

Aleafia Health Announces Agreement to Amend Convertible Debentures and Equity Financing of \$5.6 Million

- Transforms the company's balance sheet with an equity financing to fund growth and a favourable resolution to amend the key commercial terms of the Convertible Debentures
- Provides \$11.6 million¹ in additional liquidity to fund working capital and growth initiatives and finance the company attaining break-even Adjusted EBITDA profitability in 2022²
- Augments the refinancing profile extending the maturity of the Convertible Debentures from 2022 to between 2024 and 2028
- Improves the cash flow profile with a 30 month no mandatory interest period for the Convertible Debentures
- Together with existing credit facilities, the transactions enable the Company to continue rapidly scaling into a top 10 Canadian LP³ while building high-margin medical and international businesses

TORONTO, May 12, 2022 -- Aleafia Health Inc. (TSX: AH, OTCQX: ALEAF) ("**Aleafia Health**" or the "**Company**") is pleased to announce that it has reached an agreement in principle with the convertible debenture holder-nominated steering committee (the "**Steering Committee**") to amend certain key commercial terms of its unsecured convertible debentures (TSX: AH.DB), set to mature on June 27, 2022 (the "**Convertible Debentures**"). The Company has also entered into Subscription Agreements for units, comprising common shares and warrants, representing aggregate gross proceeds of \$5.6 million on a private placement basis (the "**Private Placement**"). The amendment of the Convertible Debentures and the Private Placement are conditional on terms further described below.

"We are delighted that the Steering Committee has reached a successful agreement with the Company, providing debenture holders a pathway to be paid back in full while maintaining the opportunity for meaningful upside potential, and enabling the Company to move forward with financing its ambitious growth initiatives and delivering on its business plan," said Tricia Symmes, CEO. "We also welcome the commitment of the investors in the Private Placement, and appreciate the confidence they are showing in our strategy, the leadership team, and our Board of Directors." Symmes continued, "We have assembled an amazing team and this is the latest development in creating a renewed Aleafia focused on leveraging our portfolio of value-added branded cannabis products to capture Canadian adult-use market share, building the recurring revenue of our medical business, and expanding into attractive international markets."

"For the Company, we are very pleased with this outcome, as it is yet another milestone achievement in the restructuring of our balance sheet. This evolution in our balance sheet started in Q3 2021 with securing our first ever senior secured credit facility, and continued late into Q4 2021 securing our second senior secured credit facility. After working tirelessly over the last several months with the Steering Committee and also with our existing and new shareholders, we believe the stage is set for an improved capital markets presence with the financial flexibility to accelerate the growth in our business," said Matthew Sale, CFO. "The debenture holders will retain the full-face value of the converts, providing an opportunity for them to be paid back in full. Moreover, debenture holders will get the benefit of up to another six years of interest income at 8.5%. For our equity investors, we fully expect they will benefit from the appreciation in the value of the Company as we execute our strategy. This is an important and significant step forward in executing on the Company's strategic plan."

The Convertible Debenture Amendments

Under the agreement in principle with the Steering Committee the Convertible Debentures will be exchanged for new convertible debentures (the "**New Convertible Debentures**") that will be issued in three equal, separate tranches, maturing in 2, 4 and 6 years from the date of issuance (the "**2024 Debentures**", "**2026 Debentures**", and "**2028 Debentures**", respectively), providing the Company with increased flexibility to finance its growth initiatives. The interest rate will remain at 8.5%, but there will be no mandatory cash interest payment for 30 months as interest will initially be paid-in-kind ("**PIK**") with additional New Convertible Debentures (the "**PIK Debentures**"), reducing near-term debt servicing requirements. The conversion price will be significantly reduced from the existing \$1.47, to \$0.25 for the 2024 Debentures, \$0.30 for the 2026 Debentures, and \$0.35 for the 2028 Debentures. The New Convertible Debentures will be granted security against certain assets of the Company, but will be fully subordinated to the Company's existing senior secured debt. The Company will be not be entitled to incur further senior secured indebtedness, subject to certain exceptions including to fund working capital, capital expenditures, and strategically accretive acquisitions. The foregoing amendments, together with certain other proposed amendments, are referred to as the "**Debenture Amendments**".

Debenture holders who approve the Debenture Amendments will receive a fee (the "**Consent Fee**") calculated as the amount of accrued interest on the existing Convertible Debentures between July 1, 2021 and the effective date of the Debenture Amendments, provided that Debentureholder Approval (described below) is obtained, payable in additional 2028 Debentures at par. For illustration, if the effective date of the Debenture Amendments occurs on June 30, 2022, the Consent Fee payable in additional 2028 Debentures at par would be \$254 per debenture, or 8.5%.

The issuance of the New Convertible Debentures will constitute a new private placement and as such, the New Convertible Debentures will be subject to a four month and one day hold commencing on the date of issuance in accordance with applicable Canadian securities laws (the "**Hold Period**").⁴ The Company has applied to list the New Convertible Debentures on

the Toronto Stock Exchange, and such listing will occur following the Hold Period, subject to customary listing conditions. The Debentureholder Amendments will be subject to the satisfaction of certain conditions precedent, including the completion of the Private Placement and approval by way of an extraordinary resolution of debenture holders either at a meeting of debenture holders or in writing ("**Debentureholder Approval**"). The Debenture Amendments and the Private Placement (together, the "**Transaction**") are expected to close in this quarter.

Further to the Company's previous announcements, the forbearance agreement, entered into between the Company and holders of approximately 62% of the aggregate principal amount of Convertible Debentures outstanding, has been extended until May 26, 2022. The forbearance agreement automatically renews for 14-day periods thereafter unless advance notice to the contrary is provided.

The Private Placement

The Private Placement constitutes the issuance of 68,151,515 units at a price of \$0.0825 each (the "**Issue Price**"). Each unit consists of one common share in the capital of the Company and one-half of one common share purchase warrant. A warrant is exercisable into one common share at an exercise price of \$0.1025 for a period of four years from the date of issuance. The expiry date of the warrants can be accelerated by the Company at any time and upon 30 days' notice, if the closing price of the common shares on the Toronto Stock Exchange (the "**TSX**") is greater than \$0.165 for any 10 non-consecutive trading days following the date that is 4 months and one day after the date of issuance and prior to the expiry date of the Warrants.

The completion of the Private Placement is conditional on (i) the execution of voting support agreements by holders of at least 66 2/3% of the principal amount of Debentures pursuant to which such holders will agree to vote in favour of the extraordinary resolution, or receipt of Debentureholder Approval ii) access to the full advance rate based on eligible receivables funding under the December 2021 Credit Facility, (iii) granting additional security against certain assets of the Company in favour of the lenders under the Credit Facility entered into in August 2021, which will be fully subordinated to the Company's December 2021 Credit Facility; and (iv) additional customary closing conditions. The outside date for closing the Private Placement will be June 30, 2022. All of the securities issued in connection with the Private Placement will be subject to a customary four month and one day hold in accordance with applicable Canadian securities laws.

The net proceeds from the Private Placement will be used to fund working capital and capital expenditures for the Company's continued growth, and other general corporate purposes.

There is no insider participation in the Private Placement, and to the knowledge of the Company no new insiders will be created as a result of the Private Placement. A finder's fee of 3,407,500 common shares will be paid to certain finders (the "**Finders' Shares**") in connection with the Private Placement.

The Company has applied to the TSX to list the common shares in the capital of the Company issuable pursuant to the Transaction for trading on the TSX and closing of the Private Placement is conditional upon receipt of such listing approval.

Key Expected Benefits to the Company of the Transaction include:

- Provides increased financial flexibility to execute the Company's growth initiatives, with \$11.6 million of additional liquidity
- Removes any near-term uncertainty around refinancing the Convertible Debentures as the New Convertible Debentures will have an average maturity of 4 years
- Improves cash flow as there is no mandatory cash interest payment on the New Convertible Debentures for 30 months
- Balances the Company's refinancing profile with the principal value of the New Convertible Debentures being split into three equivalent tranches instead of one "bullet" payment

Key Anticipated Benefits to Debenture holders include:

- Retains face value for debenture holders at a par value of \$100
- Assuming an effective date of June 30, 2022, a consent fee of approximately 8.5% payable in \$254 of additional 2028 Debentures provides an opportunity to recover all accrued and unpaid interest
- Additional tenor provides several more years of potential interest income
- Adjustment of conversion price improves optionality to convert into common shares and participate in meaningful upside in the Company
- Enhanced security profile with direct security interest in the Company's owned facilities

Potential Dilution

There are three potential sources of dilution resulting from the Debenture Amendments: (i) common shares issuable on conversion of the principal amount of each tranche of New Convertible Debentures into common shares at the stipulated conversion prices ("**Principal Shares**"); (ii) common shares issuable on conversion of the principal amount of 2028 Debentures to be issued to holders of Convertible Debentures in consideration for the Consent Fee who vote in favour of the Debenture Resolution (the "**Consent Fee Shares**"); and (iii) Common Shares issuable on conversion of the PIK Debentures (the "**PIK Shares**").

The following table outlines the potential maximum dilution resulting from each source, assuming an effective date of June 30, 2022 for the implementation of the Debenture Amendments:

New Debenture	Type of Shares	Principal Amount	Conversion Price	Maximum	Percentage of
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				Common Shares Issuable	Outstanding Common Shares
2024 Debenture	Principal Shares	\$12,450,000	\$0.25	49,800,000	15.04%
	PIK Shares ¹	\$2,209,727	\$0.25	8,838,910	2.67%
2026 Debenture	Principal Shares	\$12,450,000	\$0.30	41,500,000	12.53%
	PIK Shares ¹	\$2,209,727	\$0.30	7,365,758	2.22%
2028 Debenture	Principal Shares	\$12,450,000	\$0.35	35,571,429	10.74%
	Consent Fee Shares ²	\$3,161,703	\$0.35	9,033,437	2.73%
	PIK Shares ¹	\$2,209,727	\$0.35	6,313,507	1.91%
TOTAL				158,423,041	47.84%

Notes:

1) Assumes all interest is paid in additional debentures of the relevant New Debentures during the PIK period, with no cash payments; annual interest 8.5% paid semi-annually. Calculated from the estimated effective date of June 30, 2022 to the estimated maturity dates of the 2024 Debentures (June 30, 2024), 2026 Debentures (June 30, 2026), and 2028 Debentures (June 30, 2028), respectively.

2) The consent fee will be equal to the accrued and unpaid interest under the existing Convertible Debentures from July 1, 2021 up until the effective date of the Debenture Amendment. This calculation assumes an effective date of June 30, 2022 and also assumes that holders of 100% of the principal amount of Convertible Debentures receive the consent fee.

3) Calculated based on outstanding common shares of 331,124,351 as of the date hereof.

Assuming 100% conversion of the Convertible Debentures, as amended, and an effective date of June 30, 2022 for the implementation of the Debenture Amendments, an aggregate of up to 158,423,041 Common Shares would be issuable pursuant to the Debenture Amendments, representing approximately 47.84% of the issued and outstanding Common Shares on the date hereof.

Based on an issuance of 68,151,515 Units pursuant to the Private Placement, the aggregate number of Common Shares issuable pursuant to the Private Placement on a fully diluted basis, including the Finders' Shares, would be 105,634,773 Common Shares, representing approximately 31.9% of the current issued and outstanding Common Shares.

Accordingly, the dilutive effect of the Private Placement and the Debenture Amendments could be up to approximately 79.74% in the aggregate.

Aleafia Health's Financial Position – Hardship Exemption

The Company remains in serious financial difficulty and based upon a review of the Company's commitments, prospects, available options and funding requirements, the Board of Directors (other than two directors who abstained from the matter), has concluded that the Transaction is reasonable and presents the only option that the Company can reasonably expect to execute to address its immediate and significant financing needs.

The Company believes that it does not have adequate time available to seek securityholder approval. The Company is facing a limited opportunity to complete the Transaction, with no additional credit facilities available to it to bridge a period of time before a meeting of securityholders of the Company, and with a reasonable expectation that the Company's current cash reserves would be depleted before securityholder approval can be obtained, which would leave it unable to service its obligations as they become due. Given the Company's current financial situation, in the absence of completion of the proposed Private Placement and Debenture Amendments, its ability to continue operating as a going concern and to meet its obligations as they come due cannot be assured in the short term.

Financial Hardship Exemption

The Private Placement and Debenture Amendments trigger certain requirements for approval from the holders of a majority of the currently issued and outstanding common shares under Section 607(g) of the TSX Company Manual (the "**Manual**"), unless an exemption is available. Pursuant to section 607(g)(i) of the Manual, shareholder approval of the Private Placement is required given that the potential dilution exceeds 25% and the Issue Price represents a discount to the market price.

The Debenture Amendments also present two separate triggers for shareholder approval under the Manual. First, in light of the overall potential dilution, the fact that the conversion price of the New Convertible Debentures is not at least the market price at the time of conversion means that shareholder approval would be required under section 607(g)(i) of the Manual. Second, shareholder approval would be required to issue the PIK Shares at the same price as the New Convertible Debentures representing the aggregate principal amount, given that the TSX treats the PIK as a shares-for-debt private placement and the price could only be protected for a 45-day period under the Manual.

The Company applied to the TSX under the provisions of Section 604(e) of the Manual for an exemption from the requirement for shareholder approval of the Transaction on the basis that the Company is in serious financial difficulty (the "**Application**"). The independent members of the Company's Board of Directors, each of whom is free from any interest in the Transaction and unrelated to the parties involved in the Transaction, considered the reasonableness and fairness of the Transaction, including assessing against potential alternatives, and approved (i) the Transaction and (ii) that the Company make the Application. There was no contrary view or abstention by any independent director on the resolutions.

In addition, both the independent members of the Board of Directors determined that the Company met the applicable requirements under the Manual, and under Multilateral Instrument 61-101 *Protection of Minority Security Holders in Special Transactions* on the basis of financial hardship, and that the Transaction is reasonable in the circumstances and designed to improve the Company's financial situation.

On May 3, 2022, the TSX approved the Application on the basis of financial hardship and, as a result, the Company will become subject to a remedial delisting review by the TSX. It is routine for the TSX to require any issuer utilizing the financial hardship exemption to be the subject of such review.

The Company intends to issue a further press release shortly with additional details regarding a voting support agreement that debenture holders will be asked to sign, and details regarding the meeting to be called to approve the Debenture Amendments.

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About Aleafia Health:

Aleafia Health, a vertically integrated and federally licensed Canadian cannabis company, owns three licensed cannabis production facilities, including the first large-scale, legal outdoor cultivation facility in Canadian history, and operates a strategically located distribution centre, all in the province of Ontario. The Company produces a diverse portfolio of cannabis derivative products including oils, capsules, edibles, sublingual strips, and vapes, for sale in Canada in the adult-use and medical markets and is pursuing opportunities in select international jurisdictions. The Company owns and operates a virtual network of medical cannabis clinics staffed by physicians and nurse practitioners.

Forward Looking Information

This news release contains forward-looking information within the meaning of applicable Canadian and United States securities laws. Often, but not always, forward-looking information can be identified by the use of words such as "plans", "expects", "estimates", "intends", "anticipates", or "believes" or variations of such words and phrases or state that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. Forward-looking information involves known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company or its subsidiaries to be materially different from any future results, performance or achievements expressed or implied by the forward-looking information contained in this news release. Risks, uncertainties, and other factors involved with forward-looking information could cause actual events, results, performance, prospects and opportunities to differ materially from those expressed or implied by such forward-looking information, including risks contained in the Company's annual information form filed with Canadian securities regulators available on the Company's SEDAR profile at www.sedar.com. Although the Company believes that the assumptions and factors used in preparing the forward-looking information in this news release are reasonable, undue reliance should not be placed on such information and no assurance can be given that such events will occur in the disclosed time frames or at all. The forward-looking information included in this news release are made as of the date of this news release and the Company does not undertake any obligation to publicly update such forward-looking information to reflect new information, subsequent events or otherwise unless required by applicable securities legislation.

¹ Liquidity calculated based on \$5.6 million in aggregate gross proceeds from Private Placement and up to \$6.0 million undrawn under the revolving credit facility (the "**December 2021 Credit Facility**"). Availability of December 2021 Credit Facility is based on a lending margin on eligible receivables. On completion of the Transaction, the Company estimates that an additional \$3.0 million will be available to be advanced.

² Adjusted EBITDA is a non-GAAP measure. Non-GAAP measures are non-standardized and may not be comparable to similar financial measures disclosed by other issuers. Adjusted EBITDA is defined, explained, and reconciled against GAAP financial measures on pages 13 and 25 of the Company's MD&A filed on SEDAR on February 14, 2022.

³ Based on HiFyre data for Ontario, Alberta, British Columbia and Saskatchewan markets as of April 30, 2022.

⁴ Holders of New Convertible Debentures will, subject to Canadian securities laws, be permitted to sell their securities during the Hold Period subject to the availability of a prospectus exemption.