FORM 51-102F4

BUSINESS ACQUISITION REPORT

Item 1 Identity of Company

1.1 Name and Address of Company

Aleafia Health Inc. (the "**Company**" or, "**Aleafia Health**")
2nd Floor, 8810 Jane Street
Vaughan, Ontario, L4K 2M9

1.2 Executive Officer

Benjamin Ferdinand
Chief Financial Officer
416-860-5665

Item 2 Details of Acquisition

2.1 Nature of Business Acquired

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

Emblem is a fully integrated cannabis company focused on product innovation, branding, and patient and consumer product distribution. Emblem is licensed to cultivate, process, and sell cannabis and cannabis derivatives in Canada under the *Cannabis Act*. Emblem also offers a network of cannabis education services providers. In connection with completion of the Arrangement, Emblem Shares were de-listed from the TSX Venture Exchange.

2.2 Acquisition Date

March 14, 2019.

2.3 Consideration

As consideration for the Aleafia Health acquisition of all of the issued and outstanding Emblem Shares, former holders of Emblem Shares are entitled to receive up to a total aggregate of 110,823,349 common shares of Aleafia Health ("**Aleafia Shares**"), representing an exchange ratio of 0.8377 Aleafia Share for each Emblem Share held (the "**Exchange Ratio**").

Under the Arrangement, an aggregate of (i) 10,823,349 Aleafia Shares were issued to former holders of Emblem Shares, and (ii) 4,476,105 Aleafia Shares were reserved for issuance to former option holders under the Aleafia Health stock option plan.

Further information regarding the Arrangement can be found in the Company's press release dated March 14, 2019 and material change report dated March 15, 2019, copies of which have been filed under the Company's profile on SEDAR at www.sedar.com.

2.4 Effect on Financial Position

See the unaudited pro forma combined financial statements and the accompanying notes thereto included in this Business Acquisition Report. The unaudited pro forma combined financial statements are presented for informational purposes only and do not purport to project the future results of operations or financial position of the Company.

The Company presently has no plans or proposals for material changes in the Company's business affairs or the affairs of the acquired business that may have a significant effect on the results of operations and financial position of the Company.

2.5 Prior Valuations

No valuation opinion was obtained in the last 12 months by Aleafia Health or Emblem. However, Emblem did obtain a fairness opinion from Eight Capital and from Echelon Wealth Partners Inc., both dated December 18, 2019, attesting to the fairness of the Arrangement to Emblem and shareholders, from a financial point of view.

2.6 Parties to Transaction

The Arrangement was not with an "informed person" (as such term is defined in Section 1.1 of National Instrument 51-102 – *Continuous Disclosure Obligations*), associate or affiliate of Aleafia Health.

2.7 Date of Report

May 14, 2019.

Item 3 Financial Statements and Other Information

The following financial statements are attached as schedules to this Business Acquisition Report and form an integral part of this Business Acquisition Report:

Exhibit A – Selected Unaudited Pro Forma Consolidated Financial Data

Attached as Exhibit A are the Unaudited Pro Forma Consolidated Financial Statements of Aleafia Health for the year ended December 31, 2018.

Aleafia Health's pro forma consolidated financial statement that give affect to the acquisition of Emblem, including:

i) Pro forma consolidated statement of financial position as at December 31, 2018;

ii) Pro forma consolidated statement of comprehensive loss of the year ended December 31, 2018; and

iii) Pro forma notes thereon.

The unaudited pro forma consolidated statement of financial position as at December 31, 2018 and the unaudited pro forma consolidated statement of comprehensive loss for the year ended December 31, 2018 of Aleafia Health were prepared based on Arrangement occurring on December 31, 2018. The unaudited pro forma consolidated financial statements were prepared using the consolidated financial statements for the year ended December 31, 2018 of Aleafia Health and Emblem.

Exhibit B - Audited Financial Statements of Emblem Corp.

Attached as Exhibit B hereto are the audited financial statements of Emblem for the year ended December 31, 2018 and the notes thereto, together with the independent auditor's report thereon.

Caution Regarding Unaudited Pro Forma Condensed Combined Financial Statements

This Business Acquisition Report contains the unaudited pro forma consolidated financial statements of the Company comprised of the pro forma consolidated statement of financial position and the statement of comprehensive loss of the Company for the year ended December 31, 2018.

Such unaudited pro forma consolidated financial statements have been prepared using certain of the Company's and Emblem's respective historical consolidated financial statements as more particularly described in the notes to such unaudited pro forma consolidated financial statements. In preparing such unaudited pro forma consolidated financial statements, the Company has not independently verified the financial statements of Emblem that were used to prepare the unaudited pro forma consolidated financial statements. The historical audited consolidated financial information has been adjusted in the unaudited pro forma consolidated financial statements to give effect to events that are: (i) directly attributable to the pro forma events, for which there are firm commitments and for which the complete financial effects are objectively determinable, and (ii) with respect to the unaudited pro forma consolidated statement of comprehensive loss, expected to have a continuing impact on the combined company's results. As such, the impact from merger-related expenses is not included in the unaudited pro forma consolidated financial statement of comprehensive loss. The unaudited pro forma consolidated financial statements do not reflect any cost savings from operational efficiencies or synergies that could result from the Arrangement or for liabilities that may result from integration planning. The unaudited pro forma consolidated financial statements are presented for illustrative purposes only and do not necessarily reflect what the combined company's financial condition and results of operations would have been had the Arrangement occurred on the dates indicated.

The unaudited pro forma consolidated financial statements also may not be useful in predicting the future financial condition and results of the operations of the combined company. The actual financial position and results of operations may differ significantly from the pro forma amounts reflected herein due to a variety of factors. The pro forma adjustments are based on preliminary estimates of the fair value of the consideration paid and the fair value of the assets acquired and liabilities assumed, currently available information and certain assumptions that the Company believes are reasonable in the circumstances, as described in the notes to the unaudited pro forma consolidated financial statements. As a result of these factors, the actual adjustments will differ from the pro forma adjustments, and the differences may be material.

Forward-Looking Statements

This Business Acquisition Report may contain certain "forward-looking statements" or "forward-looking information" under applicable securities laws. Forward-looking terms such as "may," "will," "could," "should," "would," "plan," "potential," "intend," "anticipate," "project," "target," "believe," "estimate" or "expect" and other words, terms and phrases of similar nature are often intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. Forward-looking statements are based on the opinions and estimates of management as of the date such statements are made and represent management's best judgment based on facts and assumptions that management considers reasonable.

Any such forward-looking statements are subject to a number of risks and uncertainties that could cause actual results and expectations to differ materially from the anticipated results or expectations expressed in this Business Acquisition Report. The Company cautions readers that should certain risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary significantly from those expected. You are referred to the risk factors described in the Company’s most recent Annual Information Form and other documents on file with the Canadian securities regulatory authorities, which are available online under the Company’s SEDAR profile at www.sedar.com. The forward-looking statements and information contained in this Business Acquisition Report represent the Company’s views only as of today’s date. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether because of new information, future events or otherwise, other than as required by law, rule or regulation. You should not place undue reliance on forward-looking statements.

Exhibit “A”

Selected Unaudited Pro Forma consolidated Financial Data

(See attached)

ALEAFIA HEALTH INC.

UNAUDITED PRO FORMA
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

(Expressed in Canadian dollars)

ALEAFIA HEALTH INC.
PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2018
(expressed in thousands of Canadian dollars) *(unaudited)*

	Aleafia Health Inc.	Emblem Corp..	Note	Pro forma Adjustments	Consolidated
	$	$		$	$
ASSETS					
Current assets					
Cash	26,407	38,868	3c	(7,700)	55,575
Accounts receivable	2,028	2,870			4,898
Marketable securities	-	11,837			11,837
Prepaid assets	223	3,157			3,380
Inventories	356	4,079			4,435
Biological assets	233	502			735
	29,248	59,313			80,861
Non-current					
Prepaid expenses and other	-	21,227			21,227
Plant and equipment deposits	3,749	94			3,843
Property, plant and equipment	13,780	36,653	3a	4,513	54,946
Investment	4,000	-			4,000
Intangible assets	34,374	400	3a, 3e	49,744	84,518
Goodwill	12,714	-	3a	158,483	171,196
	97,864	117,687			420,591
LIABILITIES					
Current liabilities					
Accounts payable and accrued liabilities	3,281	7,379			10,660
Deferred revenue	214	-			214
	3,495	7,379			10,874
Non-current					
Convertible debt	-	19,652	3a	211	19,863
Deferred tax liability	2,436	-	3a	2,167	4,603
	5,931	27,031			35,340
SHAREHOLDERS' EQUITY					
Share capital	104,455	124,898	3a	(124,898)	362,446
			3a	252,677	
			3b	5,315	
Warrants	748	-	3a	42,775	43,523
Contributed surplus	14,954	25,422	3a	(25,422)	20,876
			3a	5,922	
Deficit	(28,224)	(59,664)	3a	59,921	(41,595)
			3b	(5,315)	
			3b 3c	(8,056)	
	91,933	90,656			385,251
	97,864	117,687			420,591

ALEAFIA HEALTH INC.
PRO-FORMA CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS
FOR THE YEAR ENDED DECEMBER 31, 2018
(*expressed in thousands of Canadian dollars, except share and per share amounts)* *(unaudited)*

	Aleafia Health Inc.	Emblem Corp..	Notes	Pro-forma Adjustments	Consolidated
	$	$		$	$
REVENUE					
Consultation services	1,549	829			1,549
Research revenue	1,152	-			1,152
Sale of cannabis	629	7,394			8,852
	3,330	8,223			11,553
COST OF SALE					
Doctor services	1,130	-			1,130
Cost of goods sold	554	10,685			11,239
GROSS PROFIT (LOSS)	1,646	(2,152)			(816)
Unrealized gain on changes in fair value of biological assets	1,142	3,404			4,546
	2,788	1,296			3,730
EXPENSES					
Advertising and promotion	933	6,283			7,216
Amortization	1,659	1,586	3e	356	3,601
General and administrative	2,056	9,601	3b 3c	13,015	24,672
Research and development	-	397			397
Share-based payments	10,784	1,356	3d	3,092	15,232
	22,599	19,223			58,284
Loss before other items and deferred income taxes	(19,810)	(18,281)			(54,554)
Other items					
Net finance income (costs)	170	(3,237)			(3,067)
Net other income (expenses)	100	(2,741)			(2,130)
Loss before deferred income taxes	(19,540)	(24,259)			(60,262)
Deferred income tax recovery	1,008	-	3f	6,631	7,639
Net Loss and comprehensive loss	(18,533)	(24,259)			(52,623)
Weighted average number of shares outstanding	117,162,267	119,416,492			228,290,900
Net loss per share	(0.16)	(0.20)			(0.23)

1. ARRANGEMENT TRANSACTION

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

As consideration for the Aleafia Health acquisition of all of the issued and outstanding Emblem Shares, former holders of Emblem Shares received 110,823,349 common shares of Aleafia Health ("**Common Shares**"), representing an exchange ratio of 0.8377 Aleafia Share for each Emblem Share held (the "**Exchange Ratio**").

Under the Arrangement, an aggregate of (i) 110,823,349 Common Shares were issued to former holders of Emblem Shares, and (ii) 4,476,105 Common Shares were reserved for issuance to former Emblem option holders under the Aleafia Health stock option plan. Emblem's outstanding warrants and debentures remain outstanding and will be exercisable or convertible, as the case maybe, into common shares of Aleafia Health Common Shares at the Exchange Ratio.

2. BASIS OF PRESENTATION

The unaudited pro forma consolidated statement of financial position as at December 31, 2018 and the unaudited pro forma consolidated statement of comprehensive loss for the year ended December 31, 2018 of Aleafia Health were prepared in compliance with National Instrument 51-102 *Continuous Disclosure Obligations* ("**NI 51- 102**") to reflect the Company's acquisition of all the issued and outstanding Emblem Shares**.**

The unaudited pro forma consolidated financial statements of Aleafia Health assumes the completion of the Arrangement as at December 31, 2018.

The accounting policies used in the preparation of the unaudited pro forma consolidated financial statements are consistent with those described in the audited consolidated financial statements of Aleafia Health and Emblem for the year ended December 31, 2018. For pro forma presentation purposes, Aleafia Health reclassified certain expenses on its consolidated statements of comprehensive loss to conform with Emblem presentation of its expenses by function.

The unaudited pro forma consolidated financial statements are not necessarily indicative of the results of operations that would have occurred had the Arrangement been effected on the dates indicated, nor are the unaudited pro forma consolidated financial statements indicative of future periods. Actual amounts recorded upon consummation of the acquisition of Emblem will differ from such unaudited pro forma consolidated financial statements.

The unaudited pro forma consolidated financial statement have been compiled from information derived from and should be read in conjunction with the following information:

- the audited consolidated financial statements of Aleafia Health for the year ended December 31, 2018;
- the audited consolidated financial statements of Emblem for the year ended December 31, 2018; and
- the additional information set out in Note 3 of these unaudited pro forma consolidated financial statements.

The unaudited pro forma consolidated statement of financial position gives effect to the Arrangement as if it had occurred on December 31, 2018. The unaudited pro forma consolidated statements of comprehensive loss for the year ended December 31, 2018 give effect to the Arrangement as if it had occurred at January 1, 2018.

(expressed in thousands of Canadian dollars, except share and per share amounts) (unaudited)

3. UNAUDITED PRO-FORMA ASSUMPTIONS AND ADJUSTMENTS

The unaudited pro-forma consolidated statement of financial position has been prepared based on the following assumptions:

a. In connection with the Arrangement, as consideration for the acquisition of 100% of the outstanding Emblem Shares, Aleafia Health issued 110,823,349 Common Shares, and 4,476,105 options to purchase Common Shares in exchange for all of the outstanding Emblem options. Aleafia Health will assume all of the obligations and covenants of outstanding Emblem warrants and debentures and will reserve approximately 40,336,135 Common Shares in respect of the outstanding Emblem warrants and approximately 10,462 827 Common Shares with respect to the debentures.

For the purposes of the pro forma consolidated statement of financial position, management has estimated the fair value of the equity instruments to be issued by Aleafia Health. The fair value of the 110,823,349 Common Shares issued was $252,677. The fair value of the 40,336,135 warrants, with exercise prices in a range between $0.90 and $5.67, was $42,775. The fair value of the 4,476,105 stock options with exercise prices in a range between $0.60 and $3.10 was $5,922. The total estimated consideration is $301,374. The fair value of the equity instruments was calculated using the Company's share price as of March 14, 2019 which was $2.28 per share.

As the assets acquired and liabilities assumed constitute a business, the Arrangement will be accounted for as a business combination under International Financial Reporting Standards 3 ("**IFRS 3**") using the acquisition method of accounting whereby the assets acquired and liabilities assumed were recorded at their estimated fair value at the acquisition date allocated as follows:

	$
Cash	36,868
Accounts receivable	2,870
Marketable securities	11,837
Inventory	4,079
Biological assets	502
Prepaid expenses and others - current	3,157
Prepaid expenses and others - non-current	21,227
Plant and equipment deposits	94
Property, plant and equipment	41,166
Intangible assets*	50,500
Total assets	172,300
Accounts payable and accrued liabilities	(7,379)
Convertible debt	(19,863)
Deferred tax liability	(2,167)
Total liabilities	(29,409)
Net assets acquired	142,891
Consideration	301,374
Net assets acquired	(142,891)
Goodwill	158,483

**Intangible assets are comprised of Emblem brand of $9,000, GrowWise brand of $4,400, Symbl brand of $1,700, Cannabis license to produce and sell of $33,500, IP R&D of $600 and distribution agreement of $1,300.*

In accordance with IFRS 3, the fair value of equity securities issued as part of the consideration transferred were measured at the closing date market price.

3. UNAUDITED PRO-FORMA ASSUMPTIONS AND ADJUSTMENTS (continued)

The pro forma purchase price is subject to change based on the finalization of any purchase price adjustments, purchase price consideration and completion of management's assessment of the fair values of the assets and liabilities acquired. Aleafia Health is in the process of obtaining fair market values of Emblem's net assets by category and as at the date of preparing these pro forma consolidated financial statements has not finalized its assessment of the fair values and as a result the fair values reflected in the pro forma statement of financial position represent estimates of the fair values. In making its preliminary fair value determinations, Aleafia Health has used evaluation methodologies including discounted cash flows and replacement cost analysis. Goodwill represents the amount by which the purchase price exceeds the book value, being a proxy of fair value of the assets acquired and liabilities assumed. The final calculation and allocation of the purchase price will be based on the net assets purchased as of the closing date of the Arrangement and other information available at that time. There may be material differences from this pro forma purchase price allocation as a result of finalizing the valuation of the net assets acquired. Based on management's preliminary estimates, the goodwill acquired represents operational synergies and an assembled workforce.

As a result of the Arrangement, Emblem equity accounts were eliminated on the pro forma consolidated statement of financial position.

b. Aleafia Health issued 2,331,255 common shares as payment of a success fee to Mackie Research Capital Corporation upon closing of the Arrangement. The fair value was estimated at $5,315. The success fee expense has been recorded in deficit of the pro forma consolidated statement of financial position as at December 31, 2018 and reflected in the pro forma consolidated statements of comprehensive loss for the year ended December 31, 2018.

c. The estimated costs of the Arrangement of approximately $7,700 consisting of legal, business valuator, accounting and other transaction costs to be expensed on completion of acquisition. These costs have been recorded in deficit of the pro forma consolidated statement of financial position as at December 31, 2018 and reflected in the pro forma consolidated statements of comprehensive loss for the year ended December 31, 2018.

d. Included in total consideration paid for the Arrangement were 4,476,105 replacement options determined based on the number of Emblem options outstanding as of the date of the Arrangement at the Exchange Ratio. Included in the share-based payments is the impact of all remaining unvested options post Transaction. The share-based payments for replacement options was estimated as $5,922 for the year ended December 31, 2018. The Black-Scholes options pricing model was used to establish the fair value of the options and warrants.

e. The assets acquired from Emblem include intangible assets with finite and indefinite lives (Note 3b). The intangible assets with finite lives include the Symbl brand and the SDM distribution agreement. The Company has estimated the useful lives to be 10 years for the Symbl brand and 7 years for the SDM distribution agreement. The amortization on these intangible assets was estimated at $356 for the year ended December 31, 2018.

f. The estimated deferred income tax effect was also calculated using the rate of 26.50%. As the pro forma consolidated statements of comprehensive loss resulted in a loss the Company was able to record a deferred income tax recovery of $6,631.

(expressed in thousands of Canadian dollars, except share and per share amounts) (unaudited)

3. PRO FORMA SHARE CAPITAL

Aleafia Health's issued number of common shares as at December 31, 2018 has been adjusted to reflect the additional shares issued, resulting from the Arrangement described in Note 3.

	December 31, 2018
Issued and outstanding	157,848,812
Shares issued for acquisition of Emblem (Note 3a)	110,823,349
Shares issued as success fee paid to Mackie (Note 3b)	2,331,255
Pro forma balance	271,003,416

4. PRO FORMA LOSS PER SHARE

The pro forma basic net loss per share for the year ended December 31, 2018 is as follows:

Pro forma loss	$ (52,623)
Weighted average number of shares outstanding of Aleafia Health	117,162,267
Pro forma shares issued to Emblem and success fee paid to Mackie	119,416,492
Pro forma weighted average shares outstanding	228,290,900
Pro forma loss per share	$ (0.23)

Exhibit "B"

Audited Financial Statements of Emblem Corp.

(See attached)

ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

OF

EMBLEM CORP.

FOR THE YEAR ENDED DECEMBER 31, 2018

Responsibility for Financial Statements

The Company's management is responsible for the integrity and fairness of presentation of these consolidated financial statements. The consolidated financial statements have been prepared by management, in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, for review by the Audit Committee and approval by the Board of Directors.

Where necessary, management has made judgements and estimates in preparing the consolidated financial statements and such statements have been prepared within acceptable limits of materiality. Management maintains a system of internal accounting controls to ensure, on a reasonable and cost-effective basis, that the financial information is timely reported and is accurate and reliable in all material respects and that the Company's assets are appropriately accounted for and adequately safeguarded.

A firm of independent Chartered Professional Accountants, appointed by the shareholders, audits the consolidated financial statements in accordance with Canadian generally accepted auditing standards and provides an independent professional opinion on the consolidated financial statements.

"Signed"

Geoff Benic
President & Chief Executive Officer

"Signed"

Bejamin Ferdinand
Chief Financial Officer

May 8, 2019

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of **Emblem Corp.**

Opinion

We have audited the consolidated financial statements of **Emblem Corp.** (the Company), which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statement of operations and comprehensive loss, consolidated statement of changes in equity and consolidated statement of cash flows for the year 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 December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

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 Consolidated 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 consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, 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.

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.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
May 8, 2019

Consolidated Statements of Financial Position

(Expressed in thousands of Canadian dollars)	Note	At December 31, 2018	At December 31, 2017
ASSETS			
Current			
Cash and cash equivalents		**$ 36,868**	$ 37,746
Trade and other receivables	*5*	**2,870**	1,121
Investments	*6*	**11,837**	-
Prepaid expenses and other	*7*	**3,157**	236
Inventories	*8*	**4,079**	2,897
Biological assets	*9*	**502**	651
		59,313	42,651
Non-current			
Prepaid deposit	*7*	**21,227**	-
Plant and equipment deposits		**94**	388
Property, plant and equipment	*10*	**36,653**	29,911
Intangible asset		**400**	200
Total Assets		**$ 117,687**	$ 73,150
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Trade, other payables, and accruals	*11*	**$ 7,379**	$ 4,160
Provision	*13*	**-**	700
		7,379	4,860
Non-current			
Long-term debt	*12*	**-**	5,386
Convertible debt	*12*	**19,652**	10,848
Total Liabilities		**27,031**	21,094
Shareholders' equity			
Share capital	*13*	**124,898**	70,428
Contributed surplus		**25,422**	17,033
Deficit		**(59,664)**	(35,405)
Total shareholders' equity		**90,656**	52,056
Total Liabilities and Shareholders' Equity		**$ 117,687**	$ 73,150
Commitments and contingencies	*21*		
Subsequent events	*22*		

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

Approved on behalf of the Board of Directors:

"Signed"

Geoff Benic
Chief Executive Officer

"Signed"

Benjamin Ferdinand
Chief Financial Officer

Consolidated Statements of Operations and Comprehensive Loss

(Expressed in thousands of Canadian dollars, except per share amounts)	Note	Year Ended December 31, 2018	December 31, 2017
REVENUES	*18*	**$ 8,223**	$ 2,694
Production expenditures and realized fair value changes in inventory sold	*8*	**(10,685)**	(5,173)
Unrealized gain on changes in fair value of biological assets	*9*	**3,404**	2,969
Gross profit		**942**	**490**
EXPENSES			
General and administrative		**(9,601)**	(4,899)
Research and development		**(397)**	(472)
Selling and marketing		**(6,283)**	(3,218)
Amortization of property, plant and equipment	*10*	**(1,586)**	(1,082)
Share-based payments	*16*	**(1,356)**	(2,102)
Operating loss		**(18,281)**	(11,283)
Net finance costs		**(3,237)**	(505)
Net other expenses	*19*	**(2,741)**	(313)
Net loss and comprehensive loss		**$ (24,259)**	$ (12,101)
Weighted average basic and diluted loss per share	*15*	**$ (0.20)**	$ (0.14)

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

Consolidated Statements of Changes in Equity

(Expressed in thousands of Canadian dollars)	Note	Share Capital Common Shares	Share Capital Special Shares	Contributed Surplus	Deficit	Total Equity
Balances as at January 1, 2017		$ 47,149	$ 535	$ 5,227	$ (23,304)	$ 29,607
Common shares and warrants issued as transaction costs incurred on 2016 private placements	13	213	-	27	-	240
Issuance of common shares to settle obligations	13	164	-	-	-	164
Issue of common shares and warrants under private placements, net of issuance costs	13	19,834	-	6,879	-	26,713
Compensation warrants and options issued as transaction costs incurred on private placements	13	-	-	664	-	664
Conversion option on convertible debt, net of issuance costs	13	-	-	2,629	-	2,629
Warrants and options exercised	14	2,262	-	(407)	-	1,855
Options exercised	15	271	-	(88)	-	183
Vesting of synthetic options issued as restricted shares	15	-	-	632	-	632
Options, including synthetic options, granted and vesting, forfeited and unvested	15	-	-	1,470	-	1,470
Net loss and comprehensive loss		-	-	-	(12,101)	(12,101)
Balances as at December 31, 2017		**$ 69,893**	**$ 535**	**$ 17,033**	**$ (35,405)**	**$ 52,056**
Issue of common shares and warrants under private placements, net of issuance costs	13	20,761	-	5,503	-	26,264
Compensation warrants and options issued as transaction costs incurred on private placements	13	-	-	765	-	765
Conversion option on convertible debt, net of issuance costs	13	-	-	4,977	-	4,977
Conversion of convertible debt into common shares	13	13,530	-	(2,630)	-	10,900
Conversion of special shares to common shares	13	535	(535)	-	-	-
Issue of common shares to settle obligation	13	700	-	-	-	700
Issuance of common shares pursuant to supply agreement with third party	13	12,295	-	-	-	12,295
Warrants exercised	14	4,990	-	(520)	-	4,470
Options, including synthetic options, exercised	15	2,194	-	(1,062)	-	1,132
Options, including synthetic options, granted and vesting, forfeited and unvested	15	-	-	1,356	-	1,356
Net loss and comprehensive loss		-	-	-	(24,259)	(24,259)
Balances as at December 31, 2018		**$ 124,898**	**$ -**	**$ 25,422**	**$ (59,664)**	**$ 90,656**

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

Consolidated Statements of Cash Flows

(Expressed in thousands of Canadian dollars)	Note	Year Ended December 31, 2018	Year Ended December 31, 2017
Cash flows from operating activities			
Net loss and comprehensive loss		**$ (24,259)**	$ (12,101)
Adjustments for:			
Unrealized gain on changes in fair value of biological assets	*9*	**(3,404)**	(2,969)
Amortization of property, plant and equipment	*10*	**1,586**	1,082
Share-based payments	*15*	**1,356**	2,102
Net finance costs		**1,947**	188
Other expense		**1,046**	100
Net changes in working capital:			
Trade and other receivables		**(1,749)**	(674)
Prepaid expenses and other		**(14,128)**	21
Inventories and biological assets		**2,371**	293
Trade and other payables		**3,075**	1,221
Net cash used by operating activities		**(32,159)**	(10,737)
Cash flows from investing activities			
Purchase of property, plant and equipment, including deposits	*10*	**(9,724)**	(20,274)
Purchase of intangible asset		**(200)**	(200)
Purchase of marketable securities	*6*	**(10,800)**	-
Proceeds from marketable securities	*6*	**2,025**	-
Net cash used by investing activities		**(18,699)**	(20,474)
Cash flows from financing activities			
Proceeds from private placements and other financings, net of issuance costs	*13*	**26,673**	27,030
Proceeds from issuance of convertible debt, net of issuance costs	*12*	**23,205**	13,686
Proceeds on options and warrants exercised	*13*	**5,602**	2,038
Repayment of mortgage	*12*	**(5,500)**	-
Net cash generated from financing activities		**49,980**	42,754
Net (decrease) increase in cash and cash equivalents		**(878)**	11,543
Cash and cash equivalents, beginning of the period		**37,746**	26,203
Cash and cash equivalents, end of the period		**$ 36,868**	$ 37,746

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

Notes to the Consolidated Financial Statements for the Years Ended December 31, 2018 and 2017

(All tabular amounts expressed in thousands of Canadian dollars, except share or per share amounts)

1. NATURE OF OPERATIONS

Emblem Corp. and its subsidiary companies (collectively, "Emblem" or the "Company"), through its wholly-owned subsidiary Emblem Cannabis Corporation ("ECC"), are licensed to produce and sell cannabis as a Licensed Producer, as such term is defined under the *Access to Cannabis for Medical Purposes Regulations* ("ACMPR"). Effective November 9, 2018, ECC has successfully migrated their licence from the ACMPR to the Cannabis Act.

On August 26, 2015, ECC received its initial licence that permitted ECC to produce cannabis (the "Licence"). The Licence was amended on July 27, 2016 to allow for the sale of cannabis to the public and to permit increased production. The Licence was further amended on April 28, 2017 to authorize ECC to produce cannabis oils and was amended again on October 6, 2017 to remove restrictions on the amount of cannabis (in all forms) to be produced and sold by ECC. On November 3, 2017, ECC received a subsequent amendment to permit the Company to sell bottled cannabis oil. The activity of sale for cannabis resin to other Licensed Producers was then added to ECC's Licence on January 31, 2018, as well as the ability to sell, provide, ship, transport and deliver encapsulated cannabis oil for the purpose of conducting analytical testing. The Licence has a current term ending on July 26, 2019. Emblem's production operations are located in Paris, Ontario.

The Company also owned an indirect 50% interest in an entity, GrowWise Health Limited ("GrowWise"), a company incorporated under the *Business Corporations Act* (Ontario) and operating primarily in the Province of Ontario, Canada. The remaining 50% was held by White Cedar Pharmacy Corporation ("White Cedar"). The business of GrowWise is to offer education services and other related services to prospective medical patients in Canada. In March 2018, the Company exercised its option to purchase the remaining 50% of GrowWise that it did not already own for $1.

On October 24, 2018, an agreement was signed to launch a joint venture under the name "Emblem Germany" (the "JV"). The JV is owned 60% by ECC and 40% by Acnos Pharma Gmbh ("Acnos") and will allow the Company to commence exporting its products to Germany, with first deliveries expected to be made in mid-2019. Subject to all applicable regulatory approvals, Emblem will supply the JV with cannabis oils for sale to German pharmacies, wholesalers and clinical labs for medical purposes.

The Company commenced trading on the Toronto Venture Exchange ("TSXV") on December 12, 2016 under the symbol "EMC".

On December 19, 2018, the Company and Aleafia Health Inc. ("Aleafia") announced that Aleafia will acquire, by way of a plan of arrangement under the Canada Business Corporations Act, all of Emblem's issued and outstanding common shares (the "Arrangement"). On March 18, 2019, the Company delisted from the TSXV as of the close of trading, following the completion of the Arrangement.

The address of the Company's registered head office is 36 York Mills Road, Suite 500, Toronto, Ontario, M2P 2E9.

2. BASIS OF PRESENTATION

(a) Statement of Compliance

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

These consolidated financial statements were approved by the board of directors of the Company for issue on May 8, 2019.

(b) Basis of Measurement

These consolidated financial statements have been prepared on a historical cost basis, except for biological assets, which are measured at fair value less cost to sell. Historical costs are generally based upon the fair value of the consideration given in exchange for goods and services.

(c) Functional and Presentation Currency

These consolidated financial statements are presented in Canadian dollars, which is the functional currency of the Company and its subsidiaries.

(d) Use of Estimates and Judgements

The preparation of these consolidated financial statements in conformity with IFRS requires management to make estimates, judgments and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities as at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from these estimates.

Estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgments, apart from those involving estimations, that management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements:

i) Impairment of inventory

Inventory is reviewed for obsolete, redundant and slow-moving goods. Inventory is reviewed to ensure the carrying value does not exceed net realizable value. A write-down is recognized when carrying cost exceeds net realizable value. The write-down may be reversed if the circumstances which caused it, no longer exist.

ii) Measurement and valuation of biological assets

Biological assets, consisting of medical cannabis plants and agricultural produce, are measured at fair value less cost to sell up to the point of harvest. The determination of the fair value of the biological assets requires the Company to make assumptions with respect to how market participants would estimate fair value. These assumptions primarily relate to the costs required to bring the biological assets up to the point of harvest, cost to convert the harvested medical cannabis to finished goods, sales price, risk of loss and expected yield from the medical cannabis plants.

iii) Estimated useful lives, residual values and depreciation of property, plant and equipment

Depreciation of property, plant and equipment is dependent upon estimates of useful lives and residual values, 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.

iv) Measurement of share-based payments, warrants and stock options

In calculating the value of share-based payments, warrants and stock options, key estimates such as the value of the common shares, the rate of forfeiture, the expected life, the volatility of the value of the Company's common shares and the risk-free interest rate are used.

v) Going concern assessment

At each reporting period, management assesses the basis of preparation of the consolidated financial statements. These consolidated financial statements have been prepared on a going concern basis in accordance with IFRS. The going concern basis of presentation assumes that the Company will continue its operations for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

3. ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these consolidated financial statements are described below:

(a) Consolidation

The consolidated financial statements of the Company include the accounts of Emblem and its subsidiaries. Subsidiaries are all entities over which the Company has control. At each reporting date, the Company performs its control assessment of subsidiaries. The Company controls an entity where it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Intercompany transactions, balances and unrealized gains and losses from intercompany transactions are eliminated. Unrealized gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Company's interest in the investee.

(b) Investment in Equity Accounted Associate

Investments over which the Company has joint control ("joint arrangements") or the ability to exercise significant influence, where significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies, are accounted for using the equity method of accounting.

A joint venture is a joint arrangement whereby the parties of the arrangement have rights to the net assets of the arrangement. Joint control is the contractual sharing of control in an arrangement, which only exists when decisions about the relevant activities require the unanimous consent of the parties sharing control. To determine whether significant influence or joint control is present, considerations similar to those necessary to determine control over subsidiaries are reviewed.

The equity method of accounting requires the Company to record its initial investment at cost. At the time of initial recognition, if the cost of the associate or joint venture is lower than the Company's proportionate share of the investment's underlying fair value, the Company records a gain on the difference between the cost and the underlying fair value of the investment to the consolidated statement of operations and comprehensive loss. If the cost of the associate or joint venture is greater than the Company's proportionate share of the underlying fair value, goodwill relating to the associate or joint venture is included in the carrying amount of the investment.

The carrying value of the Company's initial investment is adjusted to include its pro rata share of the investee's post-acquisition earnings, which is included in the Company's determination of net income or loss. Investments are reviewed at each reporting period to determine whether there is any objective evidence of impairment. If evidence of impairment exists, the Company compares the carrying amount of the investment to its recoverable amount.

Should the Company lose joint control of a joint venture, the Company remeasures its remaining investment at fair value. Any resulting difference between the carrying amount of its investment in the joint venture and its fair value of the retained investment and any proceeds from disposal is recognized in the consolidated statement of operations and comprehensive loss.

The financial statements of equity accounted investees are prepared for the same reporting period as the Company. When necessary, adjustments are made to bring their accounting policies in line with those of the Company.

(c) Business Combination

Business combinations are accounted for using the acquisition method of accounting, where the fair value of consideration is allocated to the fair values of the assets acquired and the liabilities assumed at the date of acquisition. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Company re-assesses if it has correctly identified all of the assets acquired and liabilities assumed and reviews the procedures used to measure the amounts recognized at the date of acquisition. If following its reassessment, the Company concludes that the fair value of net assets acquired exceeds the aggregate consideration transferred, the Company will record a gain to the consolidated statement of operations and comprehensive loss.

The excess of consideration over the fair value of the identifiable net assets acquired is recorded as goodwill and allocated to the cash-generating unit (“CGU”). For each business combination that includes a non-controlling interest, the Company, at its election, measures the non-controlling interest’s investment in the acquiree at fair value or at the proportionate share of the acquiree’s net identifiable assets acquired.

Any contingent consideration is recognized at fair value on the acquisition date. All contingent consideration (except that which is classified as equity) is measured at fair value with changes in fair value recorded to the consolidated statement of operations and comprehensive loss. Contingent consideration classified to equity is not re-measured and settlement is accounted for within equity.

Transaction costs that are incurred in connection with a business combination, other than costs associated with the issuance of debt or equity securities, are expensed as incurred.

(d) Foreign Currency Translation

Foreign currency transactions are translated into Canadian dollars at exchange rates in effect on the date of the transactions. At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the foreign exchange rate applicable at that period-end date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Revenue and expenses are translated at the exchange rates that approximate those in effect on the date of the transaction. Realized and unrealized exchange gains and losses are recognized in the consolidated statement of operations and comprehensive loss.

(e) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held with financial institutions, and other short-term highly liquid investments with original maturities of three months or less and are subject to an insignificant risk of changes in value.

(f) Inventories

Inventories for finished goods, work-in progress, seeds, packaging and other supplies are initially valued at cost, and subsequently at the lower of cost and net realizable value. The cost of the finished goods and work-in progress of dry cannabis includes the value of the agricultural produce at the date of its conversion. Cost is determined using the first-in, first-out method. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated cost to sell. The Company reviews inventory for obsolete, redundant and slow-moving goods and any such inventory identified is written down to net realizable value.

(g) Biological Assets

Biological assets consist of cannabis plants and are measured at fair value less cost to sell up to the point of harvest, which becomes the basis for the cost of finished goods inventory after harvest. All production costs related to biological assets are expensed as incurred. Gains or losses arising from changes in fair value less cost to sell during the year are included in the consolidated statements of operations and comprehensive loss.

(h) Property, Plant and Equipment

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

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

Depreciation is calculated on a straight-line basis and is recorded over the estimated useful lives as outlined below:

Building	25 years
Security equipment	5 years
Production equipment	5 years
Computer equipment	2 years
Furniture and fixtures	5 years

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.

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 the consolidated statement of operations and comprehensive loss.

(i) Intangible Assets

Intangible assets consist of acquired intellectual property with a finite life. Intangible assets are amortized on a straight-line basis over their estimated useful lives and are measured at cost less accumulated amortization and accumulated impairment losses. At each reporting period, the useful lives of such assets are reviewed to determine whether events and circumstances continue to support an indefinite useful life assessment for the asset. Costs for intangible assets acquired in a business combination represents the fair value of the asset at the time of the acquisition. Intellectual property intangibles are amortized over a 7-year period.

(j) Financial Instruments

The Company initially recognizes financial assets at fair value on the date that they are originated. All financial assets, including assets designated at fair value through profit or loss, are recognized initially on the date at which the Company becomes a party to the contractual provisions of the instrument. The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

IFRS 9 - Financial Instruments: Classification and Measurement ("IFRS 9") sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments ("IAS 39"): Recognition and Measurement.

The details of IFRS 9 and the nature and effect of the changes to IAS 39 are set out below.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale.

The Company adopted IFRS 9 using the modified retrospective basis with no restatement of comparative periods and did not have a significant effect on the Company's accounting policies related to financial liabilities and derivative financial instruments. The impact of IFRS 9 on the classification and measurement of financial assets is set out as follow. A financial asset is classified as the following measurement categories: amortized cost; fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL").

The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification. The Company's financial assets which consist primarily of cash and cash equivalents measured at FVTPL, and trade and other receivables are classified at amortized cost. The Company's financial liabilities which consist primarily of accounts payable, accrued liabilities, and provisions are classified at amortized cost.

At initial recognition, the Company classifies its financial instruments in the following categories:

i) Financial assets and liabilities at FVTPL

A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term. Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the consolidated statement of operations and comprehensive loss. Gains and losses arising from changes in fair value are presented in the consolidated statement of operations and comprehensive loss in the period in which they arise.

ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognized at the amount expected to be received, less a discount (when material) to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest rate method less a provision for impairment.

iii) Financial liabilities at amortized cost

Financial liabilities are initially recognized at the amount required to be paid, less a discount (when material) to reduce the financial liabilities to fair value. Subsequently, financial liabilities are measured at amortized cost using the effective interest rate method.

iv) Classification of equity instruments

Debt and equity instruments issued by the Company are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs. Repurchase of the Company's own equity instruments is recognized and deducted directly in equity. When the carrying value exceeds the purchase price, the excess of the average carrying value over the purchase price is recorded as contributed surplus. When the purchase price is higher than the average carrying value, the excess of the purchase price over the carrying value first reduces any previously recognized contributed surplus, with any remaining excess recorded as a reduction to retained earnings. No gain or loss is recognized in profit or loss. Subsequent to initial measurement, the Company does not remeasure certain equity instruments upon modification of the terms of such instruments.

v) Classification of financial instruments

The Company classifies its financial assets and liabilities depending on the purpose for which the financial instruments were acquired, their characteristics, and management intent as outlined below:

Cash and cash equivalents	Loans and receivables
Trade and other receivables	Loans and receivables
Trade and other payables	Other financial liabilities
Due to related parties	Other financial liabilities
Convertible debt	Financial liabilities at amortized cost
Other long-term debt	Other financial liabilities

Effective Interest Rate Method
The effective interest rate method is a method of calculating the amortized cost of a financial instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Impairment of Financial Assets
An expected credit loss ("ECL") model applies to financial assets measured at amortized cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. The Company's financial assets measured at amortized cost and subject to the ECL model consist primarily of trade receivables.

The adoption of the ECL impairment model had a negligible impact on the carrying amounts of the Company's financial assets on the transition date given the receivables are substantially all current and the minimal historical level of customer default.

(k) Impairment of Non-Financial Assets

The carrying amounts of the Company's non-financial assets are reviewed for impairment at each consolidated 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 or CGUs. 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 the recoverable amount and the carrying amount that would have been recorded had no impairment loss been recognized previously.

(l) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Leases for which the risks and rewards are retained by the lessor are considered operating leases. Lease payments, including lease incentives, under an operating lease are recognized as an expense on a straight-line basis over the lease term.

Assets held under finance leases are initially recognized as assets at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statements of financial position as a finance lease obligation.

(m) Revenue Recognition

The Company follows a single principle-based five-step model when accounting for revenue arising from contracts with customers which is based on the requirements of International Financial Reporting Standards ("IFRS") contained in IFRS 15 Revenue from Contracts With Customers. The five step model is as follows: Identify the contract with the customer, identify the performance obligation(s), determine the transaction price, allocate the transaction price to the performance obligation(s) and recognize revenue when/as the performance obligation(s) are satisfied.

Revenue from the direct sale of cannabis and cannabis related products to medical customers, including shipping revenue, or other licensed producers for a fixed price is recognized when the Company transfers control of the goods to the customer, which is when the goods are received by the customer. The amount of revenue recognized is net of any discounts, rebates, excide tax and estimated returns.

Revenue from the sale of cannabis for the recreational market is recognized when the Company transfers control of the goods to the customer, which is when the goods are either accepted by the customer. The amount of revenue recognized is net of any discounts, rebates, excise tax and estimated returns.

GrowWise earns referral fee revenue by educating patients that may benefit from cannabis products. GrowWise related revenue is measured at the fair value of the consideration received or receivable for the referral and revenue is generally recognized once the referral is made and cannabis is purchased from the licensed producers.

(n) 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 period. When a provision is determined using the expected cash flow method, its 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.

(o) Employee Benefits

i) Share-based payment transactions

The Company measures equity-settled share-based payments based on their fair value at the grant date and recognizes compensation expense over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period) with a corresponding increase in equity (contributed surplus). Fair value is measured using the Black-Scholes option pricing model. The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Company's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions. No expense is recognized for awards that do not ultimately vest because non-market performance and/or service conditions have not been met.

When the terms of an equity-settled award are modified, the minimum expense recognized is the grant date fair value of the unmodified award, provided the original terms of the award are met. An additional expense, measured as at the date of modification, is recognized for any modification that increases the total fair value of the share-based payment transaction or is otherwise beneficial to the employee. Where an award is cancelled by the entity or by the counterparty, any remaining element of the fair value of the award is expensed immediately through the consolidated statement of operations and comprehensive loss.

ii) Termination benefits

The Company recognizes termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or providing benefits as a result of an offer made to encourage voluntary termination.

(p) Current Income Tax

Tax payable is based on taxable profit for the year. Taxable profit differs from “profit before tax” as reported in the consolidated statement of operations and comprehensive loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company’s current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the year.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill.

The carrying amount of deferred tax assets is reviewed at the end of each year and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the year in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the year.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the year, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred taxes are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive loss or directly in equity, in which case the current and deferred taxes are also recognized in other comprehensive loss or directly in equity, respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

(q) Earnings (Loss) Per Share

The Company presents basic and diluted loss per share data for its shares, which include common shares and special non-voting shares, if any. Basic loss per share is calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares and special shares outstanding, if any, during the period. Diluted loss per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding, for the effects of all dilutive potential common shares, which comprise warrants and share options.

(r) Segment Reporting

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

New Accounting Pronouncements

The Company will adopt the following new accounting pronouncements, which are effective for the fiscal periods of the Company beginning on January 1, 2019:

IFRS 16 - Leases ("IFRS 16")

In January 2016, the IASB issued IFRS 16, which specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019, and a lessee shall either apply IFRS 16 with full retrospective effect or alternatively not restate comparative information but recognize the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application. Early adoption is permitted if IFRS 15 has also been adopted.

The Company has evaluated the impact of IFRS 16 on the Company's consolidated financial statements and elects to apply the modified retrospective approach to its significant leases.

IFRIC 23 – Uncertainty over Income Tax Treatment ("IFRIC 23")

In June 2017, the IASB issued IFRIC 23, which clarifies the accounting for uncertainties in income taxes. IFRIC 23 is effective for annual periods beginning on or after January 1, 2019. The requirements are applied by recognizing the cumulative effect of initially applying them in retained earnings, or in other appropriate components of equity, at the start of the reporting period in which the Company first applies them, without adjusting comparative information. Full retrospective application is permitted, if the Company can do so without using hindsight. The Company is in the process of evaluating the impact of IFRIC 23 on the Company's financial statements.

The Company does not expect the adoption of this standard to have a material impact on the consolidated financial statements.

4. CAPITAL MANAGEMENT, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Emblem is dependent on raising further capital, to fund its capital expenditures and its operating expenses in excess of revenue until such time as it reaches a cash break-even point.

In addition to utilizing equity to finance its expansion and operations, Emblem has a total of $19,652,000 of long-term debt as at December 31, 2018 (December 31, 2017 - $16,234,000). The use of this capital is currently planned for financing the construction of its production facilities in Paris, Ontario. Emblem, when appropriate, will continue to use debt to finance its real assets.

Financial Risk

(a) Interest rate risk

The Company's exposure to interest rate risk relates to surplus cash and cash equivalents and long-term debt. The Company generally invests surplus cash in a savings account or in highly liquid investments with short terms to maturity that would accumulate interest at prevailing rates for such investments. Interest rate risk on the long-term debt and convertible debt are fixed for the term of the debt.

(b) Credit risk

Credit risk is the risk that the Company's counterparties will fail to meet their financial obligations to the Company, causing a financial loss. The Company's principal financial assets are cash and cash equivalents and trade and other receivables. The carrying amounts of financial assets on the consolidated statement of financial position represent the Company's maximum credit exposure at that date. The cash and cash equivalents balance of $36,868,000 is held by Canadian financial institutions and credit unions.

(c) 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 manages its liquidity risk by reviewing, on an ongoing basis, its financial requirements for operations and capital expenditures. As at December 31, 2018, the Company had $36,868,000 in cash and cash equivalents and working capital of $51,677,000. For a listing of contractual commitments at the reporting date, refer to Note 21 *Commitments and Contingencies*.

(d) Fair values

The carrying values of cash and cash equivalents, trade and other receivables, trade and other payables, and due to related parties approximate their fair values due to their short-term nature. The carrying value of promissory note, if any, approximates its fair value due to interest charged at the market rate.

Investments are initially recognized at fair value. All transaction costs are recognized immediately in profit or loss. Subsequently, these instruments are recognized at fair value at each reporting date. Any changes in fair value, and gains or losses upon disposition of the financial instruments are recognized in profit or loss.

The Company's convertible debenture is classified as a liability, less the portion relating to the conversion feature which is classified as a component of equity. As a result, the recorded liability to repay the convertible notes is lower than its face value. The liability was initially recorded at fair value and subsequently at amortized cost using the effective interest rate method; the liability is accreted to the face value over the term of the convertible debenture.

Fair value hierarchy

Financial instruments recorded at fair value on the consolidated statements of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1: valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and

Level 3: valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

5. TRADE AND OTHER RECEIVABLES

As at December 31,		2018		2017
Trade receivables	**$**	**2,319**	$	218
Sales taxes receivable		**503**		847
Other receivables		**48**		56
	$	**2,870**	$	1,121

As at December 31,		2018		2017
Trade receivables				
Current	**$**	**495**	$	130
Past due 1-30 days		**1,013**		11
Past due 31-60 days		**381**		77
Past due 61-90 days		**197**		-
Past due 90 days		**233**		-
	$	**2,319**	$	218

6. INVESTMENTS

The Company's investments are accounted for at fair value through profit and loss and are comprised of the following:

As at December 31, 2018		Level 1		Level 2		Level 3		Total
Financial assets at fair value through profit and loss								
Shares	$	389	$	-	$	-	**$**	**389**
Shares and warrants		-		-		11,448		**11,448**
Balance at end of the period	**$**	**389**	**$**	**-**	**$**	**11,448**	**$**	**11,837**

In April 2018, the Company purchased $2.5 million of units of Fire & Flower Inc. ("Fire & Flower") at a price of $0.80 per unit. Each unit consists of one common share in the capital of Fire & Flower (each, a "Fire & Flower Share") and one common share purchase warrant, entitling the Company to acquire one additional Fire & Flower Share at a price of $1.05 per share until April 18, 2020, subject to adjustments in certain events. The Company also announced that it will become a preferred cannabis supplier to Fire & Flower.

In July 2018, Emblem announced its strategic equity investment in Natura Naturals Inc. ("Natura"), a 662,000 square foot licensed greenhouse cultivator of medical cannabis under the ACMPR. The companies signed a three-year cannabis supply agreement (the "Natura Agreement") to provide Emblem up to 3,000 kilograms of high-quality cannabis flower per year at preferred wholesale pricing, from Natura's Phase 1 cultivation facility, based in Leamington, Ontario. As part of the Natura Agreement, Emblem invested $3 million in cash, in exchange for 3,750,000 shares of Natura and 3,750,000 common share purchase warrants of Natura, exercisable at $1.05 for 24 months (subject to acceleration provisions).

During August and September of 2018, Emblem established a working capital advance (the "Advance") to Natura to support the completion of the Phase 1 construction. The Advance funding comprised a one-year convertible debenture for an aggregate principal amount of up to $2,000,000, with an interest rate similar to Natura's other funding obligations and could be pre-paid at any time during the term. Proceeds of the Advance were only used on account of Natura's construction costs in accordance with an agreed upon budget between Emblem and Natura.

The Advance was convertible into Natura shares at $0.80 per share plus one full share purchase warrant exercisable at $1.05. In October 2018, Natura repaid the Advance and the related accrued interest in full.

In August 2018, Emblem entered into a strategic partnership with GreenSpace, a consumer packaged goods ("CPG") company, to develop and commercialize cannabidiol ("CBD") infused health and beauty products for the expected adult-use cannabis market. Under the terms of the partnership, GreenSpace has committed to a five-year exclusive CBD supply agreement with Emblem. In addition, Emblem made a $2 million investment in GreenSpace composed of $1 million in common shares at a 20-day VWAP of $0.976 per share and $1 million in unsecured convertible debentures to fund the start-up of GreenSpace's CBD business. The debentures will mature on August 9, 2023 and will automatically convert into common shares upon the satisfaction of certain conditions (each, a milestone) at a conversion price equal to the lesser of: (i) $1.0492; and (ii) the 20-day VWAP of the common shares of Emblem on the date the applicable milestone is achieved, provided that the conversion price shall not be less than $0.94 and that the automatic conversion will be deferred if the market price of Emblem is less than $0.752 at the time the milestone is met. Emblem will earn a 4% royalty on all hemp-based product sales and a 7% royalty on all cannabis-based CBD product sales. No such sales have occurred during 2018.

In September 2018, Emblem purchased $1 million units of 10330698 Canada Ltd d/b/a Compass Cannabis Clinic ("Compass") at a price of $0.60 per unit. Compass has a highly regarded reputation as a leading provider of cannabis education and patient-centred care. Each unit consists of one common share in the capital of Compass and one-half of one common share purchase warrants, with each whole warrant entitling Emblem to purchase one additional common share of Compass at a price of $0.75 per share for a period of 24 months, subject to adjustments in certain events.

In October 2018. Emblem completed an equity investment in DriveABLE Assessments Centres Inc. ("DriveABLE"), by purchasing 5,454,545 units at a price of $0.055 per unit. Each unit consists of one common share and one half of one common share purchase warrant, with each whole warrant entitling Emblem to purchase one additional common share of DriveABLE at a price of $0.0715 per share for a period of 24 months.

The Company classifies its investment in equity securities of GreenSpace as financial assets at fair value through profit or loss, categorized as Level 1. Additionally, investments in equity securities of Fire & Flower, Natura, Compass, DriveABLE and the Company's investment in bonds of GreenSpace, are classified as financial assets at fair value through profit or loss, categorized as Level 3.

7. PREPAID EXPENSES AND OTHER

As at December 31,		**2018**		2017
Prepaid expenses and other	**$**	**1,628**	$	236
Deposit with Aphria Inc.		**1,529**		-
Current	**$**	**3,157**	$	236
Deposit with Aphria Inc.		**21,227**		-
Non-current	**$**	**21,227**	$	-

On September 12, 2018, Emblem entered into a five-year wholesale supply agreement (the "Aphria Supply Agreement") with Aphria Inc. ("Aphria"). The Aphria Supply Agreement will see Emblem purchase up to an aggregate of 175,000 kilogram equivalents of high quality dried cannabis flower and crude cannabis oil at preferred wholesale pricing from Aphria, over a five-year term, with the opportunity for five-year renewals. Pursuant to the Aphria Supply Agreement, Emblem paid Aphria an initial deposit composed of a cash payment of $12,756,000 in September 2018 and issued 6,952,169 common shares of Emblem (the "Emblem Shares") in October 2018. In connection with the issuance of the Emblem Shares, Aphria agreed to certain standstill restrictions and had a staggered lock-up provision subject to certain exceptions. Commencing in 2019, Aphria will provide Emblem with a mix of dried flower and crude cannabis oil to be processed at Emblem's Paris, Ontario facility.

8. INVENTORIES

As at December 31,		2018		2017
Dry Cannabis				
Work-in-progress	$	1,391	$	2,222
Finished goods		2,233		536
		3,624		2,758
Seeds		26		26
Packaging and supplies		429		113
	$	4,079	$	2,897

Cost of sales for the years ended December 31, 2018 and 2017 are composed of:

As at December 31,		2018		2017
Payroll costs for personnel involved in production	$	2,635	$	1,788
Materials and utilities related to production		2,212		893
Other overhead, rent, facility & equipment maintenance, quality assurance and other costs		1,304		672
Total production costs		6,151		3,353
Cost of inventory sold during the period purchased from third parties		1,202		160
Patient education costs		463		392
Cost of inventory sold during the period related to fair value accounting for biological assets		2,869		1,268
	$	10,685	$	5,173

The Company does not capitalize any production costs including overheads to biological assets. All direct and indirect costs related to biological assets are expensed as incurred and are included in production costs in the table above.

The Company capitalizes cost incurred after harvest to bring the products to their present location and condition in accordance with IAS 2 Inventories. The cost of inventories includes the fair value less cost to sell of the cannabis at harvest and costs incurred after harvest (such as quality assurance costs, fulfillment costs and packaging costs) to bring the products to their present location and condition. Production costs and cost of inventories do not include amortization on production equipment, which is disclosed on a separate line in the consolidated statements of operations and comprehensive loss and disclosed separately in Note 10.

9. BIOLOGICAL ASSETS

The changes in the carrying value of biological assets, which consist of cannabis on plants, are as follows:

As at December 31,		2018		2017
Balance at beginning of the period	$	651	$	124
Net increase in fair value less cost to sell due to biological transformation		3,404		2,969
Transferred to inventory upon harvest		(3,553)		(2,442)
Balance at end of the period	$	502	$	651

Biological assets are measured at fair value less cost to sell until harvest. All production costs related to biological assets are expensed as incurred. The fair value measurements for biological assets have been categorized as

Level 3 fair values based on the inputs to the valuation technique used. The fair value was determined using an expected cash flow model, which assumes the biological assets at the year end date will grow to maturity, be harvested and converted into finished goods inventory and sold in the retail medical cannabis market.

This model utilizes the following significant assumptions:

Assumptions	**At December 31, 2018**	At December 31, 2017
Expected yields for cannabis plants (average grams per harvest)	**41,300 grams**	54,100 grams
Weighted average expected yield per cannabis plant in grams	**96**	167
Weighted average of expected loss of plants until harvest	**0%**	0%
Expected number of growing weeks	**13 to 14 weeks**	23 to 26 weeks
Weighted average number of growing weeks completed as a percentage of total growing weeks as at period end	**53%**	84%
Estimated selling price (per gram)	**\$3.12 - \$6.50 (average \$4.81)**	\$3.12 - \$8.89 (average \$6.32)
Estimated post-harvest costs to complete and sell (per gram), including reasonable margin	**\$0.74 - \$3.08 (average \$1.91)**	\$0.30 - \$4.02 (average \$2.46)
Reasonable margin on estimated post-harvest costs to complete and sell (per gram)	**\$0.07 - \$0.31 (average \$0.19)**	\$0.03 - \$0.37 (average \$0.22)

The accretion of fair value for biological assets, between initial cloning and point of harvest, is recorded on a straight-line basis according to the passage of time over the growing cycle. As at December 31, 2018, the Company's biological assets were 53% completed (December 31, 2017 – 84%). The weighted average of expected loss of plants until harvest is related to the weighted average number of growing weeks completed as a percentage of total growing weeks as at the Consolidated Statements of Financial Position date.

The estimated selling price per gram represents (a) current weighted selling prices for the Company's dried flower, less historical discounts or (b) expected wholesale pricing for extraction grade material, depending on the expected quality attributes of the harvested flower.

Estimated post-harvest costs to complete and sell includes the cost of quality assurance, packaging, fulfillment, selling and customer service. Reasonable margin on estimated post-harvest costs to complete and sell represents the margin that a market participant would expect to earn if purchasing the biological asset from the Company in an arms-length transaction for re-sale purposes. The Company estimates the required margin to be 10%.

These estimates are subject to volatility in market prices and a number of uncontrollable factors, which could significantly affect the fair value of biological assets in future periods. A 10% positive or negative change in each of the following significant assumptions would result in the following increases (decreases) in the value of biological assets as at the Consolidated Statements of Financial Position date:

	As at December 31, 2018		As at December 31, 2017	
Assumptions	**+ 10%**	**- 10%**	+ 10%	- 10%
Weighted average of expected loss of plants until harvest	**Not applicable**	**\$ (50,000)**	Not applicable	\$ (65,000)
Weighted average of expected yield per cannabis plant	**\$ 50,000**	**\$ (50,000)**	\$ 65,000	\$ (65,000)
Estimated selling price	**\$ 81,000**	**\$ (81,000)**	\$ 114,000	\$ (114,000)
Estimated post-harvest costs to complete and sell, incorporating a reasonable margin	**\$ (30,000)**	**\$ 30,000**	\$ (49,000)	\$ 49,000

The Company estimates the harvest yields for medical cannabis at various stages of growth. As at December 31, 2018, it is expected that the Company's biological assets will yield approximately 331,000 grams (December 31, 2017 – 216,000 grams) of cannabis when harvested.

The Company's estimates are, by their nature, subject to change and differences from the anticipated yield will be reflected in the unrealized gain or loss on changes in the fair value of biological assets in future periods.

10. PROPERTY, PLANT AND EQUIPMENT

	Land	Building	Production Equipment	Security Equipment	Computer Equipment	Furniture and Fixtures	Total
Balances as at January 1, 2017							
Cost	619	7,383	1,230	700	377	171	10,480
Accumulated Amortization	-	(407)	(206)	(267)	(82)	(34)	(996)
Carrying Amount	**$ 619**	**$ 6,976**	**$ 1,024**	**$ 433**	**$ 295**	**$ 137**	**$ 9,484**
Additions	7,931	12,331	775	182	157	133	21,509
Amortization	-	(330)	(308)	(150)	(234)	(60)	(1,082)
Balances as at December 31, 2017							
Cost	8,550	19,714	2,005	882	534	304	31,989
Accumulated Amortization	-	(737)	(514)	(417)	(316)	(94)	(2,078)
Carrying Amount	**$ 8,550**	**$ 18,977**	**$ 1,491**	**$ 465**	**$ 218**	**$ 210**	**$ 29,911**
Additions	-	7,330	843	34	101	20	8,328
Amortization	-	(623)	(456)	(179)	(265)	(63)	(1,586)
Balances as at December 31, 2018							
Cost	8,550	27,044	2,848	916	635	324	40,317
Accumulated Amortization	-	(1,360)	(970)	(596)	(581)	(157)	(3,664)
Carrying Amount	**$ 8,550**	**$ 25,684**	**$ 1,878**	**$ 320**	**$ 54**	**$ 167**	**$ 36,653**

Assets under construction (included in building) amounted to $9,794,000 as at December 31, 2018 (December 31, 2017 - $5,119,000). Assets under construction are not ready for use and are not depreciated.

Additions made to property, plant and equipment during 2018 relate mainly to construction costs associated with the expansion of the Company's current facility. The Company has entered into commitments for the purchase of property, plant and equipment related to the expansion of its existing production facility in Paris, Ontario. As at December 31, 2018, total future purchase obligations related to this project were $5,941,000.

ECC owns 100% of Emblem Realty Ltd., which has ownership title of the land at 555 Paris Road in Paris, Ontario (formerly 557 Paris Road in Paris, Ontario).

In 2018, the Company decided to suspend greenhouse construction plans at the Paris Road location and as a result, recorded a write-down of assets under construction of $1,814,000 that was originally included in building, under *Net Other Expenses* in the Consolidated Statements of Operations and Comprehensive Loss.

11. TRADE AND OTHER PAYABLES

As at December 31,	**2018**	2017
Trade payables	**$ 5,508**	$ 3,059
Other payables	**-**	129
Accrued liabilities	**1,871**	972
	$ 7,379	$ 4,160

12. LONG-TERM DEBTS

Secured Promissory Note

During 2016, the Company entered into a promissory note in the amount of $5,500,000. The note was secured by first charge on the property and a general security agreement with a fixed charge over all assets of the Company and a share pledge of all ECC and GrowWise shares. Interest-only payments at a rate of 8% per annum were due monthly. The promissory note was repaid full in December 2018.

Interest in the amount of $440,000 was paid during 2018 (2017 – $440,000) and included under *Net Finance Costs* in the Consolidated Statements of Operations and Comprehensive Loss. Long-term debt is presented net of transaction costs. Transaction costs are recognized in *Net Finance Costs* in the Consolidated Statements of Operations and Comprehensive Loss over the term of the long-term debt using the effective interest rate method.

A continuity of the promissory note is presented below:

As at December 31,		**2018**		2017
Balance at beginning of the period	**$**	**5,386**	$	5,335
Amortization of transaction costs		**114**		51
Repayment of promissory note		**(5,500)**		-
Balance at end of the period	**$**	**-**	$	5,386

Convertible Unsecured Debentures

In November 2017, the Company announced that it issued convertible debentures ("Nov 2017 Convertible Debt"). The Nov 2017 Convertible Debt was sold at a price of $1,000 for gross proceeds of $15,000,000, under the following terms:

- A maturity date of November 16, 2020;
- An interest rate of 8% per annum, payable semi-annually;
- Convertible at $1.95 per share, subject to adjustment in certain events, at the option of the holder; and
- The Company had the option to require the conversion of the full principal amount of the then outstanding Nov 2017 Convertible Debt at the conversion price on not less than 30 days' notice, should the daily volume weighted average trading price of the outstanding common shares of the Company on the TSXV be greater than $2.93 for any 10 consecutive days.

During January 2018, the holders of the Nov 2017 Convertible Debt exercised their option to convert their debentures into common shares of the Company, at a price of $1.95 per common share. In connection with the conversion, the Company issued 7,692,307 common shares to the holders of the Nov 2017 Convertible Debt and interest was paid up to the dates of conversion.

In February 2018, the Company issued additional convertible debentures (the "Feb 2018 Convertible Debt"). The Feb 2018 Convertible Debt was sold at a price of $1,000 for gross proceeds of $25,000,000, under the following terms:

- A maturity date of February 2, 2021;
- An interest rate of 8% per annum, payable semi-annually;
- Convertible at $2.30 per share, subject to adjustment in certain events, at the option of the holder; and
- The Company may require the conversion of the full principal amount of the outstanding convertible debentures at the conversion price on not less than 30 days' notice, should the daily volume weighted average trading price of the outstanding common shares of the Company on the TSXV be greater than $3.45 for any 10 consecutive days.

A continuity of the convertible debentures is presented below:

As at December 31,		2018		2017
Balance at beginning of the period	$	10,848	$	-
Issuance of convertible debentures		25,000		15,000
Transaction costs deferred		(1,683)		(1,333)
Initial present value discounts		(5,446)		(2,956)
Amortization of transaction costs		518		69
Amortization of present value discounts		1,315		68
Debentures converted into common shares		(10,900)		-
Balance at end of the period	**$**	**19,652**	$	10,848

During 2018, amortization of transaction costs and present value discounts, as well as interest paid in the amount of $1,852,000 (2017 - $nil), respectively, were included under *Net Finance Costs* in the consolidated statements of operations and comprehensive loss.

The option to convert the Feb 2018 Convertible Debt to common shares of the Company was based on the residual amount remaining after discounting the Feb 2018 Convertible Debt to present value, at an effective interest rate of 18.5%. The amount allocated to the conversion feature, after allocated transaction costs is $4,977,000.

13. SHARE CAPITAL

The Company is authorized to issue an unlimited number of common shares with no par value, preferred shares and special shares. The issued and outstanding shares for the following periods are as follows:

	Number of Shares	Gross Proceeds	Non-Cash Items	Share Issue Cash Costs	Allocated to Warrants	Share Capital
Balances as at January 1, 2017	**79,716,102**					$ 47,684
Shares issued as transaction costs incurred on 2016 private placements	209,037	$ -	$ 213	$ -	$ -	$ 213
Synthetic options issued as restricted shares	300,000	-	-	-	-	-
Issuance of shares to settle obligations	130,435	-	164	-	-	164
Issue of shares under private placements in Jan 2017	4,385,668	15,920	-	(1,481)	(2,466)	11,973
Issue of shares under private placements in Nov 2017	7,885,734	13,800	-	(1,209)	(4,730)	7,861
Warrants exercised	2,345,524	1,855	407	-	-	2,262
Options exercised	369,999	183	88	-	-	271
	81,277,214	$ 31,758	$ 872	$ (2,690)	$ (7,196)	**$ 69,893**
Special Shares	14,065,285	-	535	-	-	$ 535
Balances as at December 31, 2017	**95,342,499**					**$ 70,428**
Balances as at January 1, 2018	81,277,214					$ 69,893
Special Shares	14,065,285	-	535	-	-	$ 535
	95,342,499					**$ 70,428**
Common Shares						
Issue of shares under private placements in Feb 2018	14,024,391	$ 28,750	$ -	$ (2,077)	$ (5,912)	$ 20,761
Conversion of Nov 2017 Convertible Debt into common shares	7,692,307	-	13,530	-	-	$ 13,530
Conversion of special shares to common shares	14,065,285	-	535	-	-	$ 535
Issue of common shares to settle obligation	482,758	-	700	-	-	$ 700
Cancellation of restricted shares	(100,000)	-	-	-	-	$ -
Issue of common shares to Aphria	6,952,169	-	12,295	-	-	$ 12,295
Warrants exercised	4,365,936	4,470	520	-	-	$ 4,990
Options, including synthetic options, exercised	1,803,330	1,132	1,062	-	-	$ 2,194
Balances as at December 31, 2018	**130,563,390**	$ 34,352	$ 28,642	$ (2,077)	$ (5,912)	**$ 124,898**
Special Shares balance	-	$ -	$ -	$ -	$ -	$ -
Balances as at December 31, 2018	**130,563,390**					**$ 124,898**

Share capital activity during 2017

Transaction costs for a financing completed on December 6, 2016 comprised of cash and an additional issuance of 1,408,411 units, with each unit consisting of one common share and one-half warrant. As at December 31, 2016, only 1,199,374 units relating to transaction costs were issued and the remaining 209,037 units and corresponding one-half warrants were issued in January 2017.

During January 2017, the Company issued 300,000 restricted common shares to a non-employee in exchange for services to be provided to the Company over a three-year period. The common shares are held in escrow and are released ratably over a three-year period as services are received with share-based payment expense recognized over the same period. In 2018, 100,000 of those shares were cancelled. During the same month, the Company also issued 100,000 common shares to a non-employee to settle an obligation. In July 2017, the Company issued a total of 30,435 common shares in connection with the granting of an exclusive licence to Emblem pursuant to a white label agreement.

On January 31, 2017, the Company closed an underwritten private placement of 4,385,668 special warrants of the Company (the "Special Warrants") at a price of $3.63 per Special Warrant for gross proceeds of $15,920,000. On March 17, 2017, the Company obtained a receipt for a short form prospectus that qualified for distribution of the units (the “March Units”) underlying the Special Warrants and, as a result of which, each Special Warrant was automatically exercised for one March Unit. Each March Unit was composed of one common share and one-half common share purchase warrant. Each whole warrant entitles the holder to purchase one common share at an exercise price of $4.75 for a period of 36 months from January 31, 2017. The expiry date of the warrants may be accelerated upon notice from the Company if the volume weighted average trading price of the common shares is equal to or greater than $7.00 over a period of 10 consecutive trading days.

During November 2017, the Company completed a brokered private placement for issuance of 7,885,734 units at $1.75 per unit for gross proceeds of $13,800,000. Each unit includes one common share and one common share purchase warrant. Each whole warrant is exercisable to acquire one common share at an exercise price of $2.15 per common share for a period of three years from issuance. Share issuance costs comprise of cash and issuance of 236,572 compensation warrants (each a “Compensation Warrant”). Each Compensation Warrant is exercisable to acquire one common share and one secondary compensation warrant (“Secondary Compensation Warrant”) at an exercise price of $1.75 per common share for a period of three years from issuance. Each Secondary Compensation Warrant is exercisable to acquire one common share at an exercise price of $2.15 per common share for a period of three years from issuance.

Concurrent with the brokered private placement in November 2017, the Company issued Convertible Debt (as discussed in Note 12) that incurred costs of issuing 257,143 Compensation Warrants with the same terms as described above.

During 2017, 2,345,524 share purchase warrants and 369,999 stock options were exercised for gross proceeds of $1,855,000 and $183,000, respectively.

Share capital activity during 2018

During January 2018, the holders of the Nov 2017 Convertible Debt exercised their option to convert their debentures into common shares of the Company, at a price of $1.95 per common share. In connection with the conversion, the Company issued 7,692,307 common shares to the holders of the Nov 2017 Convertible Debt and interest was paid up to the dates of conversion.

On February 2, 2018, the Company completed a private placement for the issuance of 14,024,391 units at $2.05 per unit for gross proceeds of $28,750,000. Each unit includes one common share and one common share purchase warrant. Each whole warrant is exercisable to acquire one common share at an exercise price of $2.70 per common share for a period of two years from issuance. Share issuance costs comprised a cash fee of 6% on brokered gross proceeds and 3% on non-brokered gross proceeds, and issuance of compensation warrants of 3% of total gross proceeds (“Feb 2018 Compensation Warrants”). Each Feb 2018 Compensation Warrant is exercisable to acquire one common share and one secondary compensation warrant (“Feb 2018 Secondary Compensation Warrants”) at an exercise price of $2.05 per common share for a period of two years from issuance. Each Feb 2018 Secondary Compensation Warrant is exercisable to acquire one common share at an exercise price of $2.70 per common share for a period of three years from issuance.

Concurrent with the brokered private placement in February 2018, the Company issued the Feb 2018 Convertible Debt (as discussed in Note 12) that incurred costs of issuing 392,561 Feb 2018 Compensation Warrants with the same terms as described above.

On December 6, 2016, the Company, Saber Acquisition Co. (a wholly owned subsidiary of the Company) and 9045538 Canada Inc. ("KindCann") completed a plan of arrangement (the "Plan of Arrangement") under the *Canada Business Corporations Act,* pursuant to which KindCann completed a reverse take-over transaction of the Company (the "RTO"). Prior to the RTO, on May 27, 2015, a preferred shareholder (the "Dissenting Shareholder") filed a dissent action after the board of directors of KindCann (the "KindCann Board") resolved to amend the share conditions of Kindcann's Class A preferred shares to provide the KindCann Board with the discretion to pay the annual dividend by the issuance of common shares in the capital of KindCann. At December 31, 2017, a $700,000 provision was recorded on the Company's Consolidated Statements of Financial Position. During May 2018, the Company issued an aggregate of 482,758 common shares in the capital of Emblem to the Dissenting Shareholder of KindCann. The common shares were issued in settlement of statutory rights of dissent exercised by the Dissenting Shareholder in 2015. During 2018, the Dissenting Shareholder provided a full and final release in favour of Emblem.

During October 2018, pursuant to the Aphria Supply Agreement as discussed above, Emblem issued 6,952,169 Emblem Shares to Aphria. Following completion of the issuance of the Emblem Shares, Aphria owned approximately 5.6% of Emblem's issued and outstanding common shares. In connection with the issuance of the Emblem Shares, Aphria agreed to certain standstill restrictions and had a staggered lock-up provision subject to certain exceptions.

In 2018, 4,365,936 share purchase warrants and 1,803,330 stock options (including 200,000 synthetic stock options) were exercised for gross proceeds of $4,470,000 and $1,132,000, respectively.

The values of the Feb 2018 Compensation Warrants and Feb 2018 Secondary Compensation Warrants issued were calculated using the Black-Scholes option-pricing model using the following parameters:

Years ended December 31,	**2018**	2017
Fair values at grant date	**$0.43 to $0.55**	$0.63 to $1.24
Share price at grant date	**$1.56**	$1.59 and $3.02
Assumptions		
Exercise prices	**$2.05 to $2.70**	$1.75 to $4.75
Expected volatility	**77.8**	72% and 80%
Life (years)	**2**	3
Expected dividend	**-**	-
Risk-free interest rate	**1.81**	0.92% and 1.46%

Special Non-Voting Shares

Pursuant to the Plan of Arrangement, the shareholders of KindCann received one post-consolidated common share for each common share of KindCann registered in the names of such shareholders. Holders of KindCann's special non-voting shares also received one special non-voting share of the Company (each a "Special Share") for each special non-voting share of KindCann registered in the names of such shareholders at the time of the RTO.

Upon completion of the RTO, 14,065,285 KindCann special non-voting shares held by the three founding shareholders were exchanged for 14,065,285 Special Shares of the Company. The Special Shares were not entitled to receive dividends. The holders of the Special Shares were able to require Emblem to exchange (the "Exchange Right") each Special Share held by such holder into one common share of the Company upon the occurrence of certain events. Irrespective of the events occurring, the Exchange Right were exercisable on June 6, 2018.

In May and June 2018, the holders of the Special Shares exchanged all Special Shares of the Company for common shares of the Company. Of these common shares of the Company issued in connection with the exchange of the Special Shares, 45% of these common shares remain subject to a TSXV imposed escrow, with 15% of the common shares being released from escrow on each of December 9, 2018, June 9, 2019 and December 9, 2019.

14. WARRANTS

The number and weighted average exercise prices of warrants are as follows:

			Number of warrants		Weighted average exercise price	
	Date Issued	**Expiry Date**	**2018**	2017	**2018**	2017
Warrants issued in connection with preferred share units						
Warrants	Dec 2014 / Jan 2015	Dec 6, 2021	**10,116,240**	10,516,240	**$ 0.75**	$ 0.75
Exercised			**(1,538,076)**	(400,000)		
Issuance of Broker Warrants with Class A Preferred Shares						
Broker Warrants	Aug 18, 2016	Dec 6, 2018	**27,200**	787,300	**$ 0.50**	$ 0.50
Exercised			**(27,200)**	(760,100)		
Broker Warrants	Aug 18, 2016	Dec 6, 2021	**393,650**	393,650	**$ 0.75**	$ 0.75
Exercised			**(34,000)**	-		
Issued pursuant to private placements						
Warrants	Jun 23, 2016	Jun 23, 2021	**2,339,800**	2,912,800	**$ 0.75**	$ 0.75
Exercised			**(341,200)**	(573,000)		
Warrants	Sep 9 to 19, 2016	Sep 9 to 19, 2018	**2,825,901**	3,433,601	**$ 1.20**	$ 1.20
Exercised			**(2,283,120)**	(607,700)		
Expired			**(542,781)**	-		
Warrants	Dec 6, 2016	Dec 6, 2019	**10,855,521**	10,860,245	**$ 1.75**	$ 1.75
Exercised			**(42,339)**	(4,724)		
Warrants	Jan 2017	Dec 6, 2019	**104,518**	104,518	**$ 1.75**	$ 1.75
Warrants	Dec 12/13, 2016	Dec 12/13, 2019	**342,394**	342,394	**$ 1.75**	$ 1.75
Warrants	Jan 31, 2017	Jan 31, 2020	**2,192,834**	2,192,834	**$ 4.75**	$ 4.75
Warrants	Nov 16, 2017	Nov 16, 2020	**7,885,734**	7,885,734	**$ 2.15**	$ 2.15
Exercised			**(100,000)**	-		
Compensation Warrants	Nov 16, 2017	Nov 16, 2020	**493,715**	493,715	**$ 1.75**	$ 1.75
Secondary Compensation Warrants	Nov 16, 2017	Nov 16, 2020	**493,715**	493,715	**$ 2.15**	$ 2.15
Warrants	Feb 2, 2018	Feb 2, 2020	**14,024,391**		**$ 2.70**	
Compensation Warrants	Feb 2, 2018	Feb 2, 2020	**785,122**		**$ 2.05**	
Secondary Compensation Warrants	Feb 2, 2018	Feb 2, 2020	**785,122**		**$ 2.70**	
Outstanding at end of the year			**48,757,141**	38,071,222	**$ 2.02**	$ 1.63

15. STOCK OPTIONS

The Company has a stock option plan to encourage ownership of its shares by key management personnel (directors and executive management), employees and consultants, and to provide compensation for certain services. The terms of the stock option plan provide that the board of directors have the right to grant options to acquire common shares of the Company. No compensation is recognized when options are exercised. The number of shares reserved for issuance is not to exceed 10% of the aggregate number of common shares issued and outstanding (calculated on a non-diluted basis), including Special Shares, from time to time.

As at December 31, 2018, the Company had 6,454,672 common shares available for the granting of future options (December 31, 2017 – 3,019,250 common shares). The Company does not have any cash-settled transactions.

The terms and conditions relating to the grants of the stock option plan are as follows:

- Options issued during the year and granted to executive management, consultants and employees have a maximum term of five years and are equity-settled.
- Options granted vest equally over a period of three years, except for 600,000 options granted prior to the RTO that vested immediately, 40,000 options granted after the RTO that vested immediately and 60,000 options granted that vested after one year.

The following is a summary of outstanding and exercisable options at each year end:

	Number of options		Weighted average exercise price			
	2018	2017		**2018**		2017
Outstanding at beginning of the period	**6,515,000**	**4,833,333**	**$**	**1.09**	$	0.50
Granted	3,235,000	2,235,000	$	1.45	$	2.26
Forfeited	(1,345,003)	(183,334)	$	1.67	$	0.95
Exercised	(1,803,330)	(369,999)	$	0.50	$	0.49
Outstanding at end of the period	**6,601,667**	**6,515,000**	**$**	**1.32**	$	1.09
Exercisable at end of the period	**2,439,994**	**2,626,667**	**$**	**0.83**	$	0.52

Issued to Employees and Non-Employees	**Number of options outstanding**	**Weighted average remaining life (years)**
Range of exercise prices		
$0.50	2,116,667	2.14
$1.36 to $1.69	3,655,000	4.49
$2.58 to $2.60	830,000	3.19
	6,601,667	**3.57**

During 2018, the Company recorded an expense of $1,356,000 (2017 - $1,816,000) in share-based payments upon the vesting of stock options, respectively.

As at December 31, 2018, an additional $2,258,000 (2017 - $2,053,000) in share-based payments remains to be recognized up until December 2021. Options outstanding a at December 31, 2018 expire between September 2020 and November 2023.

The fair values of share-based payments were measured based on the Black-Scholes option pricing model. For certain grants during 2018 and 2017, volatility was estimated by using other companies that the Company considers comparable over similar periods to the expected life of the options.

The inputs used in the measurement of the fair values during the following periods were:

Year ended December 31,	2018	2017
Fair value at grant date	**$0.76 to 0.96**	$0.87 to $1.66
Share price at grant date	**$1.36 to $1.60**	$1.63 and $2.60
Assumptions		
Exercise price	**$1.36 to $1.60**	$1.63 and $2.60
Expected volatilities	**72% to 77%**	72% and 80%
Life (years)	**4 to 5**	5
Expected dividends	**-**	-
Risk-free interest rate	**2.10% to 2.44%**	1.05 to 1.64%
Forfeiture rate	**0% and 12%**	0.00%

16. EARNINGS (LOSS) PER SHARE

The weighted average number of shares include common shares and Special Shares, if any. The effect of adjustments to the weighted average number of common shares would be anti-dilutive when the Company incurs losses. The outstanding number and type of securities that could potentially dilute basic earnings per share in the future, but were not included in the computation of diluted net loss per share, are shown below.

Years ended December 31,		2018		2017
Weighted average number of shares - Basic and Diluted		**119,416,492**		**86,297,237**
Number of options excluded		6,601,667		6,515,000
Number of warrants excluded		38,071,222		38,071,222
Debentures convertible into number of common shares		10,869,565		7,692,308
Net loss and comprehensive loss	**$**	**(24,259)**	**$**	**(12,101)**
Weighted Average Basic and Diluted Loss Per Share	**$**	**(0.20)**	**$**	**(0.14)**

17. INCOME TAXES

The combined Canadian tax rate reflects the federal and provincial tax rates for each applicable year. A reconciliation of the combined Canadian tax rate to the Company's effective rate of income tax is as follows:

Years Ended December 31,		2018		2017
Loss before income taxes	**$**	**(24,259)**	$	(12,101)
Combined Canadian tax rate		**26.5%**		26.5%
Income tax recovery at combined rate	**$**	**(6,429)**	$	(3,207)
Non-deductible amounts		**972**		583
Change in deferred tax assets unrecognized		**5,456**		2,624
Income Tax Recovery	**$**	**-**	$	-

Deferred tax assets have not been recognized in respect of tax losses because it is not probable that future taxable profit will be available against which the Company can utilize the benefits therefrom.

As at December 31, 2018, the Company's estimated non-capital losses, that can be applied against future taxable profit, to be $46,835,000. These non-capital losses expire between the years 2028 and 2038.

18. SEGMENTED INFORMATION

The Company operates in one segment and generates revenue through three revenue streams: medical, recreational and wholesale. All of the Company's assets are located in Canada.

The following tables provide total revenues generated through the three revenue streams by provinces in Canada:

	2018			
	Medical	**Recreational**	**Wholesale**	**Total**
Gross revenues	$ 4,758	$ 3,247	$ 1,072	**$ 9,077**
Excise taxes	$ 157	$ 697	$ -	**$ 854**
Net revenues	$ 4,601	$ 2,550	$ 1,072	**$ 8,223**
Net revenues by province:				
Alberta	$ 829	$ 1,471	$ -	**$ 2,300**
British Columbia	298	222	-	**520**
New Brunswick	207	-	-	**207**
Ontario	2,232	857	1,072	**4,161**
Other provinces	206	-	-	**206**
GrowWise - Various provinces	829	-	-	**829**
	$ 4,601	$ 2,550	$ 1,072	**$ 8,223**

	2017			
	Medical	Recreational	Wholesale	Total
Gross revenues	$ 2,332	$ -	$ 362	$ 2,694
Excise taxes	$ -	$ -	$ -	$ -
Net revenues	$ 2,332	$ -	$ 362	$ 2,694
Net revenues by province:				
Alberta	$ 522	$ -	$ 250	$ 772
British Columbia	40	-	52	92
New Brunswick	132	-	60	192
Ontario	964	-	-	964
Other provinces	160	-	-	160
GrowWise - Various provinces	514	-	-	514
	$ 2,332	$ -	$ 362	$ 2,694

19. OTHER EXPENSES

Years ended December 31,	**2018**	2017
Transaction advisory fees	**$ 1,234**	$ -
Write down of capital assets	**1,814**	-
Gain on marketable securities	**(3,062)**	-
Non-cash fair value adjustment relating to the shares issued in connection with the Aphria Agreement	**2,265**	-
Other	**490**	313
	$ 2,741	$ 313

20. RELATED PARTY TRANSACTIONS

Related Party Balances and Transactions

Short-term employee benefits provided by the Company to key management personnel include salaries, directors' fees, statutory benefit contributions, paid annual vacation and paid sick leave as well as non-monetary benefits such as medical care. In addition to short-term employee benefits, the Company may also issue options as part of the stock option plan. Key management personnel are those persons having the authority and responsibility for planning, directing and controlling activities of the Company, directly or indirectly.

During 2017 and into 2018, certain officers and directors of the Company held an equity position in Fire & Flower and one officer and director of the Company serves as an officer and director of Fire & Flower.

Balances and transactions with related parties as at and for the years ended December 31, 2018 and 2017 are shown in the following tables:

Years ended December 31,		**2018**		2017
Salaries and short-term employee benefits	**$**	**1,729**	$	1,656
Share-based payments		**941**		1,128
	$	**2,670**	$	2,784

Key management personnel compensation comprises:

As at December 31,		**2018**		2017
Balances Outstanding				
Net amounts due to key management personnel	**$**	**(37)**	$	(77)
Net amounts due from other related parties		**48**		14
	$	**11**	$	(63)

21. COMMITMENTS AND CONTINGENCIES

The following table shows the contractual commitments as at December 31, 2018:

		Contractual cash flows			
	Carrying amount	**Less than 1 year**	**1 to 2 years**	**2 to 5 years**	**Total**
Trade and other payables	7,379	7,379	-	-	**7,379**
Long-term liabilities	19,652	2,000	2,000	25,181	**29,181**
Cannabis supply agreements		33,021	67,278	228,498	**328,797**
Plant construction contracts	-	5,941	-	-	**5,941**
Head office rent	-	93	98	139	**330**
Service contract	-	38	50	-	**88**
	27,031	48,472	69,426	253,818	**371,716**

Contingencies

Certain of the Company's executives have been named in a claim that also identifies the Company in relation to certain services provided by an individual. It is the Company's determination that the claim of $10 million is primarily against the founders of the Company and not the Company itself. The claim for damages against the Company, specifically, is not pleaded with sufficient particularity to allow an accurate assessment of the quantum of damages being sought against the Company. The likely measure of damages sought will either be the market value of the services the plaintiff provided to the Company or the degree to which the Company was enriched by those services. The Company is of the view that the amount of the claim bears no relationship to the value of the services provided. The outcome of this legal matter is subject to negotiations by the officers of the Company and the Company believes it is unlikely to be impacted and accordingly, no amount has been provided for.

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.

22. SUBSEQUENT EVENTS

Emblem Closes Arrangement with Aleafia

In March 2019, Aleafia acquired all of the common shares of Emblem, following Emblem's amalgamation with Aleafia's wholly-owned subsidiary, 11208578 Canada Inc., to form a new wholly-owned subsidiary of Aleafia continuing as Emblem Corp. Under the terms of the Arrangement, each former Emblem shareholder is entitled to 0.8377 of a common share in the capital of Aleafia, for each Emblem share held prior to the Arrangement. As such, the Company was delisted from the TSXV as of the close of trading on March 18, 2019.

Shares in Fire & Flower Exchanged for Convertible Debt

In February 2019, the Company exchanged the 3,125,000 common shares it held in Fire & Flower into convertible debt of 3,125,000 units, convertible at a price of $0.80 per unit, subject to favourable conditions. The convertible debt matures on November 30, 2019.

Adjustment to the Conversion Price of Emblem's Convertible Debt issued in February 2018

Concurrent with the closing of the Arrangement with Aleafia, the conversion price of the Feb 2018 Convertible Debt was adjusted from $2.30 per share to $2.00 per share.