FORM 51-102F3

MATERIAL CHANGE REPORT

Item 1. Name and Address of Company

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

Item 2. Date of Material Change

November 11, 2019 and November 14, 2019

Item 3. News Release

The press release disclosing the material change was released on November 11, 2019 and November 14, 2019 through the facilities of Globe Newswire.

Item 4. Summary of Material Change

On November 11, 2019, the Company announced that Aleafia Farms Inc., its wholly owned subsidiary, produced an inaugural Port Perry Outdoor Grow harvest yielding approximately 10,300 kg of dried flower. The Company also announced that the 3.7M sq. ft. Outdoor Grow Phase II Expansion of the farmland acquired, adjacent to its Port Perry facility, is nearing completion and that the Company expects to formally submit its Licence Amendment application in 2019.

On November 14, 2019, the Company announced that Emblem Cannabis Corp., its wholly owned subsidiary, has secured two Health Canada licence amendments, as a result of which the Company is now authorized to produce and sell new product formats and has adequate, licensed production space to do so. Following the issuance of the amended licence and closing of corresponding application, the Company also submitted its final Site Evidence Package to Health Canada for the Phase II expansion of its Paris Processing facility.

Item 5. Full Description of Material Change

5.1 Full Description of Material Change

A. On **November 11, 2019**, the Company announced that Aleafia Farms Inc., its wholly owned subsidiary, produced an inaugural Port Perry Outdoor Grow harvest yielding approximately 10,300 kg of dried flower. The yield figure is limited to dried flower, and excludes stems or other parts of the cannabis plant.

2019 OUTDOOR HARVEST HIGHLIGHTS

- 10,300 kg of dried flower harvested
- 1,000 kg per acre yield in Zone 1, which was planted in June 2019
- $0.08 cash cost per gram to harvest (unaudited)
- $0.10 all-in cash cost per gram to harvest, including facility capital costs (five-year amortization) (unaudited)
- Cannabinoid content (THC and CBD per gram) of harvested flower was strong, at levels near to the cannabinoid content in identical strains harvested indoor
- Quality assurance testing to date is successful, including for microbial content, pesticides and contaminants

Total yield and 2020 projected yield figures are approximations. Cash cost per gram to harvest includes all operating expenses such as labour, supplies, consumables, services and staff overhead. All-in cash cost per gram to harvest includes all operating expenses, along with capital costs including irrigation, security infrastructure and the newly constructed Drying Facility.

As previously announced, Health Canada amended Aleafia Farms' license to add Zone 1 to the site on June 7, 2019, with planting completed by Aleafia Farms within one week. Health Canada amended Aleafia Farms' license to add Zone 2 to the site on July 12, 2019, with planting completed by Aleafia Farms over the last two weeks of July. The six acre Zone 1, benefiting from an earlier planting date, yielded 1,000 kg per acre.

Based on the 2019 results, the Company estimates that it can produce 1,200 kg per acre for a total of 102,000 kg of dried flower in 2020 at its expanded 3.7 million sq. ft. (86 acre) outdoor site, at full capacity. The modest increase in the expected yield per acre for 2020 is due to a number of factors which should improve the overall outdoor grow operation, including commencing cultivation several weeks earlier relative to 2019.

The entire harvest was dried and cured on-site at the Company's newly constructed and Health Canada-licensed Drying Building. The building comprises approximately 5,000 sq. ft. and features a 20 ft. high ceiling and a purpose-built climate control and dehumidification system to maximize throughput efficiency.

<u>3.7M SQ. FT. OUTDOOR GROW PHASE II EXPANSION NEARING COMPLETION</u>

On September 4, 2019, the Company announced that Aleafia Farms had acquired the farmland directly adjacent to its Port Perry facility, for a cash purchase price of $1.2 million. The expansion adds an additional 2.6 million sq. ft. (60 acres) of cultivation area, for a total of 3.7 million sq. ft (86 acres). Fencing and much of the security infrastructure at the expanded site has been completed and the Company expects to formally submit its Licence Amendment application in 2019.

B. On **<u>November 14, 2019</u>**, the Company announced that its wholly owned subsidiary, Emblem Cannabis Corp., has secured two Health Canada licence amendments that expand processing capacity, allowing for the sale of new product formats at its Paris Processing facility. The amendments apply to the licensed and operational Paris location, which processes all of the Company's extraction, packaging and order fulfilment for Canadian and international sales.

As a result of the licence amendments, the Company is now authorized to produce and sell new product formats and has adequate, licensed production space to do so.

The first Licence Amendment vastly increases the Company's ability to produce finished cannabis products by authorizing activities including extraction, packaging and labeling in four rooms that were previously only authorized for cannabis cultivation. The amendment doubles the Paris Facility's licensed processing space. The second Licence Amendment permits the Company to produce and sell edibles, topicals and extracts to the Canadian market.

<u>PARIS FACILITY PHASE II EXPANSION</u>

Following the issuance of the amended licence and closing of corresponding application, the Company submitted its final Site Evidence Package ("**SEP**") to Health Canada for the Phase II expansion of its Paris Processing facility. The final stage in the Company's licence amendment application for the proposed expansion, the SEP demonstrates that the facility is operational ready and meets all Health Canada requirements.

The Paris Phase II expansion, a 30,000 sq. ft. facility, is entirely dedicated to the extraction, production, packaging and distribution of high-margin, value-added cannabis health and wellness products. The expansion is purpose-built to meet European Union Good Manufacturing Practices ("**EU-GMP**") certification requirements. EU-GMP certified facilities demonstrate the highest level of pharmaceutical-grade quality, and securing the certification (along with applicable import and export permits) will allow Aleafia Health to begin exporting medical cannabis products to the European Union market.

5.2 Disclosure for Restructuring Transactions

Not Applicable

Item 6. Item 6 - Reliance on Subsection 7.1(2) or (3) of National Instrument 51-102 – Continuous Disclosure Obligations

Not Applicable

Item 7. Item 7 - Omitted Information

No information has been omitted from this material change report.

Item 8. Executive Officer

Benjamin Ferdinand
Chief Financial Officer
416-860-5665

Item 9. Date of Report

November 19, 2019