
Current			
Cash and cash equivalents		$ 34,559	$ 41,247
Marketable securities		8,783	1,452
Trade and other receivables		10,667	4,847
Tax receivables		4,624	6,498
Prepaid expenses		5,679	5,756
Prepaid expenses for supply agreement		-	22,756
Inventory	10	19,323	34,115
Biological assets	11	17,366	971
		101,001	117,642
Non-current			
Prepaid deposit for property, plant and equipment		-	3,612
Property, plant and equipment	5	77,611	64,338
Deferred expenses		814	1,036
Right-of-use assets	4	3,061	1,071
Investments	12	5,523	4,616
Intangible assets	6	77,937	81,252
Goodwill	3	188,790	188,790
		353,736	344,715
TOTAL ASSETS		$ 454,737	$ 462,357
LIABILITIES			
Current			
Accounts payable and accrued liabilities	8	$ 25,348	$ 20,132
Lease liability	4	660	507
Convertible debt	13	23,497	-
Deferred revenue		55	101
		49,560	20,740
Non-current			
Lease liability	4	2,664	700
Convertible debt	13	31,735	51,009
Deferred tax liability		-	5,394
		34,399	57,103
TOTAL LIABILITIES		83,959	77,843
SHAREHOLDERS' EQUITY			
Share capital	7	384,762	371,744
Contributed surplus	7	83,736	80,601
Deficit		(97,720)	(67,831)
		370,778	384,514
TOTAL LIABILITIES AND EQUITY		$ 454,737	$ 462,357

COMMITMENTS AND CONTINGENCIES (Note 15)

Approved and Authorized for issue on behalf of the board on November 11, 2020.

"*Daniel Milliard*" "*Lea Ray*"

Daniel Milliard - Director Lea Ray - Director

ALEAFIA HEALTH INC.

Unaudited Interim Condensed Consolidated Statements of Comprehensive Loss

For the three months and nine months ended September 30, 2020 and 2019
(Amounts reflected in thousands of Canadian dollars, except share and per share amounts)

	Note	Three months ended Sep 30 2020	Three months ended Sep 30 2019	Nine months ended Sep 30 2020	Nine months ended Sep 30 2019
Revenue					
Sale of cannabis		$ 4,434	4,157	27,637	$ 7,220
Consultation services		474	715	1,414	2,141
Research		249	418	959	1,405
		5,157	5,290	30,010	10,766
Excise taxes		189	332	671	443
		4,968	4,958	29,339	10,323
Cost of sales					
Doctor services		372	497	1,081	1,504
Inventory expensed to cost of sales		3,889	2,182	11,974	5,757
Gross profit before fair value adjustment		707	2,279	16,284	3,062
Fair value changes in biological assets and changes in inventory sold	11	(10,708)	10,118	(18,027)	12,178
Gross profit		(10,001)	12,397	(1,743)	15,240
Expenses					
Wages and benefits		1,917	2,485	7,514	6,497
General and administrative		4,003	2,321	10,504	14,550
Business transaction costs		816	403	3,322	3,582
Bad debt expense		500	-	904	-
Amortization and depreciation		3,273	2,840	7,515	3,712
Share-based payments		648	411	2,108	12,582
		11,157	8,460	31,867	40,923
Operating income (loss)		(21,158)	3,937	(33,610)	(25,683)
Other (income) expense					
Interest expense		3,062	2,405	8,538	4,298
Realized gain on LP settlement		-	-	(6,344)	-
Unrealized (gain) loss on marketable securities		(61)	(29)	(66)	826
Non-operating income		(4)	(298)	(407)	(301)
		2,997	2,078	1,721	4,823
Net income (loss) before income taxes		(24,155)	1,859	(35,331)	(30,506)
Income tax					
Current income tax expense (recovery)		(1,400)	-	-	-
Deferred income tax expense (recovery)		(2,994)	-	(5,394)	(658)
Net income (loss) and comprehensive income (loss)		$ (19,761)	1,859	(29,937)	$ (29,848)
Income (loss) per share, basic and diluted		$ (0.06)	0.01	(0.10)	$ (0.14)
Weighted average common shares outstanding		301,004,648	276,233,539	288,339,792	211,547,125

The accompanying notes are an integral part of these unaudited interim condensed Consolidated Financial Statements.

ALEAFIA HEALTH INC.

Unaudited Interim Condensed Consolidated Statements of Changes in Equity

For the nine months ended September 30, 2020 and 2019
(Amounts reflected in thousands of Canadian dollars, except share and warrant amounts)

	Common shares				
	Number of Shares	**Amount**	**Contributed Surplus**	**Deficit**	**Total**
	#	$	$	$	$
Balances, December 31, 2019	**277,893,686**	**371,744**	**80,601**	**(67,831)**	**384,514**
Issuance of common stock	23,000,000	12,383	-	-	12,383
Shares issued from options exercised	375,500	635	(541)	-	94
Shares issued from warrants exercised	500	-	-	-	-
Warrants issued for issuance of shares	-	-	567	-	567
Share-based payments	-	-	3,109	48	3,157
Net loss for the period	-	-	-	(29,937)	(29,937)
Balances, September 30, 2020	**301,269,686**	**384,762**	**83,736**	**(97,720)**	**370,778**

	Common shares				
	Number of Shares	**Amount**	**Contributed Surplus**	**Deficit**	**Total**
	#	$	$	$	$
Balances, December 31, 2018	**157,848,812**	**104,455**	**15,702**	**(28,229)**	**91,928**
Shares issued from warrants exercised	1,204,514	1,814	(138)	-	1,676
Shares issued from options exercised	631,559	990	(1,198)	-	(208)
Warrants deemed issued for Emblem	-	-	42,775	-	42,775
Warrants issued for convertible debt	-	-	-	-	-
Shares issued for conversion of convertible debentures	1,972,784	2,900	-	-	2,900
Warrants expired	-	-	-	-	-
Shares/Options issued for Emblem	110,823,349	252,677	5,922	-	258,599
Shares/Warrants issued for services	2,356,255	5,315	1,316	-	6,631
Equity component of Convertible Debt	-	-	6,087	-	6,087
Shares issued for services	2,000,000	3,160	-	-	3,160
Share-based payments	-	-	9,333	-	9,333
Net loss for the period	-	-	-	(29,848)	(29,848)
Balances, September 30, 2019	**276,837,273**	**371,311**	**79,799**	**(58,077)**	**393,033**

The accompanying notes are an integral part of these unaudited interim condensed Consolidated Financial Statements.

ALEAFIA HEALTH INC.
Unaudited Interim Condensed Consolidated Statements of Cash Flows
For the nine months ended September 30, 2020 and 2019
(Amounts reflected in thousands of Canadian dollars)

	September 30, 2020	September 30, 2019
Operating activities		
Net loss for the period	$ (29,937)	$ (29,848)
Adjustments for non-cash items:		
Depreciation	4,493	1,302
Amortization	3,022	2,247
Gain on sale of land	-	(166)
Share based consulting fees	-	6,001
Share based payments	3,157	12,582
Accretion	4,223	1,439
Deferred income tax recovery	(5,394)	(658)
Realized gain on LP settlement	(6,344)	-
Unrealized gain on marketable securities	66	826
Fair value changes in biological assets and changes in inventory sold	(18,027)	(12,913)
	(44,741)	(19,188)
Changes in operating working capital		
Prepaid expenses	17,289	(2,911)
Trade receivable	(5,820)	(3,820)
Marketable securities	(7,397)	595
Biological asset	1,632	(28)
Inventory	15,085	(2,197)
Tax receivable	1,874	-
Accounts payable and accrued liabilities	5,216	(1,730)
Cash received from LP settlement	15,500	-
Deferred revenues	(46)	(65)
Net cash used in operating activities	(1,408)	(29,344)
Investing activities		
Investment in CannaPacific	(107)	(616)
Investment in OPC	(800)	-
Cash acquired on amalgamation	-	22,051
Deferred expenses	222	(1,026)
Sale proceeds of land	-	8,709
Acquisition of property, plant and equipment	(17,216)	(13,270)
Net cash (used in) provided by investing activities	(17,901)	15,848
Financing activities		
Lease liability payments	(423)	(467)
Convertible debt	-	35,744
Warrants and options exercised	94	3,299
Proceeds from the issuance of stock	12,950	100
Net cash provided by financing activities	12,621	38,676
Change in cash and cash equivalents	(6,688)	25,180
Cash and cash equivalents, beginning of period	41,247	26,407
Cash and cash equivalents, end of period	$ 34,559	$ 51,587

The accompanying notes are an integral part of these unaudited interim condensed Consolidated Financial Statements.

Note 1 Nature of Operations

Aleafia Health Inc. ("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 and cultivation facilities, 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 85 Basaltic Road, Concord, Ontario and its corporate website is *www.aleafiahealth.com*.

Aleafia Health 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 March 18, 2020.

On March 14, 2019, the Company acquired Emblem Corp. by way of a statutory plan of arrangement 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 *"Note 3. Business Combination and Asset Acquisition"*.

Following the completion of the Arrangement, on March 19, 2019, the common shares of the Company ceased trading on the TSX Venture Exchange Inc. ("TSXV") and commenced trading on the Toronto Stock Exchange ("TSX") under its existing symbol "ALEF" which was subsequently changed to "AH" on May 27, 2020. Emblem Shares were delisted from the TSXV on March 18, 2019.
As at September 30, 2020, the Company had not generated a profit and had accumulated a deficit of $98 million. The Company's operations and expenditures have been funded by the issuance of equity and convertible debt.

Note 2 Basis of Presentation

These unaudited interim condensed consolidated financial statements as at and for the nine months ended September 30, 2020 and 2019 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and in accordance with IAS 34, Interim Financial Reporting ("IAS 34"). The accounting policies, methods of computation and presentation applied in these unaudited interim condensed consolidated financial statements are consistent with those of the previous fiscal year. These unaudited interim condensed consolidated financial statements reflect the accounting policies and disclosures described in Notes 2 and 4 to the Company's audited consolidated financial statements for the year ended December 31, 2019 with the exception of any change set out below and accordingly, should be read in conjunction with those audited consolidated financial statements and the notes thereto.

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

Note 3 Business Combination and Asset Acquisition

On March 14, 2019, the Company completed the acquisition of Emblem Corp. pursuant to a plan of arrangement under the provisions of the Canada Business Corporation Act. Pursuant to the Arrangement, the Company acquired all of the issued and outstanding Emblem shares in exchange for common shares of Aleafia following Emblem's amalgamation with the Company's wholly owned subsidiary, 11208578 Canada Inc., to form a new wholly owned subsidiary of the Company continuing as "Emblem Corp". Pursuant to the Arrangement, Emblem shareholders were entitled to receive 0.8377 of an Aleafia Health common share for each Emblem share held prior to the Arrangement (the "Consideration") with any fractional Aleafia common share being rounded down to nearest whole Aleafia Health common share. The Emblem shares were delisted from the TSXV at the close of business on March 18, 2019.

Prior to the completion of the Arrangement, Emblem had outstanding three classes of warrants to purchase Emblem shares listed on TSXV. The listed warrants, with the exception of any listed Emblem Warrants that were exercised prior to closing of the Arrangement, remain outstanding as warrants of "Emblem Corp" that upon exercise will entitle the holder thereof to receive the Consideration. Former options to purchase Emblem shares were replaced, pursuant to the Arrangement, with replacement Aleafia Health options (on the same terms as the Emblem options), such that upon exercise will entitle the holder thereof to receive the Consideration.

The acquisition was accounted for as a business combination as the assets acquired and liabilities assumed constitute a business. The transaction was accounted for using the acquisition method of accounting whereby the assets acquired, and the liabilities assumed were recorded at their estimated fair value at the acquisition date. The Company applied various valuation techniques in order to measure the assets acquired and the liabilities assumed in the business combination. These provisional amounts may be adjusted during the measurement period, or additional assets or liabilities may be recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

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

Consideration		
Common shares issued (110,823,349 shares at $2.28)	$	252,677
Warrants issued		42,775
Replacement share options		5,922
Total consideration	$	301,374

Net assets acquired		
Net tangible assets	$	74,583
Emblem brand		9,025
GrowWise brand		4,428
Symbol brand		1,647
Paris license		34,000
PR, R&D		600
SDM distribution agreement		1,300
Deferred income tax liability		(285)
		125,298
Goodwill acquired		176,076
Total net assets acquired	$	301,374

The resulting goodwill represents the sales and growth potential of Emblem Corp. and will not be deductible for tax purposes. The Company has goodwill of $12.7 million from other previous amalgamations.

Note 4 Right-of-Use Asset and Lease Liability

RIGHT-OF-USE ASSET		
Cost		
Balance, December 31, 2019	$	1,591
New leases entered into		2,553
Cancellation of lease		(13)
Balance, September 30, 2020	$	4,131
Accumulated amortization		
Balance, December 31, 2019	$	(520)
Amortization		(550)
Balance, September 30, 2020	$	(1,070)
Net book value, December 31, 2019		1,071
Net book value, September 30, 2020	$	3,061

LEASE LIABILITY		
Balance, December 31, 2019	$	1,207
New leases entered into		2,553
Cancellation of lease		(13)
Interest expense		418
Payments		(841)
Balance, September 30, 2020	$	3,324
Current portion		**660**
Long-term portion	**$**	**2,664**

Note 5 Property, Plant and Equipment

		Computer & Software	Equipment & Furniture	Leasehold Improvements	Land	Buildings & Houses		Total
Cost								
Balance, December 31, 2019	$	758	12,025	5,452	7,637	40,447	$	66,319
Additions		148	1,685	127	100	16,162		18,222
Balance, September 30, 2020	$	906	13,710	5,579	7,737	56,609	$	84,541
Accumulated Depreciation								
Balance, December 31, 2019	$	(225)	(803)	(272)	-	(681)	$	(1,981)
Depreciation		(142)	(1,408)	(225)	-	(3,174)		(4,949)
Balance, September 30, 2020	$	(367)	(2,211)	(497)	-	(3,855)	$	(6,930)
Carrying Amounts								
Balance, December 31, 2019		533	11,222	5,180	7,637	39,766		64,338
Balance, September 30, 2020	$	539	11,499	5,082	7,737	52,754	$	77,611

Note 6 Intangible Assets

		Grow License	Patient List	Serruya License	Emblem Brands	Emblem License	Other		Total
Cost									
Balance, December 31, 2019	$	9,358	11,461	12,260	15,100	34,000	3,195	$	85,374
Balance, September 30, 2020	$	9,358	11,461	12,260	15,100	34,000	3,195	$	85,374
Accumulated Depreciation									
Balance, December 31, 2019	$	(391)	(1,242)	(885)	(130)	(1,122)	(352)	$	(4,122)
Depreciation		(293)	(931)	(613)	(124)	(1,063)	(291)		(3,315)
Balance, September 30, 2020	$	(684)	(2,173)	(1,498)	(254)	(2,185)	(643)	$	(7,437)
Carrying Amounts									
Balance, December 31, 2019		8,967	10,219	11,375	14,970	32,878	2,843		81,252
Balance, September 30, 2020	$	8,674	9,288	10,762	14,846	31,815	2,552	$	77,937

Note 7 Share Capital

Authorized

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

Issued and Outstanding

As at September 30, 2020, there were 300,894,186 common shares issued and outstanding.
On May, 29, 2020 in the bought deal offering led by Eight Capital on behalf of a syndicate of underwriters, the Company issued 23,000,000 common shares at a price of $0.65 per share for aggregate gross proceeds of $15.0 million which includes the full exercise of the over-allotment option and paid $1.0 million as transaction costs.

Warrants

On May 29, 2020 the Company issued 805,000 compensation warrants and 11,902,500 subscriber warrants to the shareholders of the bought deal. As at September 30, 2020 the Company had following warrants outstanding:

	Warrants Outstanding	Weighted Average Exercise Price
	#	$
Warrants outstanding and exercisable, December 31, 2019	60,264,816	2.05
Compensation warrants issued for share issue	805,000	0.80
Subscriber warrants issued for share issue	11,902,500	0.80
Warrants exercised	(500)	0.80
Warrants expired	(15,400,563)	3.39
Outstanding and exercisable, September 30, 2020	57,571,253	1.38

At September 30, 2019, the Company had outstanding warrants entitling the holders to acquire additional common shares as follows:

	Expiry Date	Number of Warrants	Weighted Average Exercise Price
		#	$
Warrants Issued by Aleafia	June 11, 2020- June 27, 2022	29,785,900	1.53
Warrants Issued by Legacy Emblem	Dec 6, 2019 - Dec 6, 2021	38,860,259	2.43
Outstanding and exercisable, September 30, 2019		68,646,159	2.04

Stock Options

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

The fair values of the stock options granted above were estimated using the Black-Scholes option pricing model. The following table summarizes information relating to outstanding and exercisable stock options as at September 30, 2020:

	Number of Options	Weighted Average Exercise Price
	#	$
Outstanding as of December 31, 2019	24,979,725	1.22
Granted	3,717,000	0.54
Exercised/Released	(375,500)	0.25
Cancelled/Forfeited	(652,000)	1.03
Expired	(2,638,254)	1.71
Outstanding as of September 30, 2020	25,030,971	1.09
Vested	**17,235,472**	**1.21**
Unvested	**7,795,499**	**0.82**

Restricted Share Units

The Company has a restricted share unit plan (the "RSU Plan"). For each RSU granted under the plan, the Company recognizes an expense equal to the market value of a common share at the date of grant based on the number of RSUs expected to vest over the term of the vesting period, with a corresponding credit to equity for share-based payments anticipated to be equity settled. RSUs under the RSU plan may vest immediately or become exercisable in various increments based on conditions as determined by the Board. In determining the amount of share-based compensation, the Company used the closing price of the common shares on the RSU grant date. Under the plan, a maximum of 4,000,000 common shares may be issuable.

Deferred Share Unit Plan for Directors

At the Company's annual general meeting on June 30, 2020, shareholders passed a resolution approving the Aleafia Health Inc. a deferred share unit plan (the "DSU Plan"), which will be implemented by Q4 2020.

The purpose of the DSU Plan is to promote a greater alignment of long-term interests between eligible participants (being non-executive directors only) and the Company and its shareholders, to provide a compensation system for non-employee directors that, together with the other director compensation mechanisms of the Company, is reflective of the responsibility, commitment and risk accompanying membership on the Board and the performance of the duties required of the various committees of the Board.

Note 8 Related Party Balances and Transactions

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

Key management includes directors and key officers of the Company.

During the nine months ended September 30, 2020 and September 30, 2019, the Company had the following transactions with the officers and directors of the Company:

	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Wages and benefits: Directors	$ 105	$ 944
Wages and benefits: Management	1,457	1,550
Accounts payable and accrued liabilities: Directors	-	359
Accounts payable and accrued liabilities: Management	187	211
Share based compensation: Directors	207	150
Share based compensation: Management	$ 2,015	$ 773

As at September 30, 2020, an amount of $0.19 million was due to directors and management. These amounts are non-interest bearing, unsecured, due on demand and included in accounts payable and accrued liabilities.

Note 9 Management of Capital

The Company's objectives when managing capital are to sustain a sufficient capital base so as to maintain investor, creditor and customer confidence and to sustain the future development of the business. The Company does not have any externally imposed capital requirements to which it is subject.

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

Note 10 Inventory

Inventory is comprised of the following items:

	September 30, 2020	December 31, 2019
Finished goods	$ 2,254	$ 27,067
Work-in-progress	14,768	6,018
Supplies and consumables	2,301	1,030
Total inventory	**$ 19,323**	**$ 34,115**

The fair value adjustment to biological assets and inventory sold consists of the following:

	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Realized fair value amounts included in inventory sold	$ 33,116	$ 735
Increase in fair value on growth of biological assets	(15,089)	(12,913)
	$ 18,027	**$ (12,178)**

The realized fair value amount included in the inventory sold includes the write-down of the fair value component of the inventory due to the decrease in the estimated net realizable value of these inventories based on the evolving nature of the adult-use market.

Note 11 Biological Assets

Biological assets are valued in accordance with IAS 41. The Company's biological assets consist of cannabis plants. As there is no actively traded commodity market for these, the valuation of these biological assets is obtained using valuation techniques where the inputs are based upon unobservable market data which are considered to be level 3 inputs under IFRS. These inputs are subject to volatility in market prices and several uncontrollable factors could significantly affect the fair value of biological assets in future. The fair value is determined using a valuation model to estimate expected harvest yield per plant applied to the estimated price per gram less processing and selling costs. The Company capitalizes all the direct and indirect costs as incurred related to the transformation of biological assets and measures biological assets consisting of cannabis plants at fair value less cost to sell up to the point of harvest, which becomes the basis for the cost of finished goods inventories after harvest. Unrealized gains or losses arising from changes in fair value less cost to sell during the year are included in the results of operations of the related year.

The Company's estimates are subject to change and differences from the anticipated yield will be reflected in the gain or loss on biological assets in future years. As of September 30, 2020, the biological assets strains at the harvesting phase were on average 87.5% complete for outdoor plants and 39% complete for indoor plants and strains.

The following table depicts the changes in the fair value measurement (unrealized gain/loss resulting from fair value changes on growth of biological assets) and the fair value of biological assets as of September 30, 2020 as required by IFRS 13 fair value measurement.

The carrying value of biological assets are as follows:

Balance as at December 31, 2019	$	971
Changes in fair value less costs to sell due to biological transformation		15,089
Production costs capitalized to biological assets		4,095
Transferred to inventory upon harvest		(2,789)
Balance as at September 30, 2020	$	17,366

	Estimated KGs	Estimated Total
	#	$
Biological assets transferred to inventory	5,344	2,789

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

Significant assumptions	Indoor	Outdoor
Average transfer price per gram ($)	1.00	0.50
Average yield per plant (grams)	125	750
Average stage of growth (weeks)	12	16

The Company values medical cannabis plants at fair value. Management determined cost approximates fair value from the date of receiving the vegetative plants until halfway through the flowering cycle of plants. Measurement of the biological transformation of the plant at fair value begins in the fourth week prior to harvest and is recognized evenly until the point of harvest. The number of weeks in the growing cycle is between twelve and sixteen weeks from propagation to harvest.

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

a) **Selling price per gram**

A decrease in the average selling price per gram by 5% would result in the biological asset value decreasing by $123,117 and inventory decreasing by $12,079.

b) **Harvest yield per plant**

A decrease in the harvest yield per plant of 5% would result in the biological asset value decreasing by $39,194.

The unrealized gain for biological assets for the nine months ended September 30, 2020 was $15.1 million (September 30, 2019 - $12.9 million).

Note 12 Investments

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

The Company paid $4.0 million for the issuance of 99 common shares of OPC and as a result owns 9.9% of the outstanding common shares of OPC. On April 1, 2020 Flying High Inc invested $0.8 million in OPC and the Company recorded the transaction as an investment. For accounting purposes, the Company classified its interest in OPC at fair value through profit and loss and as an investment.

The Company invested $0.1 million in CannaPacific in January 2019 and $0.6 million in April 2019.

Note 13 Convertible Debt

Emblem Convertible Debt

On completion of the Arrangement, Aleafia Health assumed the obligations of the convertible debentures previously issued by Emblem Corp. in February 2018 pursuant to a supplemental trust indenture dated March 2019 (the "Supplemental Indenture"). These convertible debentures were originally sold at a price of $1,000 per unit for gross proceeds of $25.0 million. Under the Supplemental Indenture, the convertible debentures are subject to the following terms:

- a maturity date of February 2, 2021;
- an interest rate of 8% per annum, payable semi-annually;
- convertible at $2.3875 per share, subject to adjustment in certain events, at the option of the holder; and
- Aleafia Health may require the conversion of the full principal amount of the outstanding convertible debentures at the conversion price on not less than 30 days' notice, should the daily volume weighted average trading price of the outstanding common shares of Aleafia Health on the TSX be greater than $4.12 for any 10 consecutive days.

Aleafia Convertible Debt

In June 2019, the Company issued 40,250 additional convertible debentures units (the "Aleafia Convertible Debt Unit") for gross proceeds of $40.3 million. The Aleafia Convertible Debt Unit consists of one $1,000 principal amount of unsecured convertible debenture of the Company and 680 common share purchase warrants, under the following terms:

- A maturity date of June 27, 2022;
- An interest rate of 8.5% per annum, payable semi-annually;
- Convertible at $1.55 per share until June 27, 2022 at the option of the holder; and
- The Company may require conversion of the full principal amount outstanding convertible debenture at the conversion price on not less than 30 days' notice, should the daily volume weighted average trading price of the outstanding common shares of the Company on the TSX be greater than $3.10 for 20 consecutive trading days.

In fiscal year 2019 certain debenture debt holders converted $2.6 million debentures to 2,094,666 equity shares.

Balance as at December 31, 2019	$	51,009
Amortization of transaction costs		1,246
Amortization of present value discounts		2,977
Balance as at September 30, 2020	$	55,232
Current portion		**23,497**
Long-term portion	**$**	**31,735**

Note 14 Financial Instruments and Financial Risks

Fair Value of Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, marketable securities, trade and other receivables, investments, accounts payable and accrued liabilities, lease liability, deferred revenue, current income tax liability and convertible debt. The following table summarizes the carrying values of the Company's financial instruments by measurement category:

		September 30, 2020		December 31, 2019
FVTPL (i)	$	48,865	$	47,315
Assets, amortized cost (ii)		10,667		4,847
Liabilities, amortized cost (iii)	$	83,959	$	72,449

(i) Cash and cash equivalents, investments and marketable securities
(ii) Trade and other receivables
(iii) Accounts payable and accrued liabilities, lease liability, deferred revenue, current income tax liability and convertible debt

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

- Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities
- Level 2 - Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly
- Level 3 - Inputs that are not based on observable market data

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

	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Cash and cash equivalents	$ 34,559	-	-	$ 34,559
Marketable securities	7,275	-	1,508	8,783
Investments	-	5,523	-	5,523
Total	**$ 41,834**	**5,523**	**1,508**	**$ 48,865**

The carrying value of trade receivables, accounts payable, current income tax liability and deferred revenue are a reasonable approximation of their fair value due to their short-term nature. The carrying value of lease liability and convertible debt are a reasonable approximation of their value based on market interest rates for similar instruments as at September 30, 2020.

Risk Management

Effective risk management is fundamental to the success of the organization and is recognized as key in the Company's overall approach to strategy management. Aleafia has a strong, disciplined risk culture where managing risk is the responsibility shared by all of the company's employees.
The primary goals of the risk management are to ensure that the outcomes of risk-taking activities are consistent with Company's strategies and the risk appetite and that there is an appropriate balance between risk and reward in order to maximize shareholder value.

Aleafia has identified the below potential risk categories:

a) Currency risk

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

The Company does not have any significant foreign currency denominated monetary liabilities. The Company is attracting foreign investments and in future, the Company's financial assets and liabilities may comprise of foreign currency marketable securities, convertible notes, long term investments and promissory notes.

b) Interest rate risk

The Company is exposed to interest rate risk on the variable rate of interest earned on bank deposits. The fair value interest rate risk on bank deposits is insignificant as the deposits are short-term in nature. The Company has not entered any derivative instruments to manage interest rate fluctuations.

c) Credit risk

Credit risk is the risk of loss associated with the counterparty's inability to fulfill its payment obligations. Financial instruments that potentially subject the Company to concentrations of credit risks consist principally of cash and cash equivalents, trade and other receivables and short-term investments. The risk exposure is limited to their carrying values reflected on the statement of financial position. To minimize the credit risk the Company places these instruments with a high-quality financial institution. There are no expected credit losses as the Company does not invest in asset backed investments.

d) Liquidity risk

In the management of liquidity risk of the Company, the Company maintains a balance between continuity of funding and the flexibility through the use of borrowings. The Company manages liquidity risk through the management of its capital structure. As at September 30, 2020 the Company's contractual obligations consist of accounts payable and accrued liabilities, convertible debt and lease liability, which has a contractual maturity date within one year. Management closely monitors the liquidity position and expects to have adequate sources of funding to finance the Company's projects and operations.

Note 15 Commitments and Contingencies

	Less than 2 years	2 to 5 years	Total
Plant construction contracts	$ 1,000	-	$ 1,000
Long-term arrangements on facilities	1,854	2,851	4,705
Car lease	9	-	9
Total	**$ 2,863**	**2,851**	**$ 5,714**

Certain of Emblem's former executives have been named in a claim commenced March 20, 2015 in the Ontario Superior Court of Justice that also identifies Emblem and ECC in relation to certain services provided to the Emblem parties by an individual. The parties to the claim are: Amos Tayts (Plaintiff/Defendant by Counterclaim), Gordon Fox, Harvey Shapiro, Maxim Zavet, Levy Zavet Professional Corporation, MZ Prime Holdings Ltd., White Cedar Pharmacy Corporation, Emblem Corp. (Defendants), Emblem Cannabis Corporation ("ECC"), Kindcann.com, Inc. (Defendants/Plaintiffs by Counterclaim), and Talya Lev-Mor (Defendant by Counterclaim). The plaintiff has claimed $10.0 million in damages for some unspecified combination of the value of shareholdings in Emblem of which he says he has been wrongfully deprived, the amount by which he claims Emblem has been directly or indirectly unjustly enriched as a result of his labours, and damages for breach of contract, misrepresentation and oppression. The claim is being contested and the action is currently at the discovery stage.

It is the Company's determination that the claim of $10.0 million is primarily against the founders of Emblem and not the Emblem parties. The claim for damages against the Emblem parties, specifically, is not pleaded with sufficiency particularity to allow an accurate assessment of the quantum of damages being sought against the Emblem parties. The likely measure of damages sought will either be the market value of the services the plaintiff alleges to have provided to the Emblem parties or the degree to which Emblem was enriched by those services. The Company is of the view that the amount of the claim bears no relationship to the value of the services provided. The outcome of this legal matter is subject to negotiations by the officers of the Company and the Company believes it is unlikely to be impacted and accordingly, no amount has been provided for. A separate claim was also initiated by Tayts on March 22, 2019 in the Ontario Superior Court of Justice against Emblem and Emblem arising out of the same facts and seeking the same damages. The claim is contested but pleadings have not yet concluded.

In the ordinary course of business, from time to time, the Company may be involved in various claims related to its commercial and/or corporate activities. Although such matters cannot be predicted with certainty, management does not consider the Company's exposure to these claims to be material to these unaudited interim condensed consolidated financial statements.

Note 16 COVID-19 and its Impact on the Business Environment

General outcome

In December 2019, a novel strain of coronavirus ("COVID-19") emerged in China. Since then, it has spread to over a hundred other countries and infections have been reported around the world. Canada confirmed its first case of COVID-19 on January 25,2020 and its first death related to COVID-19 on March 9, 2020. On March 11, 2020, the World Health Organization declared the outbreak of COVID-19 a global pandemic.

In response to the outbreak, governmental authorities in Canada and internationally have introduced various recommendations and measures to try to limit the pandemic, including travel restrictions, border closures, non-essential business closures, quarantines, self-isolations, shelters-in-place, and social distancing. The COVID-19 outbreak and the response of governmental authorities to try to limit it are having a significant impact on the private sector and individuals, including unprecedented business, employment and economic disruptions.

The continued spread of COVID-19 nationally and globally could have an adverse impact on the business, operations and financial results and position, including through disruptions to the Company's cultivation and processing activities, supply chains and sales channels, as well as a deterioration of general economic conditions including a possible national or global recession. Due to the speed with which the COVID-19 situation is developing and the uncertainty of its magnitude, outcome and duration, it is not possible to estimate its impact on business, operations or financial results and position. Further impacts could include an impact on our ability to maintain operations, to obtain and maintain debt and obtain equity financing on attractive commercial terms or at all, impairment of investments, impairments in the value of our non-current assets, or potential future decreases in revenue or the profitability of our ongoing operations, any of which could be material.

COVID-19 and other risks

Disruption of Supply Chain

Conditions or events including, but not limited to, those listed below could disrupt the Company's supply chains, interrupt operations at its facilities, increase operating expenses, resulting in loss of sales, delayed performance of contractual obligations or require additional expenditures to be incurred:

- extraordinary weather conditions or natural disasters such as hurricanes, tornadoes, floods, fires, extreme heat, earthquakes, etc.;
- a local, regional, national or international outbreak of a contagious disease, including the COVID-19 coronavirus, Middle East Respiratory Syndrome, Severe Acute Respiratory Syndrome, H1N1 influenza virus, avian flu, or any other similar illness could result in a general or acute decline in economic activity (see also, "Public Health Crises, including COVID-19");
- political instability, social and labour unrest, war or terrorism; or
- interruptions in the availability of basic commercial and social services and infrastructure including power and water shortages, and shipping and freight forwarding services including via air, sea, rail and road.

Public Health Crises, including COVID-19

A local, regional, national or international outbreak of a contagious disease, such as COVID-19, could have an adverse effect on local economies and potentially the global economy, which may adversely impact the price and demand for the Company's products. COVID-19 could affect the Company's ability conduct operation and may result in temporary shortages of staff, to the extent its workforce is impacted.

Such an outbreak, if uncontrolled, could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows, including a potential reduction in patient visits at the Company's Clinics and, as a result, potential lost revenue.

All three of the Company's production facilities continue to operate. To date there have been no material negative impacts on production due to COVID-19. The Company continues to expand core revenue-generating operations, with new hires completed in product sales, quality control and production.

On March 16, 2020, patients at Aleafia Health's network of medical cannabis clinics were notified that all physical clinic locations would be voluntarily and temporarily closed during the COVID-19 pandemic and that all patient consultations would be conducted through virtual clinic services. Since that time, patient consultations have been completed entirely remotely, ensuring that all patients maintain access to safe, secure and convenient cannabinoid therapy. As announced on October 17, 2018, the Company previously invested in the technology and training to offer scalable virtual clinic services.

Last-Mile Home Delivery: In recognition of the need for safe, contactless delivery of medical cannabis, the Company advanced its already planned introduction of last-mile home delivery for medical cannabis products. The Company launched last-mile home delivery publicly available for Toronto-based registered Emblem patients

In March, in addition to temporarily closing physical clinic locations, management enacted a series of measures to ensure business continuity and the safety of team members, including:

- Barring all visits to production facilities and cancelling all non-essential employee travel;
- Increased cleaning frequency throughout facility common areas and enforcing work from home for all non-production essential employees; and
- Adjustment to shift start times, shift length and break structure to eliminate the crossover between groups of employees.