



ALEAFIA HEALTH INC.
CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian dollars)
For the Fifteen Months Ended March 31, 2022 and
Twelve Months Ended December 31, 2020

MANAGEMENT'S RESPONSIBILITY

To the Shareholders of Aleafia Health Inc.:

The accompanying 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 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 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 Audit Committee reviews the consolidated financial statements and recommends them to the Board of Directors for approval. They meet regularly with management to review internal control procedures and advise directors on accounting matters and financial reporting issues.

"Tricia Symmes"

Patricia Symmes-Rizakos
Chief Executive Officer

"Matthew Sale"

Matthew Sale
Chief Financial Officer



INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Aleafia Health, Inc.

Opinion

We have audited the accompanying consolidated financial statements of Aleafia Health Inc. and its subsidiaries (collectively, the "Company"), which comprise the consolidated statement of financial position as at March 31, 2022 and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the 15-month period then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at March 31, 2022, and its consolidated financial performance and cash flows for the 15-month period then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the 15-month period ended March 31, 2022. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The key audit matters to be communicated in our auditors' report are as follows:

Impairment of goodwill, intangible assets and property, plant and equipment

We draw attention to Notes 3(b), 7 and 8 to the consolidated financial statements. Goodwill and indefinite lived intangible assets are not amortized, but are reviewed for impairment annually or more frequently when events or changes in circumstances indicate that the carrying amount of a cash generating unit ("CGU") exceeds its recoverable amount. Intangible assets with finite lives and property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amount exceeds its recoverable amount. During the 15-month period ended March 31, 2022, the Company recorded an impairment charge of \$11.3 million for goodwill, \$53.1 million for intangible assets and \$28.8 million for property, plant and equipment. Estimating the recoverable amount of CGUs and intangible assets is complex and is subject to significant judgments in relation to assumptions used by management. Significant assumptions used by management to estimate the recoverable amount include growth and discount rates, as well as future revenues, gross margins and recoverable values.

We identified the evaluation of the impairment of goodwill and intangible assets as a key audit matter as significant auditor judgment and the involvement of professionals with specialized skill and knowledge

were required to evaluate the Company's methods and use of estimates, assumptions and judgments in estimating the recoverable amount of the Company's CGUs.

Our audit response to the key audit matter was as follows:

- We obtained an understanding of the controls and control activities in place related to the determination and management's review of significant assumptions used in the calculation.
- We performed sensitivity testing to consider the impact of changes in certain assumptions on the estimate of recoverable amount.
- With the assistance of a valuation specialist:
 - 1) We evaluated whether the valuation techniques used in estimating the recoverable amounts were appropriate.
 - 2) We compared the discount rate used to the weighted average cost of capital and evaluated the reasonableness based on publicly available information for comparable companies.
 - 3) We compared growth rates used by management to historical information, approved budgets, the Company's production capacity, as well as industry standards.

Valuation of biological assets and cannabis inventory

We draw attention to Notes 3(a), 13 and 14 to the consolidated financial statements. Biological assets are measured at fair value less cost to sell at the stage of completion. The Company values inventories of harvested bulk cannabis and finished goods at the lower of cost and net realizable value.

In estimating the fair value of biological assets, management is required to make a number of estimates, including estimating the stage of growth of the cannabis up to the point of harvest, average yield per plant, harvesting costs, selling costs, selling price, and the allocation of indirect costs, which form part of the standard cost per gram to complete production. 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.

We identified measurement of the fair value of biological assets and net realizable value of cannabis inventory as key audit matters as a high degree of auditor judgment was required to evaluate the significant assumptions and estimates made by management.

Our audit response to the key audit matter was as follows:

- We performed sensitivity analyses over the Company's significant assumptions used to determine the fair value of biological assets to assess the impact of changes in those assumptions on the Company's determination of fair value.
- We tested the stage of growth by observing the plants at year-end.
- We tested the average expected yield per plant by comparing actual results of the current year to historical results of operations.
- We tested the average selling price per gram by comparing to estimates used by management to actual sales prices per gram in actual sales transaction during and subsequent to year-end.
- We also tested the net realizable value of inventory by comparing the carrying value of inventory to the prices earned from sales transactions near and subsequent to year-end.

Emphasis of Matter – Restated Comparative Information

We draw attention to note 23 to the consolidated financial statements, which explains that certain comparative information presented for the year ended December 31, 2020 has been restated. Our opinion is not modified in respect of this matter.

The consolidated financial statements of the Company for the year ended December 31, 2020, excluding the adjustments that were applied to restate certain comparative information as described in note 23, were audited by another auditor who expressed an unqualified opinion on those statements on March 24, 2021.

As part of our audit of the consolidated financial statements for the period ended March 31, 2022, we also audited the adjustments that were applied to restate certain comparative information for the year ended December 31, 2020 as described in note 23. In our opinion, such adjustments are appropriate and have been properly applied.

Other Information

Management is responsible for the other information, which comprises the information included in the Company's Management's Discussion and Analysis to be filed with the relevant Canadian securities commissions.

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

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

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements.

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

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

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

/s/ Accell Audit & Compliance, P.A.

Tampa, Florida
June 27, 2022

ALEAFIA HEALTH INC.

Consolidated Statements of Financial Position

As at March 31, 2022 and December 31, 2020

(Amounts reflected in thousands of Canadian dollars)

	Notes	March 31, 2022	December 31, 2020 (Restated – note 23)
		\$	\$
ASSETS			
Current			
Cash		1,356	29,968
Restricted cash	2	213	561
Marketable securities	5	1,190	–
Trade and other receivables, net	19	11,085	9,311
Prepays and deposits		3,775	5,063
Inventory, net	13	21,664	27,242
Biological assets	14	1,179	2,511
		40,462	74,656
Non-current			
Property, plant, and equipment, net	7	40,448	78,469
Deferred expenses		–	460
Right-of-use assets	6	1,844	2,782
Investments	18	2,391	6,620
Intangible assets, net	8	–	54,715
Goodwill	8	–	11,314
		44,683	154,360
TOTAL ASSETS		85,145	229,016
LIABILITIES			
Current			
Accounts payable and accrued liabilities	9, 10, 17	27,626	20,239
Lease liability	6	522	441
Credit facility	17	12,073	–
Convertible debt	16, 22	36,401	24,361
		76,622	45,041
Non-current			
Lease liability	6	1,833	2,726
Convertible debt	16	–	32,441
Credit facility	17	5,075	–
Deferred tax liability		–	2,854
		6,908	38,021
TOTAL LIABILITIES		83,530	83,062
SHAREHOLDERS' EQUITY			
Share capital	9	404,341	384,265
Contributed surplus	9	90,477	85,025
Deficit		(493,203)	(323,336)
		1,615	145,954
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		85,145	229,016

COMMITMENTS AND CONTINGENCIES (Note 20)

GOING CONCERN (Note 2)

SUBSEQUENT EVENTS (Note 22)

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

Approved and authorized for issue on behalf of the board on June 27, 2022.

“Mark J. Sandler”

Mark J Sandler, Chairman

“Lu Galasso”

Lu Galasso, Director

ALEAFIA HEALTH INC.

Consolidated Statements of Loss and Comprehensive Loss

For the fifteen months ended March 31, 2022 and twelve months ended December 31, 2020

(Amounts reflected in thousands of Canadian dollars, except share and per share amounts)

	Notes	March 31, 2022	December 31, 2020 (Restated – note 23)
		\$	\$
Revenue	2	53,813	37,406
Excise taxes		10,691	1,131
Net revenue		43,122	36,275
Costs of sales		33,965	15,572
Gross profit before fair value adjustment and inventory provision		9,157	20,703
Fair value changes in biological assets and changes in inventory sold	14	(1,453)	(10,721)
Inventory provision	13	(19,648)	(24,922)
Gross loss		(11,944)	(14,940)
Operating expenses			
Selling, general and administrative expenses		34,127	24,040
Amortization and depreciation	7,8	9,468	8,058
Share-based compensation expense	9	2,899	2,690
Bad debt expense		1,868	1,892
Business transaction costs		5,026	4,146
		53,388	40,826
Other expenses (income)			
Interest expense	16,17	10,787	11,636
Gain on sale of assets	5	(12,092)	(1,181)
Fair value through profit and loss adjustments	5,18	15,505	(943)
Impairment of property, plant and equipment	7	28,800	–
Impairment of intangible assets	8	53,093	22,116
Impairment of goodwill	8	11,314	177,476
Other non-operating expense (income)		(18)	(481)
Realized gain on LP settlement		–	(6,344)
		107,389	202,279
Net loss before income taxes		(172,721)	(258,045)
Income tax			
Current income tax expense (recovery)		–	–
Deferred income tax recovery	21	(2,854)	(2,540)
Net loss and comprehensive loss		(169,867)	(255,505)
Loss per share, basic and diluted		(0.52)	(0.88)
Weighted average common shares outstanding	11	327,012,541	291,589,929

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

ALEAFIA HEALTH INC.

Consolidated Statements of Changes in Shareholders' Equity

For the fifteen months ended March 31, 2022 and twelve months ended December 31, 2020

(Amounts reflected in thousands of Canadian dollars, except share and warrant amounts)

	Number of Shares	Amount	Contributed Surplus	Deficit	Total
	#	\$	\$	\$	\$
Balances, December 31, 2020	301,269,686	384,265	85,025	(323,336)	145,954
Issuance of common shares	27,777,500	18,894	3,836	—	22,730
Share issuance costs	—	(1,751)	37	—	(1,714)
Shares issued under stock option plan	781,250	959	(334)	—	625
Shares issued under deferred share unit plan	89,709	96	—	—	96
Shares issued from warrants exercised	1,050,890	1,719	(958)	—	761
Restricted share units issued/released	155,316	159	(159)	—	—
Warrants issued	—	—	131	—	131
Share-based compensation expense	—	—	2,899	—	2,899
Net loss for the year	—	—	—	(169,867)	(169,867)
Balances, March 31, 2022	331,124,351	404,341	90,477	(493,203)	1,615

	Number of Shares	Amount	Contributed Surplus	Deficit (restated – note 23)	Total
	#	\$	\$	\$	\$
Balances, December 31, 2019	277,893,686	371,744	80,602	(67,831)	384,515
Issuance of common shares	23,000,000	13,110	1,840	—	14,950
Share issuance costs	—	(1,224)	434	—	(790)
Shares issued from warrants and stock options exercised	376,000	635	(541)	—	94
Share-based compensation expense	—	—	2,690	—	2,690
Net loss for the year	—	—	—	(255,505)	(255,505)
Balances, December 31, 2020	301,269,686	384,265	85,025	(323,336)	145,954

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

ALEAFIA HEALTH INC.

Consolidated Statements of Cash Flows

For the fifteen months ended March 31, 2022 and twelve months ended December 31, 2020

(Amounts reflected in thousands of Canadian dollars, except share and warrant amounts)

	March 31, 2022	December 31, 2020 (restated – note 23)
	\$	\$
Operating activities		
Net loss for the period	(169,867)	(255,505)
Adjustments for non-cash items:		
Depreciation	10,446	6,561
Amortization	1,621	3,603
Share-based compensation expense	2,899	2,690
Interest accretion	6,711	6,488
Bad debt expense	1,868	1,892
Deferred income tax recovery	(2,854)	(2,540)
Realized gain on LP settlement	–	(6,344)
Gain on sale of assets	(12,092)	–
Fair value through profit and loss adjustments	15,505	(2,124)
Impairment of property, plant and equipment	28,800	–
Impairment of intangible assets	53,093	22,116
Impairment of goodwill	11,314	177,476
Inventory write-down	19,648	24,922
Fair value changes in biological assets and changes in inventory sold	1,453	10,721
	(31,455)	(10,044)
Changes in operating working capital:		
Trade and other receivables	(3,931)	114
Prepays and deposits	1,288	14,867
Inventory	(12,236)	(33,183)
Biological assets	869	5,078
Accounts payable and accrued liabilities	9,247	39
Cash received from LP settlement	–	15,500
Net cash used in operating activities	(36,218)	(7,629)
Investing activities		
Investment in retail store operations	–	(107)
Proceeds from disposal of marketable securities	–	2,913
Purchase of marketable securities	–	(1,234)
Acquisition of property, plant, and equipment	(4,659)	(17,777)
Net cash used in investing activities	(4,659)	(16,205)
Financing activities		
Lease liability payments	(1,349)	(1,138)
Repayment of convertible debt	(25,650)	–
Repayment of credit facility	(5,380)	–
Warrants and stock options exercised	1,386	94
Proceeds from credit facilities	21,798	–
Proceeds from the issuance of common shares	21,112	14,160
Net cash provided by financing activities	11,917	13,116
Change in cash	(28,960)	(10,718)
Cash and restricted cash, beginning of period	30,529	41,247
Cash and restricted cash, end of period	1,569	30,529

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

Note 1 Nature of Operations

Aleafia Health (the “Company”) is a publicly traded corporation incorporated under the laws of Ontario. Aleafia Health’s head and registered office is currently located at 85 Basaltic Road, Concord, Ontario, and its corporate website is www.AleafiaHealth.com.

The Company is a vertically integrated and federally licensed Canadian cannabis company offering cannabis health and wellness services and products in Canada. The Company also sells cannabis products destined for international markets, including Australia and Germany to third parties. The Company owns and operates a virtual network of medical cannabis clinics staffed by physicians and nurse practitioners.

The Company owns three licensed cannabis production facilities and operates a strategically located distribution centre all in the province of Ontario, including the first large-scale, outdoor cannabis cultivation facility in Canadian history. The Company produces a diverse portfolio of cannabis and cannabis derivative products including oils, capsules, edibles, sublingual strips, topicals and vapes, for sale in Canada in the medical and adult-use markets, and in select international jurisdictions.

The common shares of the Company commenced trading on the Toronto Stock Exchange (“TSX”) (symbol “AH”), on May 27, 2020. Previously, common shares were traded on the TSX Venture Exchange Inc. under a different ticker symbol from March 18, 2019.

Note 2 Significant Accounting Policies

Statement of compliance

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

These consolidated financial statements were authorized for issue in accordance with a resolution from the Board of Directors on June 27, 2022.

Basis of presentation

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

In February 2022, Company changed its reporting year end from December 31 to March 31 to accommodate the shortage of personnel in public accounting firms. Accordingly, the current period is for the fifteen months ended March 31, 2022 whereas the comparative period is for the twelve months ended December 31, 2022.

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

Going concern assumption

These consolidated financial statements have been prepared on a going concern basis, which contemplates continuity of normal business activities and the realization of assets and settlement of liabilities in the normal course of business as they come due in the foreseeable future.

The Company has experienced recurring losses, has a cumulative deficit of \$493,203 (December 31, 2020 – \$323,336) and a working capital deficiency of \$36,160. In addition, the Company did not pay a scheduled interest

payment on its convertible debentures on December 31, 2021 and is currently working under a Forbearance Agreement with certain debenture holders. These factors indicate that there are material uncertainties that cast significant doubt as to the Company's ability to continue as a going concern.

The Company's ability to continue as a going concern is dependent on its ability to achieve profitable operations and/or raise equity or debt financing. There is no assurance that any necessary future financing will be sufficient to sustain operations until such time that the Company can generate sufficiently profitable operations to support its requirements.

These consolidated financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary, should the Company be unable to continue as a going concern. Such adjustments could be material.

The Company's objectives when managing its liquidity and capital resources are to ensure sufficient liquidity to meet its financial obligations and execute its operating and strategic plans for at least the next twelve months. Management closely monitors the liquidity position and expects to have adequate sources of funding to finance the Company's projects and operations. The Company manages liquidity risk by exploring new debt and equity financing options, reviewing its capital structure to optimize the cost of capital, maintaining the continuity of equity and debt funding options, managing its non-cash current assets to ensure the timely conversion to cash, and putting plans in place to meet its financial obligations as they come due.

The Company has multiple options to meet liquidity needs including converting its non-cash working capital to cash, issuance of common shares via its at-the-market equity financing program, issuing common shares via a public equity offering, share capital, and new debt financing options.

The Company's ability to meet its commitments to sustain operations and settle its obligations as they become due within the next twelve months and its exposure to liquidity risk is dependent on the Company's ability to:

- Refinance or amend the term of its convertible debentures and credit facility.
- Raise additional debt and equity financing; and
- Realize cash flow from operations which is subject to significant judgements and estimates, the most significant of which is the Company's sales projections and its ability to realize its assets and discharge its liabilities in the normal course of business.

While the Company has been successful in obtaining financing to date and believes it will be able to obtain sufficient funds in the future and ultimately achieve profitability and positive cash flows from operations, there can be no assurance that the Company will achieve profitability and be able to obtain sufficient financing in the future on terms favourable for the Company.

Consolidation

These consolidated financial statements comprise the financial statements of the Company and its subsidiaries, as presented below. Subsidiaries are those entities which the Company controls by having the power to govern the financial and operational policies of the entity. This control is generally evidenced through owning more than 50% of the voting rights or currently exercisable potential voting rights of a company's share capital. All intercompany transactions and balances have been eliminated. All Subsidiaries, except for the inactive are for the purpose of carrying out the Company's business in the normal course and are domiciled in Canada. Inactive subsidiaries are holding companies.

	2022	2020
	%	%
Aleafia Inc.	100	100
Canabo Medical Corporation ("Canabo")	100	100
Aleafia Farms Inc. ("Aleafia Farm")	100	100
Emblem Corp. ("Emblem")	100	100
Emblem Cannabis Corporation ("EC")	100	100
GrowWise Health Limited ("GrowWise")	100	100
Emblem Realty Ltd. ("Emblem Realty")	100	100
Aleafia Brands Inc. (inactive)	100	100
Aleafia Retail Inc. (inactive)	100	100
2672533 Ontario Inc (inactive)	100	100
2676063 Ontario Inc.(inactive)	100	100

a) Cash and cash equivalents

Cash in the consolidated statements of financial position is comprised of cash in banks and on hand, and short-term deposits which are readily convertible into a known amount of cash and are subject to insignificant risk with respect to its value and liquidity.

b) Restricted cash

Restricted cash includes cash held as collateral against certain bank credit card facilities. It also includes Canadian bank issued preferred shares, which is subject to trading restrictions that are greater than 90 days.

c) Biological assets

The Company measures biological assets consisting of cannabis plants at fair value less cost to sell up to the point of harvest. Unrealized gains or losses arising from the changes in fair value less cost to sell during the period are recognized in the consolidated statements of loss and comprehensive loss. The Company capitalizes all the direct and indirect costs as incurred related to the transformation of biological assets between the initial planting to the point of harvest including labour, labour related, fertilizer, utilities and facility costs and amortization of related production equipment. Seeds are measured at fair market value. Upon harvest, the fair value adjustments including all the capitalized costs are transferred from biological assets to inventory and form the cost basis of the inventory.

d) Inventory

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

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

e) Property, plant, and equipment

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

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

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

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

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

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

f) Leases

Right of use assets

The Company recognizes right-of-use assets at the commencement date of the lease [i.e., the date the underlying asset is available for use]. Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of their estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease obligation

At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

g) Share-based payments

Share-based payments to employees and others providing similar services are measured at the estimated fair

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

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

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

h) Provisions

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

i) Loss per share

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

j) Income taxes

Current income taxes are the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted, and includes any adjustments to tax payable or receivable in respect of previous years. Deferred income taxes are recorded using the liability method whereby deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

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

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

k) Financial instruments

Financial assets and liabilities are initially measured at fair value. In the case of a financial asset not at fair value through profit and loss ("FVTPL") transaction costs are included in the carry amount of the asset. Transaction

costs of financial assets carried at FVTPL are expensed in the consolidated statements of loss and comprehensive loss. Financial assets are subsequently measured at:

- a. FVTPL
- b. Amortized cost
- c. Fair value through other comprehensive income ("FVOCI")
- d. Equity instruments designated at FVOCI; or
- e. Financial instruments designated at FVTPL

Financial liabilities are subsequently measured at:

- f. FVTPL
- g. Amortized cost

The classification is based on whether the contractual cash flow characteristics represent "solely payment of principal and interest" as well as the business model under which the financial assets are managed. Financial liabilities held by the Company are initially measured at fair value and subsequently measured at amortized cost.

l) Impairment of non-financial assets

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

m) Impairment of financial assets

The Company assesses, on a forward-looking basis, the expected credit losses associated with its financial instruments carried at amortized cost and FVOCI. The impairment methodology applied depends on whether the asset originated from a contract that is in the scope of IFRS 15 - Revenue from Contracts with Customers (IFRS 15) or if there have been significant increases in credit risk.

Accounts receivable - For accounts receivable and contract assets, the Company applies the simplified approach to providing for expected credit losses prescribed by IFRS 9 - Financial Instruments (IFRS 9), which requires the use of the lifetime expected loss provision for all accounts receivable and contract assets within the scope of IFRS 15. The Company has established a provision based on the Company's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Cash equivalents - For cash equivalents and short-term investments at amortized cost, the Company applies the general approach to providing for expected credit losses. These instruments are considered to be low credit risk, and therefore, the impairment provision is determined using a 12-month expected credit loss basis.

n) Intangible assets

Intangible assets consist mainly of Health Canada Licenses to produce and sell cannabis, power contracts, brand names and licenses, patient lists and scientific and medical research assets. Acquired Health Canada Licenses to produce and sell cannabis, power contracts and similar assets are carried at cost less accumulated amortization and impairment. Intangible assets with indefinite lives are not amortized but are tested for impairment annually and whenever there is an indication that the intangible asset may be impaired. Any impairment of intangible assets is

recognized in the consolidated statements of loss and comprehensive loss but increases in intangible asset values are not recognized.

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

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

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

Health Canada licenses	24 years
OPA power contracts	14 years
Brand names and licenses	5 to 15 years
Patient lists	10 years
Scientific and medical research agreement	7 years
IP & R&D	indefinite

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

o) Goodwill

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

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

p) Segment reporting

IFRS 8 - Operating Segments requires operating segments to be determined based on internal reports that are regularly reviewed by the chief operating decision maker for the purpose of allocating resources to the segment and to assessing its performance. The Company has one reportable segment, the cultivation of cannabis plants, and production and sale of cannabis flower, extracts and other derivatives, all of which supply four different sales channels: adult use, medical, international and wholesale.

q) Revenue recognition

The Company derives revenue primarily from the sale of cannabis and cannabis products. Revenue is recognized upon transfer of control of the promised goods and services to customers in an amount that reflects the consideration the Company expects to receive in exchange for those goods or services. Performance obligations are satisfied, and revenue is recognized, either over time or at a point in time. Certain activities may give rise to

deferred revenue, which are contract liabilities under IFRS 15 and relate to payments received in advance of performance under contracts with customers. Contract liabilities are recognized as revenue as (or when) the Company satisfies its performance obligations under the contracts.

Under bill-and-hold arrangements – whereby the Company bills a customer for product to be delivered at a later date – control typically transfers when the product is still in the Company's physical possession, and title and risk of loss has passed to the customer. Revenue is recognized when all specific requirements for transfer of control under a bill-and-hold arrangement have been met. There are no bill and hold arrangements as at March 31, 2022.

The provision for sales returns is an estimate used in the recognition of revenue in connection with contract liabilities identified in contracts with customers. The Company has a return policy that allows wholesalers to return product within a specified period prior to, and subsequent to, the expiration date. Provisions for returns are recognized in the period in which the underlying sales are recognized, as a reduction of product sales revenue. The Company estimates provisions for returns based upon historical data to determine return percentages and current market conditions, representing management's best estimate. Historical experience may not always be an accurate indicator of future returns, and therefore the Company continually monitors return provisions and adjusts when it believes that actual product returns may differ from amounts recorded. As at March 31, 2022, contract liabilities of \$120 (December 31, 2020 – \$nil) is recorded in accounts payable and accrued liabilities in the consolidated statements of financial position.

Amounts disclosed as net revenue are net of sales tax, duty tax, allowances, returns provision, price adjustments, discounts and rebates.

Sale of cannabis: Revenue from the sale of cannabis is recognized when the Company transfers control to the customer upon delivery or the time of the product pickup from the Company's facilities by the customer based on the contract-by-contract basis between the Company and the customer, or in the case of bill-and-hold arrangements, when specific requirements have been met.

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

Note 3 Significant Accounting Estimates and Judgments

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

a) Biological assets and inventory

In calculating the value of the biological assets and inventory, management is required to make a number of

estimates, including estimating the stage of growth of the cannabis up to the point of harvest, harvesting costs, selling costs, sales price, wastage and expected yields for the cannabis plant.

In calculating final inventory values, management is required to determine an estimate of spoiled or expired inventory and compares the inventory cost to estimated net realizable value, estimated useful lives and impairment of CGUs and goodwill.

b) Valuation of intangibles and goodwill

The impairment test for each CGU to which goodwill is allocated based on the value in use of the CGU, is determined in accordance with the expected cash flow approach. The calculation is based on assumptions used to estimate future cash flows, the cash flow growth rate and the discount rates. The Company exercises significant judgement in determining CGUs. Due to the realignment and cost rationalizations enacted by the Company in the current period, the Company has identified two CGUs, down from four in the prior year, which are Emblem Cannabis Corporation and Aleafia Farms . During the twelve months ended December 31, 2020, there were four, 1. Aleafia Farms Inc., 2. Emblem Cannabis Corporation, 3. Canabo Medical Corporation ("CMC") and 4. branded cannabis product development and related retail operations.

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.

c) Revenue recognition

Estimates are used when the Company recognizes certain wholesale revenue depending on when quality inspection periods have either lapsed or the Company is confident have been satisfied. Also, significant judgment is exercised to determine if all the specific requirements for the transfer of control under a bill-and- hold arrangement have been met and revenue can be recognized. Significant judgment is exercised to determine when certain conditions have been met for product destined for international markets.

d) Valuation of share-based payments

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 assumptions such as the volatility of the Company's stock price, the value of the common share, and the risk-free interest rate.

e) Income taxes

Income taxes and tax exposures recognized in the consolidated financial statements reflect management's best estimate based on facts known at the reporting date. When the Company anticipates a future income tax payment based on its estimates, it recognizes a liability. The difference between the expected amount and the final tax outcome has an impact on current and deferred taxes when the Company becomes aware of this difference. In addition, when the Company incurs losses for income tax purposes, it assesses the probability of taxable income being available in the future based on its budgeted forecasts. These forecasts are adjusted to take into account certain non-taxable income and expenses and specific rules on the use of unused credits and tax losses. When the forecasts indicate that sufficient future taxable income will be available to deduct the temporary differences, a deferred tax asset is recognized for all deductible temporary differences.

Note 4 Accounting Pronouncements Recently Adopted

Interest Rate Benchmark Reform - Phase 2 (Amendments to IFRS 7, *Financial Instruments: Disclosures*, IFRS 9, *Financial Instruments*, IFRS 4, *Insurance Contracts*, IFRS 16, *Leases*, and IAS 39, *Financial Instruments: Recognition and Measurement*): The amendments address the effects of the reform on a

company's financial statements that arise when, for example, an interest rate benchmark used to calculate interest on a financial asset is replaced with an alternative benchmark rate. The amendments address specific hedge accounting requirements and permit a practical expedient for modifications of financial assets, financial liabilities, and lease liabilities required by the IBOR (interbank offered rate) reform. The amendments also require additional disclosures for users to understand the nature and extent of risks arising from the IBOR reform and how the entity manages those risks. The objective is to support companies in applying IFRS Standards when changes are made to contractual cash flows or hedging relationships because of the reform; and assist companies in providing useful information to users of financial statements. The amendment applies for annual periods beginning on or after January 1, 2020, with earlier application permitted.

The Company adopted the amendment effective January 1, 2020, resulting in no impact on the Company's Financial Statements.

Amendments to IFRS 16, *Leases*. The amendments to IFRS 16 issued in May 2020 provided lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification, and instead required lessees that applied the exemption to account for COVID-19-related rent concessions as if they were not lease modifications. The amendment extended the applicable payments due on or before June 30, 2022. The amendments are effective for annual reporting periods beginning on or after April 1, 2021 and are to be applied retrospectively.

The Company did not receive rent concessions as a result of COVID-19, resulting in no impact on the Company's Financial Statements.

Future Accounting Pronouncements

Standards issued but not effective up to the date of issuance of these consolidated financial statements are described below. Pronouncements that are irrelevant or not expected to have a significant impact have been excluded. The Company will adopt these standards as they become effective.

Amendments to IAS 1, *Presentation of Financial Statements*. In January 2020, the IASB issued amendments to IAS 1 Presentation of Financial Statements to specify the requirements for classifying liabilities as current or non-current. The amendments specify that the conditions which exist at the end of the reporting period are those which will be used to determine if a right to defer settlement of a liability exists. The amendments clarify the situations that are considered settlement of a liability. The new guidance will be effective for annual periods starting on or after January 1, 2023.

Amendments to IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*. In February 2021, the IASB issued amendments to IAS 8 to introduce a new definition of accounting estimates to help entities to distinguish between accounting policies and accounting estimates. The amendments clarify what changes in accounting estimates are and how these differ from changes in accounting policies and corrections of errors. The amendments are effective for annual periods beginning on or after January 1, 2023, with early adoption permitted. The amendments are not expected to have a material impact on the Company.

Amendments to IFRS 9, *Financial Instruments*. The amendments to IFRS 9 clarify which fees an entity includes when it applies the "10 percent test" in assessing whether to derecognize a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf. The amendments are effective for annual periods beginning on or after January 1, 2022 and are to be applied prospectively.

The Company will apply the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The implementation of this amendment is not expected to have a significant impact on the Company.

Amendments to IAS 12, *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*. In May 2021, the IASB issued amendments to IAS 12 to reduce diversity in the way that entities account for deferred tax on transactions and events, such as leases and decommissioning obligations, that lead to the initial recognition of both an asset and a liability. The amendment clarifies that the initial recognition exception does not apply to the initial recognition of leases and decommissioning obligations. The amendments are effective for annual periods beginning on or after January 1, 2023, with early adoption permitted. The Company will apply the amendment as necessary.

Amendments to IAS 16, *Property, Plant and Equipment*. In June 2019, the IASB issued amendments to IAS 16 which prohibits entities from deducting from the cost of an item of property, plant and equipment (PP&E), any sales proceeds earned from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, such sales proceeds must be recognized in profit or loss. The amendment will also require an entity to identify and measure the cost of items produced before an item of PP&E is available for use, applying the existing measurement requirements of IAS 2 Inventories, not require additional specific presentation and disclosure requirements in relation to the sale of items that are part of the entity's ordinary activities, and will require additional disclosures in relation to the sale of items that are not part of an entity's ordinary activities. The amendments are effective for annual periods beginning on or after January 1, 2022, with early adoption permitted. The amendment is not expected to have a material impact on the Company.

Amendments to IFRS 3, *Definition of a business*: The amendment to IFRS 3 Business Combinations clarifies that to be considered a business, an integrated 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 output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the consolidated financial statements of the Company but may impact future periods should the Company enter into any business combinations.

Note 5 Marketable Securities

On May 10, 2021, the Company (specifically, wholly owned subsidiaries, Canabo and GrowWise) completed the sale of certain clinic related assets to Myconic Capital Corp (d.b.a Wellbeing Digital Sciences Limited "WDSL"). Pursuant to the Asset Purchase Agreement (the "APA"), certain inventory and equipment was sold, in addition to the assignment of research revenue and clinic leases. The Company continues to staff and operate the clinics through a service agreement. In consideration for the sale and assignment of certain agreements, Myconic Capital Corp, issued and delivered a total of 7,000,000 common shares subject to statutory and contractual lock up provisions, with a fair value of \$12,250 on the date of closing.

The sale resulted in the derecognition of certain right of use assets with a net book value of \$255 and related lease obligations of \$329. In addition, equipment with a net book value of \$232 were sold.

The gain on sale of Canabo and GrowWise net assets was determined as follows:

	\$
Consideration	12,250
Assets sold/assigned	(487)
Liabilities assumed	329
Gain on sale	12,092

The Myconic Capital Corp common shares are classified as fair value through profit and loss. The marketable securities are classified as Level 1 on the fair value hierarchy as they have quoted prices in an active market.

During the fifteen months ended March 31, 2022, 5,600,000 common shares became available to trade. The remaining 1,400,000 common shares became available to trade on May 11, 2022.

On April 11, 2022, the Company terminated its Clinic License and Services Agreement with WDSL. As a result, certain revenue streams that were assigned to WDSL as part of the Services Agreement will revert to the Company such as Provincial billings for physician services and clinic education fees. Additionally, any unexpired leases which were unassigned as of the date of the termination reverted to the Company. The termination does not impact any consideration paid to the Company and the remaining shares became available to trade on May 11, 2022.

Note 6 Right-of-Use Asset and Lease Liability

The Company entered into an office lease agreement, commencing June 1, 2020 for its corporate operations. The term of the lease is 5 years and expires on July 31, 2025. As at March 31, 2022, the undiscounted commitment for the remaining office lease term is approximately \$2,984. The balance of the lease right of use assets and obligations are relate to leased equipment.

RIGHT-OF-USE ASSET

	\$
Cost	
Balance, December 31, 2019	1,591
New leases	2,472
Termination of lease	(69)
Balance, December 31, 2020	3,994
New leases	328
Leases adjustment	(157)
Termination of lease	(1,277)
Balance, March 31, 2022	2,888
Accumulated amortization	
Balance, December 31, 2019	(520)
Amortization	(692)
Balance, December 31, 2020	(1,212)
Termination of lease	682
Leases adjustment	376
Amortization	(890)
Balance, March 31, 2022	(1,044)
Net book value, December 31, 2020	2,782
Net book value, March 31, 2022	1,844

LEASE LIABILITY

	\$
Balance, December 31, 2019	1,207
New leases	2,472
Derecognition of lease liability	(69)
Interest accretion	695
Payments	(1,138)
Balance, December 31, 2020	3,167
New leases	328
Derecognition of lease liability	(392)
Lease adjustment	(284)
Interest accretion	600
Payments	(1,064)
Balance, March 31, 2022	2,355

Current portion	522
Long-term portion	1,833

As is permitted under IFRS 16, *Leases*, the Company elected to expense its short-term or low value dollar leases in selling, general and administrative expenses in the consolidated statements of loss and comprehensive loss on a straight-line basis over the lease term.

Note 7 Property, Plant and Equipment

	Computer and Software	Equipment and Furniture	Leasehold Improvements	Land	Buildings	Total
	\$	\$	\$	\$	\$	\$
Cost						
Balance, December 31, 2019	758	12,025	5,453	7,637	40,446	66,319
Additions	218	1,955	320	100	18,796	21,389
Balance, December 31, 2020	976	13,980	5,773	7,737	59,242	87,708
Additions	85	2,934	34	—	1,606	4,659
Disposals	(339)	(965)	(175)	—	(892)	(2,371)
Balance, March 31, 2022	722	15,949	5,632	7,737	59,956	89,996
Accumulated depreciation						
Balance, December 31, 2019	(225)	(803)	(272)	—	(681)	(1,981)
Depreciation	(193)	(2,013)	(311)	—	(4,741)	(7,258)
Balance, December 31, 2020	(418)	(2,816)	(583)	—	(5,422)	(9,239)
Depreciation	(210)	(4,164)	(410)	—	(7,309)	(12,093)
Disposals	256	192	136	—	—	584
Impairment write-down	—	(5,312)	—	—	(23,488)	(28,800)
Balance, March 31, 2022	(372)	(12,100)	(857)	—	(36,219)	(49,548)
Net book value						
As at December 31, 2020	558	11,164	5,190	7,737	53,820	78,469
As at March 31, 2022	350	3,849	4,775	7,737	23,737	40,448

Depreciation relating to manufacturing equipment and production facilities for owned and right-of-use lease assets is capitalized to biological assets and inventory and is expensed to cost of sales upon the sale of goods. During the fifteen months ended March 31, 2022, the Company recognized depreciation expense of \$12,093 (December 31, 2020 – \$7,258), of which \$2,256 (December 31, 2020 – \$834) was included in cost of sales, \$7,676 (December 31, 2020 – \$4,219) was included in operating expenses, and the remaining balance of \$2,161 (December 31, 2020 – \$2,205) was included in biological assets and inventory.

During the fifteen months ended March 31, 2022, the Company had additions of \$4,659, of which \$892 was previously recorded as deposit on the consolidated statements of financial position.

In response to indicators of impairment identified during the three months ended December 31, 2021, the Company estimated the fair value less costs of disposal of certain property, plant and equipment based on information including appraisals, which resulted in an impairment of \$5,312 to its equipment and furniture and \$23,488 to its buildings. The total impairment of \$28,800 is recorded in the consolidated statements of loss and comprehensive loss. The estimated fair value less costs of disposal of the property, plant and equipment at March 31, 2022 used Level 3 inputs and involved significant management estimates and adjustments. Management's estimates could differ in future periods.

Note 8 Goodwill and Intangible Assets

During the fifteen months ended March 31, 2022, the Company recognized non-cash impairment charges of \$11,314 related to goodwill and \$53,093 related to its intangible assets subject to amortization. In response to indicators of impairment identified during the third quarter, specifically a significant decline in market capitalization, and recent and projected financial performance not meeting the Company's expectations due to changes in market dynamics, increased competition and price compression in the industry, the Company performed an impairment analysis on its intangible assets subject to amortization and goodwill for both CGUs. The recoverable amount for each CGU were based on its value in use ("VIU") which was determined to be less than its carrying value. The VIU was estimated using level 3 inputs (refer to Note 19) and a discounted cash flow analysis approach. The significant assumptions applied in the determination of the recoverable amount are described below for the discounted cash flow method. Estimated cash flows were projected based on actual operating results from internal sources as well as industry and market trends. Estimated cash flows are based on historical trends, planned growth initiatives, industry and market growth trends and third party research reports and estimates. The Company utilized a five year forecast and accounted for long-term growth using a terminal value assuming a 2.5% growth rate. The weighted average cost of capital ("WACC") of 18% (December 31, 2020 - 21.5% to 24.2%), was estimated based on the risk-free rate, equity risk premium and after-tax cost of debt. As a result of the analysis, it was determined that the two CGUs had carrying values greater than the recoverable amounts.

As at March 31, 2022, the net book value of the goodwill and intangibles is \$Nil (December 31, 2020 – goodwill \$11,314; intangible assets \$54,715). As a result of the write off of the intangible assets, the related deferred tax liability of \$2,854 was written off.

	Grow License	Patient List	Brand Licenses	Emblem Brands	Emblem License	Other	Total
	\$	\$	\$	\$	\$	\$	\$
Cost							
Balance, December 31, 2019	9,770	12,416	12,260	15,100	34,000	3,357	86,903
Impairment write-down	—	(12,416)	(12,260)	(1,931)	—	(1,158)	(27,765)
Balance, December 31, 2020	9,770	—	—	13,169	34,000	2,199	59,138
Impairment write-down	(9,770)	—	—	(13,169)	(34,000)	(2,199)	(59,138)
Balance, March 31, 2022	—	—	—	—	—	—	—
Accumulated depreciation							
Balance, December 31, 2019	(803)	(2,197)	(885)	(130)	(1,122)	(515)	(5,651)
Amortization	(391)	(1,242)	(818)	(165)	(1,417)	(388)	(4,421)
Impairment write-down	—	3,439	1,703	—	—	507	5,649
Balance, December 31, 2020	(1,194)	—	—	(295)	(2,539)	(396)	(4,423)
Depreciation	(293)	—	—	(110)	(1,063)	(155)	(1,621)
Impairment write-down	1,487	—	—	405	3,602	551	6,045
Balance, March 31, 2022	—	—	—	—	—	—	—
Net book value							
As at December 31, 2020	8,576	—	—	12,874	31,461	1,803	54,715
As at March 31, 2022	—	—	—	—	—	—	—

During the fifteen months ended March 31, 2022, the Company recognized amortization expense of \$1,621 (December 31, 2020 – \$4,421), of which \$678 (December 31, 2020 – \$1,274) was included in cost of sales and \$943 (December 31, 2020 – \$3,147) was included in operating expenses.

Note 9 Share Capital

Authorized

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

Issued and Outstanding

As at March 31, 2022, there were 331,124,351 common shares issued and outstanding.

During the fifteen months ended March 31, 2022, the Company issued 387,500 common shares, under its at-the-market equity program with an average price per share of \$0.40, resulting in net proceeds of \$154.

On March 9, 2021, the Company closed a bought deal offering for a total issuance of 27,390,000 units of the Company at a price per unit of \$0.83 for gross proceeds of \$22,734, which includes a partial exercise of the over-allotment option. Each unit consists of one common share in the capital of the Company and one-half of one common share purchase warrant. Each warrant entitles the holder thereof to purchase one common share at an exercise price of \$1.05, for a period of 24 months following the closing of the offering. On March 9, 2021, the market price of the Company's common shares was \$0.69 per share. Using the residual method, the Company assigned a value of approximately \$3,835 to the 13,695,000 warrants issued. The Company paid approximately \$1,712 in transaction costs. In connection with the bought deal, the Company issued 621,000 compensation warrants to the brokers. Each of the compensation warrants entitles the holder to purchase one common share at an exercise price of \$0.83, for a period of 24 months following the closing of the offering. The fair value of the compensation warrants was determined to be nominal.

During the fifteen months ended March 31, 2022, the Company issued 781,250 common shares for stock options exercised with gross proceeds of \$625. The Company reclassified fair value of \$334 for the options from contributed surplus to share capital in connection with the option exercises.

During the fifteen months ended March 31, 2022, the Company issued common shares for deferred share units ("DSUs") exercised. As a result, the DSU liability was reduced by \$96 with a corresponding increase to share capital.

During the fifteen months ended March 31, 2022, the Company issued 1,050,890 common shares for warrants exercised with gross proceeds of \$761. The Company reclassified the fair value of \$958 for the warrants from contributed surplus to share capital in connection with the warrant exercises.

During the year ended December 31, 2020, the Company issued 23,000,000 common shares at a price of \$0.65 per share for aggregate gross proceeds of \$15,000 which includes the full exercise of the over-allotment option and paid \$1,890 as transaction costs in cash and issuance of brokers' warrants. Each unit consisted of one common share of the Company and one-half of one common share purchase warrant with an exercise price of \$0.80 and expiring in three years. In connection with the bought deal, the Company issued 1,207,500 compensation warrants and 11,500,000 subscriber warrants.

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 20% 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 total stock option expense recognized as share-based compensation expense for the fifteen months ended March 31, 2022 was \$2,607 (December 31, 2020 – \$2,690).

The following table summarizes information relating to outstanding and exercisable stock options as at March 31, 2022:

	Options	Weighted average exercise price
	#	\$
Balance, December 31, 2019	24,979,725	1.22
Granted	5,030,431	0.52
Exercised/released	(375,500)	0.25
Forfeited/cancelled/expired	(3,374,024)	1.55
Balance December 31, 2020	26,260,632	1.06
Granted	11,564,000	0.39
Exercised/released	(781,250)	0.65
Forfeited/cancelled	(2,468,885)	0.76
Expired	(4,098,051)	0.46
Balance, March 31, 2022	30,476,446	0.88
Vested, March 31, 2022	23,200,447	1.03
Unvested, March 31, 2022	7,275,999	0.41

The fair values of the stock options granted during the fifteen months ended March 31, 2022, were estimated using the Black-Scholes option pricing model with following weighted average assumptions:

Weighted average share price	\$0.21
Weighted average risk-free interest rate	0.69%
Weighted expected life-years	2.8 years
Weighted average expected daily volatility	87%
Weighted expected dividends	Nil
Forfeiture rate	0%

The volatility was calculated using the historical daily trading prices over a period commensurate with the expected life.

The following table summarizes the outstanding and exercisable options held by directors, officers, employees and consultants as at March 31, 2022:

Exercise Price Range	Outstanding			Exercisable	
	Number of Options	Remaining Contractual Life	Weighted average exercise price	Number of Options	Weighted average exercise price
\$		Years	\$		\$
0.13 - 0.50	12,089,500	4.17	0.38	5,880,250	0.41
0.51 - 1.00	7,193,250	2.10	0.67	6,376,500	0.68
1.01 - 1.50	6,839,690	2.21	1.08	6,589,691	1.08
1.51 - 2.00	749,006	1.60	1.58	749,006	1.58
2.00 - 2.65	3,605,000	1.64	2.44	3,605,000	2.44
	30,476,446	2.88	0.88	23,200,447	1.03

Restricted Share Units ("RSUs")

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 compensation expense 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.

During the fifteen months ended March 31, 2022, 1,274,000 RSUs were granted in total (December 31, 2020 – \$Nil) with a weighted fair value of \$0.42 per RSU. The RSUs vest in tranches with 1/12 vesting every three months over 36 months, commencing September 30, 2021, except for 114,000 RSUs which cliff vests on April 1, 2022. The total RSU expense recognized as share-based compensation expense for the fifteen months ended March 31, 2022 was \$292 (December 31, 2020 – \$Nil).

A summary of the RSUs granted and outstanding as at March 31, 2022, is as follows:

	#
Balance, December 31, 2020	—
Granted	1,274,000
Exercised/released	(335,250)
Forfeited	(214,083)
Balance, March 31, 2022	724,667

There are no RSU's exercisable as they are issued as common shares upon vesting.

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. deferred share unit plan (the "DSU Plan"), which was implemented during the year ended December 31, 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.

The deferred share units are settled in either cash or shares or combination of both, at the election of the board of Directors. The DSUs have been classified as liability in anticipation of cash settlement and are revalued at each reporting period using the quarter end Company stock price.

During the fifteen months ended March 31, 2022, the Company granted 2,229,529 DSUs (December 31, 2020 – 148,431 DSUs). As at March 31, 2022, there were 2,030,033 DSUs issued and outstanding. As at March 31, 2022, the fair value of the DSU liability is \$244 (December 31, 2020 – \$73). The DSU liability is included in accounts payable and accrued liabilities on the consolidated statements of financial position.

A summary of the DSUs granted and outstanding as at March 31, 2022 is as follows:

	#
Balance, December 31, 2019	—
Granted	148,431
Balance, December 31, 2020	148,431
Granted	2,229,549
Exercised/released	(347,977)
Balance, March 31, 2022	2,030,033

There are no DSU's exercisable as they are issued as common shares upon vesting.

Warrants

The Company has the following warrants outstanding:

	Warrants outstanding	Weighted average exercise price
	#	\$
Balance, December 31, 2019	60,264,816	2.05
Issued	12,707,000	0.80
Exercised	(500)	0.80
Expired	(22,749,342)	3.12
Balance, December 31, 2020	50,221,974	1.17
Issued	15,316,000	0.99
Exercised	(1,050,890)	0.75
Expired	(8,331,652)	0.74
Outstanding and exercisable, March 31, 2022	56,155,432	1.19

The warrants expire between June 27, 2022 and May 29, 2023.

Note 10 Key Management Compensation

Parties are considered a 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 a related party transaction when there is a transfer of resources or obligations between related parties. Key management includes directors and key executives of the Company.

During the fifteen months ended March 31, 2022 and twelve months ended December 31, 2020, the Company had the following transactions with the officers and directors of the Company:

	March 31, 2022	December 31, 2020
	\$	\$
Wages and benefits: Directors	827	371
Wages and benefits: Management	3,247	2,613
Share based compensation: Directors	57	276
Share based compensation: Management	1,680	1,860
Termination benefits: Management	730	150
	6,541	5,270

As at March 31, 2022, an amount of \$429 (December 31, 2020 – \$150) was due to directors and management. These amounts are non-interest bearing, unsecured, due on demand and included in accounts payable and accrued liabilities on the consolidated statements of financial position.

Note 11 Loss per Share

Loss per common share is calculated using the weighted average number of common shares outstanding. The weighted average number of share outstanding for the fifteen months ended March 31, 2022 was 327,012,541 (December 31, 2020 – 291,589,929).

Diluted income per common share is calculated using the weighted average number of common shares outstanding taking into consideration the weighted average impact of dilutive securities. All of the Company's potentially dilutive securities are anti-diluted during the periods presented due to losses incurred.

Note 12 Management of Capital

The Company's objectives when managing capital are to sustain a sufficient capital base so as to maintain investor, creditor, supplier, 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, credit facilities, lease liabilities, 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. In the current period, the Company manages its capital with a heightened focus on maintaining and improving its liquidity. During the fifteen months ended March 31, 2022, there has been no other significant changes to the management of capital.

Note 13 Inventory

Inventory is comprised of the following items as at:

	March 31, 2022	December 31, 2020
	\$	\$
Finished goods	4,454	3,890
Work-in-progress	27,992	21,919
Supplies and consumables	2,940	1,433
Inventory provision	(13,722)	—
Total inventory	21,664	27,242

Inventory provision mostly relates to work-in-progress. In addition to the inventory provision, during the period, the Company wrote off inventory of \$5,926 (December 30, 2020 – \$24,922).

Note 14 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 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 assets in the future. The fair value is determined using a valuation model to estimate the 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 at March 31, 2022, the biological assets strains consisted of indoor plants which were on average 63% complete. There were no outdoor plants.

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 March 31, 2022 and December

31, 2020 as required by IFRS 13 fair value measurement.

	\$
Balance, December 31, 2019	971
Changes in fair value less costs to sell due to biological transformation	7,870
Production costs capitalized to biological assets	5,419
Transferred to inventory upon harvest	(11,749)
Balance, December 31, 2020	2,511
Changes in fair value less costs to sell due to biological transformation	1,333
Production costs capitalized to biological assets	22,053
Transferred to inventory upon harvest	(24,718)
Balance, March 31, 2022	1,179

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

	Indoor	Outdoor
Average fair value per gram (\$)	0.98	0.16
Average yield per plant (grams)	60	750
Average of growth cycle (weeks)	13	16

The Company values 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.

The fair value adjustment to biological assets and inventory sold consists of the following for the fifteen and twelve months ended:

	March 31, 2022	December 31, 2020 restated – note 23
	\$	\$
Realized fair value amounts included in inventory sold	120	18,591
Change in fair value on growth of biological assets	1,333	(7,870)
Fair value changes in biological assets and inventory sold	1,453	10,721

Note 15 Expenses by Nature

The consolidated statements of loss and comprehensive loss include the following expenses by nature for the fifteen and twelve months ended:

	March 31, 2022	December 31, 2020
	\$	\$
Salaries, bonuses and benefits	24,601	11,576
Share-based compensation	2,899	2,690
Termination benefits and severance costs	1,362	364
Total	28,862	14,630

Salaries, bonuses and benefits relating to manufacturing and production facilities are capitalized to inventory and then expensed to cost of sales upon the sale of goods. During the fifteen months ended March 31, 2022, the

Company recognized salaries, bonuses and benefits of \$24,601 (December 31, 2020 – \$13,781), of which \$7,842 (December 31, 2020 – \$3,559) was included in cost of sales and \$16,759 (December 31, 2020 – \$8,017) was included in operating expenses.

During the fifteen months ended March 31, 2022, the Company recorded \$400 from the Canada Emergency Wage Subsidy as a reduction to wages and benefits in the consolidated statements of loss and comprehensive loss. For the twelve months ended December 31, 2020, the Company recorded \$4,700 as a reduction to wages and benefits. The Company does not have a defined contribution or defined benefit plan.

Note 16 Convertible Debt

Aleafia Convertible Debt

In June 2019, the Company issued 40,250 additional convertible debentures units (the “Aleafia Convertible Debt Unit”) for gross proceeds of \$40,300. 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 \$1.47 per share until June 27, 2022, at the option of the holder, and
- The Company may accelerate the expiry date of the common share purchase warrants with 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.

During 2019, Debenture holders converted \$2,900 debentures to common shares. Accordingly, the remaining principal balance to be paid upon maturity is \$37,350.

On December 31, 2021, the Company did not make a scheduled interest payment of \$1,587 and did not make the payment within the 30-day cure period, thereafter. The Company has entered into a Forbearance Agreement with Debenture holders representing 62% of the Debentures’ aggregate principal amount outstanding (the “Holders”). The Forbearance Agreement’s initial term extends to February 28, 2022, and the agreement automatically renews for 14-day periods thereafter unless notice to the contrary is provided. Under the Forbearance Agreement, the Holders, among other considerations, forebear in enforcing their rights or remedies against the Company under the Indenture and otherwise at law with respect to the non-payment of interest until the expiry of the Term. Under the Forbearance Agreement, the Holders and the Company have agreed to work expeditiously and in good faith to negotiate a potential transaction to amend the terms associated with the Convertible Debt. The accrued interest in the amount of \$2,379 is recorded in accounts payable and accrued liabilities on the consolidated statements of financial position.

Refer to subsequent event note 22.

Emblem Convertible Debt

On March 14, 2019, Aleafia Health 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, 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.

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 \$25,000. 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, and
- convertible at \$2.3875 per share, subject to adjustment in certain events, at the option of the holder.

Upon maturity on February 2, 2021, the debt was repaid in full.

The below table summarizes the changes in the total consolidated convertible debentures.

	\$
Balance, December 31, 2019	51,009
Amortization of transaction costs	2,081
Interest accretion	3,712
Balance, December 31, 2020	56,802
Repayment of convertible debt	(25,650)
Interest accretion	5,249
Balance, March 31, 2022	36,401

Note 17 Credit Facilities

Credit Facility – Current

On December 24, 2021, the Company entered into a new loan agreement that provides for a term facility of \$12,000 and access to a revolving facility up to \$7,000. The loans bear interest at a rate of the National Bank of Canada prime (with a floor of 3.45%) rate plus 9%, annually, with an effective interest rate of 14.8%. Under the agreement, the Company prepaid interest of \$749. The availability under the revolving facility is subject to an advance rate against certain accounts receivable balances. Both facilities are payable on the earlier of demand and two years from funding.

The Company received net proceeds of \$10,798 on December 24, 2021.

The facility is secured by first lien mortgages on the Paris, Ontario and Grimsby, Ontario production facilities and certain equipment and a general security agreement on the Company.

During the period, the Company breached its financial covenant under the term facility and incurred an acknowledgement fee of \$60, which is included in the amortized cost. The amount drawn from the revolving facility as at March 31, 2022 was \$500.

The amortization of the credit facility as at March 31, 2022:

	\$
Balance, December 31, 2020	—
Amortized cost	11,440
Penalty	60
Interest accretion	73
Interest expense	397
Interest paid	(397)
Credit facility	11,573
Revolver	500

Balance, March 31, 2022	12,073
--------------------------------	---------------

Subsequent to March 31, 2022, the Company drew down an aggregate of \$1,271 against the revolving facility. The remaining undrawn balance available is \$5,229.

Credit Facility – Non Current

On August 23, 2021, the Company entered into a secured Credit Agreement, to receive \$10,000 for working capital and general corporate purposes. The term of the loan is for one year and bears simple interest at a rate of 12%, with an effective interest rate of 17.3%.

Accrued interest may either be paid monthly in arrears or upon maturity of the facility. In addition, up to 1,000,000 common share purchase warrants with an exercise price of \$0.32 were granted and vest in four tranches of 250,000 quarterly commencing November 20, 2021. The warrants were ascribed a value of \$131, using Black Scholes pricing model.

The facility is secured by a first lien mortgage on the Port Perry, Ontario facility. On December 24, 2021, the Company entered into an amendment with its lender to revise certain terms in the credit facility. Second lien mortgages were granted against the Paris, Ontario and Grimsby, Ontario production facilities. The maturity date was extended by approximately 16 months to December 24, 2023 and the stated interest rate applicable changed to 12.45%.

The Company made a principal repayment of \$5,000 against the credit facility, together with accrued interest and fees on January 7, 2022. The first tranche of the common share purchase warrants of 250,000 vested on November 20, 2021. Due to the early repayment, the second tranche vesting February 20, 2022, was reduced to 190,217 from 250,000. The remaining number of common share purchase warrants of 250,000 will vest equally over the original term of the facility on May 20, 2022 and August 20, 2022.

As a result of the amendments to the credit facility, the present value of the amended terms decreased the amortized cost by \$152. This amount is offset with the interest expense of \$628 and is recorded as a reduction to interest expense in the consolidated statements of loss and comprehensive loss.

	\$
Balance, December 31, 2020	—
Amortized cost	9,749
Principal repayment	(5,000)
Interest paid	(380)
Interest accretion	254
Accrued interest	604
Adjustment to amortized cost	(152)
Balance, March 31, 2022	5,075

Note 18 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 biological business. The joint venture was incorporated under the name One Plant (Retail) Corp. (“OPC”).

The Company paid \$4,000 for the issuance of 99 common shares of OPC and as a result owns 9.4% of the outstanding common shares of OPC. For accounting purposes, the Company classified its interest in OPC at fair value through profit and loss and as an investment.

OPC is a private entity without observable market prices for its common shares and this investment is measured at its estimated fair value which is calculated based on a valuation technique that uses inputs derived by management which are considered level 3 in the fair value hierarchy (refer to note 19). The Company has reviewed the results of operations of OPC based on the financial information provided by management of OPC and prepared a cash flow projection. The Company used a discount rate of 15% to estimate the fair value as at December 31, 2020, and March 31, 2022.

During the fifteen months ended March 31, 2022, the Company recorded a decrease in the fair value of the investment OPC of \$1,609 as a fair value through profit and loss adjustment in the consolidated statements of loss and comprehensive loss. The estimated fair value of the Company's investment in OPC required management to use significant estimates and judgments including the estimated forecasted cash flows and discount rate assumption.

The Company invested \$100 in CannaPacific in January 2019, \$600 in April 2019 and \$216 in June 2021.

CannaPacific is a private entity without observable market prices for its common shares and this investment is measured at its estimated fair value which is calculated based on a valuation technique that uses inputs derived by management which are considered level 2 in the fair value hierarchy (see Note 19).

During the fifteen months ended March 31, 2022, the Company determined that its investment in CannaPacific was more than likely not to be recoverable due to current market conditions and recorded a decrease in the fair value of its investment of \$2,836. The change in fair value is recorded in the fair value through profit and loss adjustment in the consolidated statements of loss and comprehensive loss. The estimated fair value of the Company's investment in CannaPacific required management to use significant estimates and judgments including the estimated forecasted cash flows and discount rate assumption.

Note 19 Financial Instruments and Financial Risks

Fair Value of Financial Instruments

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

	March 31, 2022	December 31, 2020 restated – note 23
	\$	\$
Fair value through profit and loss (i)	5,150	37,149
Assets, amortized cost (ii)	11,085	9,311
Liabilities, amortized cost (iii)	83,530	80,208

- (i) Cash, restricted cash, investments, and marketable securities
- (ii) Trade receivables
- (iii) Accounts payable, lease liability, credit facilities 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 tables sets for the Company's financial assets measured at fair value on a recurring basis by level within the fair value hierarchy as at March 31, 2022 and December 31, 2020:

	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Cash	1,356	—	—	1,356
Restricted cash	213	—	—	213
Marketable securities	1,190	—	—	1,190
Investments	—	—	2,391	2,391
Total, March 31, 2022	2,759	—	2,391	5,150

	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Cash	29,968	—	—	29,968
Restricted cash	561	—	—	561
Investments	—	2,620	4,000	6,620
Total, December 30, 2020	30,529	2,620	4,000	37,149

The carrying value of trade receivables and accounts payable 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 March 31, 2022.

During the fifteen months ended March 31, 2022 there were no transfers between Level 1, Level 2, and Level 3 fair value measurements. There has been no change in fair value of the Company's investment in OPC (classified as Level 3) as disclosed in Note 18. The value of investment is assessed based on a discounted cash flow model. The following factors have a potential impact on net earnings/loss based on various combinations of changes in unobservable inputs in the Company's internal valuation models for its investment in OPC:

- Fair value of investment: \$2,391
- After-tax discount rate: 13% to 19%

Adjustment of management revenue received due to risk and uncertainties: (15%) / +15%

Hypothetical \$ change effect on fair value measurement and net earnings / loss for the year: (\$1M) - \$2M.

The analysis assumes variation within a reasonable possible range determined by the Company based on an analysis of the return, management's knowledge of the cannabis retail store market and the potential impact on the changes in the interest rates.

The impact on the internal valuation models from changes in significant unobservable inputs deemed to be subject to the judgement and estimates disclosed above shows the hypothetical increase (decrease) in net earnings / loss. Changes in the after-tax discount rates, adjustment for risk and uncertainty over amounts of payment to be received, each in isolation, would hypothetically change the fair value of the Company's investments as noted above. Generally, an increase (decrease) in long term growth rates, or a decrease (increase) in after-tax discounts rates, would result in higher (lower) fair value of the Company's investment in OPC.

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. The Company 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.

The Company has identified the below potential risk categories:

a) Currency risk

The Company's revenues and 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 assets or liabilities and has few transactions denominated in a currency other than Canadian dollars. The Company is attracting foreign investments. During the fifteen months ended March 31, 2022, there has been no change to the management of this risk.

b) Interest rate risk

The Company is exposed to interest rate risk on the variable rate of interest earned on bank deposits, the variable rate of interest applicable to the \$12,000 term facility and the drawn amount of the \$7,000 revolving facility. The fair value interest rate risk on bank deposits is insignificant as the deposits are short-term in nature. The interest rate risk on convertible debt is insignificant due to the fixed rate of interest on convertible debt. The Company has not entered into any derivative instruments to manage interest rate fluctuations. The Company monitors interest rate and may enter into derivative instruments to hedge interest rate risk should it deem it economically efficient.

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, trade and other receivables and marketable securities. The risk exposure is limited to their carrying values reflected on the consolidated statements 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 with respect to cash and as the Company does not invest in asset backed investments. To manage and mitigate credit risk, the Company has the option in certain cases to receive product in kind.

For the fifteen months ended March 31, 2022, the expected credit losses of trade and other accounts receivables was assessed based on the expected loss model in compliance with IFRS 9. Individual receivables that were known to be incurred credit losses are written off by reducing the carrying amount directly, and this is reevaluated and subject to change as the Company reevaluates its credit risk exposure. Pursuant to their collective terms, trade accounts receivable, were aged as follows:

	March 31, 2022	December 31, 2020 restated – note 23
	\$	\$
Current	6,364	1,379
0 – 30 days past due	250	537
31 – 60 days past due	95	145
61 – 90 days past due	69	83
90 + days past due	1,041	79
Provision for credit losses	(519)	(762)
Other receivables	3,785	7,850
Total	11,085	9,311

The standard payment terms applicable to most customers are between 30 – 60 days upon receipt of goods.

The Company has concentration risk, as approximately 76% [December 31, 2020 – 75%] of total revenue came from three [2020 – four] customers and approximately 79% [2020 – 38%] of total trade accounts receivable is due from three [2020 – two] customers.

d) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company has experienced recurring losses and has a cumulative deficit of \$493,203. Cash flow from operations is negative. Refer to note 2, Going Concern.

As at March 31, 2022, the Company has total current assets of \$40,462 (December 31, 2020 – \$74,656) and total current liabilities of \$76,622 (December 31, 2020 – 45,041), providing for net current liability of \$36,160 (December 31 2020 – net current asset of \$29,615). The significant change during the fifteen months ended March 31, 2022 is a result of the convertible debentures approaching maturity and continued losses from operations.

The Company has the following undiscounted future payments for convertible debenture, credit facilities, lease obligations, and purchase commitments as at March 31, 2022:

	within 1 year	2 years	3 years	4 years	5 years and thereafter
	\$	\$	\$	\$	\$
Convertible debenture	39,729	–	–	–	–
Credit facilities	–	17,650	–	–	–
Lease obligations	918	1,028	1,033	171	6
Purchase commitments	129	60	60	–	–
Total	40,776	18,738	1,093	171	6

The interest on the credit facilities not included in the table above is approximately \$2,400 within one year and approximately \$1,800 due between one year and two years.

Note 20 Commitments and Contingencies

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 consolidated financial statements.

Certain of Emblem Corp.'s former executives have been named in a claim commenced March 20, 2015, in the Ontario Superior Court of Justice that also identifies Emblem Corp. and Emblem in relation to certain services provided to the parties by an individual. The plaintiff has claimed \$10,000 in damages. The claim is being contested and the action is proceeding to mediation in the latter half of fiscal 2022. 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 Amos Tayts on March 22, 2019, in the Ontario Superior Court of Justice against Emblem and Emblem Corp. arising out of the same facts and seeking the same damages. It is also being contested.

On June 16, 2020, a class-action lawsuit was issued in Calgary, Alberta by Lisa Marie Langevin as the proposed representative plaintiff. The claim has been filed against most of the cannabis manufacturers in Canada and includes, among the many defendants, Emblem Corp. and Aleafia Health. The claim alleges that the THC and CBD levels in the products manufactured and/or sold by the defendants differed from what was represented on packaging, specifically alleging that THC and CBD levels were found to be significantly higher than indicated in some products while others may have had significantly lower levels. The action is seeking \$500,000 (or such other amount as may be proven at trial) for all Canadians who purchased medicinal cannabis products on or after June 16, 2010, as well as Canadians who legally purchased cannabis for recreational purposes on or after October 17, 2018. The claim also seeks \$5,000 in punitive damages. Ms. Langevin has not alleged that she ever purchased product from Emblem or Aleafia Health. The case is at its earliest stages. The Company believes it has good defenses to the claim and intends to vigorously defend the claim. Accordingly, at this stage no amount has been provided for in the consolidated statements of financial position in respect of this claim.

Note 21 Income Taxes

The Company has non-capital losses carried forward of approximately \$263,000 available to reduce income taxes in future years which expire from 2030 to 2040. The Company has not recognized any deferred income tax assets. The Company recognizes deferred income tax assets based on the extent to which it is probable that sufficient taxable income will be realized during the carry forward periods to utilize all deferred tax assets.

The following table reconciles the amount of income tax recoverable on application of the statutory Canadian federal and provincial income tax rates for the fifteen and twelve months ended, respectively:

	March 31, 2022	December 31, 2020 restated – note 23
Loss and comprehensive loss for the period	(169,867)	(255,505)
Canadian statutory income tax rate	26.5%	26.5%
	\$	\$
Income tax recovery at statutory rate	(45,015)	(67,709)
Effect of income taxes of:		
Permanent differences and other	17,105	55,075
Change in deferred tax assets not recognized	25,056	10,094
Deferred income tax (recovery)	(2,854)	(2,540)

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

	March 31, 2022	December 31, 2020
	\$	\$
Non-capital loss carry forwards	69,719	28,803
Property, plant, and equipment	(541)	(715)
Investment	(634)	(503)
Biological assets and inventory	6,053	4,456
Intangible assets	–	(13,858)
Convertible debentures	(252)	(1,388)
Lease liability IFRS 16	624	269
Share issue costs	1,320	1,564
Deferred tax assets not recognized	(76,289)	(21,482)
Deferred income tax liability	–	(2,854)

Note 22 Subsequent Events

Convertible Debenture Amendments

On May 12, 2022, the Company announced it had reached an agreement in principle with the convertible debenture holder-nominated steering committee to amend certain key commercial terms of its unsecured convertible debenture, maturing June 27, 2022. The agreement includes, among other things, exchanging the current convertible debentures for new convertible debentures with maturities in two, four and six years. The interest rate remains the same at 8.5%, with payment in kind with additional new convertible debentures and a reduction in the conversion price from \$1.47 to \$0.25 for the debentures expiring in 2024, \$0.30 for the debentures expiring in 2026, and \$0.35 for the debentures expiring in 2028. The new convertible debentures will be secured against certain assets of the Company, however subordinated to the Company's other secured credit facilities.

On June 20, 2022, Debenture holders representing approximately 76% of the aggregate principal amount of Debentures outstanding had executed consents in favour of the amendments to the Debentures (the **"Debenture Amendments"**), exceeding the required 66 2/3% for the written extraordinary resolution to approve the Debenture Amendments. The transaction is expected to close the week of June 27, 2022.

Equity Financing Private Placement

Contemporaneously, on May 12, 2022, the Company entered into a Subscription Agreement comprising of common shares and warrants (the **"units"**) for total aggregate gross proceeds of \$5,600, by way of private placement (the **"Private Placement"**). Under the Private Placement the Company will issue 68,151,515 units at a price of \$0.0825. Each unit consists of one common share and one-half warrant. A full warrant is exercisable at a price of \$0.1025 for up to four years from date of issuance. The Company can elect to accelerate the expiry date after four months of issuance in the event the share price exceeds \$0.165 for any 10 consecutive trading days. The closing of the Private Placement was completed on June 24, 2022.

Note 23 Restatement of Corresponding Amounts

The Company has restated its consolidated statements of financial position as at December 31, 2020 and its consolidated statements of loss and comprehensive loss, consolidated statement of changes in shareholders' equity and consolidated statements of cash flows for the year ended December 31, 2020. In the course of preparing the Company's consolidated financial statements for the year ended March 31, 2022, a misinterpretation was discovered involving two non-recurring transactions in the bulk wholesale sales channel recorded in the quarters ended June 30, 2020 and September 30, 2020.

In the periods ended June 30 and September 30, 2020, the Company recorded net revenue of \$6,163 and \$2,104,

respectively. Both of these non-recurring transactions in the bulk wholesale sales channel were to one customer. These transactions provided the wholesale customer with extended payment terms which were initiated upon shipment to the customer. Some products which were shipped to the customer were later returned to the Company. No payment to date has been received by the Company for either of these two non-recurring transactions.

The following tables present the impact of the restatement adjustments on the Company's previously reported consolidated financial statements as at and for the year ended December 31, 2020, as well as the impacts on the consolidated statement of financial position as at January 1, 2021. The "Restated" columns for 2020 reflect final adjusted balances after the restatement.

	December 31, 2020	December 31, 2020	December 31, 2020
	As presented	Adjustments	Restated
	\$	\$	\$
Consolidated Statement of Financial Position			
Trade and other receivables	17,578	(8,267)	9,311
Deficit	(315,069)	(8,267)	(323,336)
Consolidated Statement of Loss and Comprehensive Loss			
Revenue	45,673	(8,267)	37,406
Costs of sales	22,082	(6,510)	15,572
Fair value changes in biological assets and changes in inventory sold	(12,160)	1,439	(10,721)
Inventory provision	(16,973)	(7,949)	(24,922)
Net loss and comprehensive loss	(247,238)	(8,267)	(255,505)
Loss per share, basic and diluted	(0.85)	(0.03)	(0.88)
Consolidated Statement of Changes in Shareholders' Equity			
Net loss for the year	(247,238)	(8,267)	(255,505)
Consolidated Statement of Cash Flows			
Net loss for the period	(247,238)	(8,267)	(255,505)
Adjustments for non-cash items:			
Inventory write-down	16,973	7,949	24,922
Fair value changes in biological assets and changes in inventory sold	12,160	(1,439)	10,721
Changes in operating working capital:			
Trade and other receivables	(8,153)	8,267	114
Inventory	(26,673)	(6,510)	(33,183)