

Aleafia Health Announces Achieving Major Profitability Milestone Ahead of Target and \$10.6 Million Total Net Revenue in Q2 FY2023

- Adjusted EBITDA¹ profitability achieved in Q2 FY2023, ahead of plan
- 21% increase in total revenue year over year to \$14.5
- 23% increase in branded cannabis net revenue² year over year to \$9.4 million
- #3 ranking in total retail sales pull through growth among 20 top Canadian LPs³
- #2 milled and #4 pre-roll market share ranking in key Ontario market for Divvy⁴
- Record quarter in international net revenue⁵
- 16% increase in medical net revenue⁶ over the prior year
- 35% gross profit margin versus -41% in the prior year
- Transforming balance sheet with \$53.5 million improvement in net current assets relative to year end
- Wind down of Grimsby greenhouse, \$4.1 million in net annualized cost savings

TORONTO, Nov. 09, 2022 -- Aleafia Health Inc. (TSX: AH, OTCQB: ALEAF) (“Aleafia Health” or the “Company”) is pleased to report its financial results for the three months ended September 30, 2022, its second quarter of its fiscal year ending March 31, 2023 (“FY2023”).

Milestone Adjusted EBITDA Profitability: In the second quarter, the Company grew its Adjusted EBITDA by \$8.9 million relative to the prior year, thereby achieving \$0.1 million Adjusted EBITDA in Q2 of FY2023, well in advance of its previous estimate, having extracted over \$11 million in cost reductions over the last four quarters. The Company believes it is the first Canadian LP of similar size, scale and operational footprint to attain Adjusted EBITDA profitability on a sustainable basis.⁷

“We have worked diligently over the past 12 months to achieve this major milestone, and to be among the first publicly traded Canadian Licensed Producers to reach Adjusted EBITDA profitability is an enormous accomplishment,” said Tricia Symmes, CEO. “It is the result of a relentlessly profit-focused management team putting into place the discipline and high-growth mindset instrumental in achieving this meaningful and substantial objective. The fact that this occurred during a period of market volatility with the OCS cybersecurity attack, the BC lockout and our whole flower supply constraints all impacting adult-use sales, is an even stronger testament to the power of our growing brands, led by Divvy.”

“The Company has achieved Adjusted EBITDA profitability by transforming to a branded cannabis producer from a high-volume bulk wholesale producer, and we are incredibly proud of achieving \$0.1 million in Adjusted EBITDA in the quarter ending September 30, 2022, compared with -\$8.8 million in the same period last year.” said Matt Sale, CFO. “In focusing on products in large format categories with strong margin profiles and enacting an aggressive cost rationalization and containment culture throughout the organization, this quarter is only the beginning of the Company’s long term sustainable profitability.”⁸

Branded Cannabis Net Revenue Increased 23% over the Prior Year: Adding to this achievement is another year-over-year increase for the Company in branded cannabis net revenue. For the period ending September 30, 2022, the Company grew total revenue by 21% to \$14.5 million as compared to \$11.9 million in the prior year. Branded cannabis net revenue grew 23% over the prior year to \$9.4 million for the three months ended September 30, 2022, up from \$7.6 million for the same calendar period in 2021, primarily driven by the success of Divvy.

Divvy Brand Success: Divvy continues to demonstrate market leadership positions in key product segments, with milled flower and pre-rolls rising to #2 and #4 market share rankings in Ontario, respectively. Overall, the Company achieved a top 3 ranking in total retail sales pull through growth among 20 top Canadian LPs, with 36% growth since Q1 2021.⁹

“Our successful multi-pronged growth strategy with innovative products and programs continues to increase Divvy’s market share,” said Symmes. “One such innovation is the new Divvy Buyer’s Club, which recently introduced a new rotating flower SKU, curated by our discerning procurement team from trusted cultivation partners. By focusing on obtaining unique high-quality offerings for the brand, we have positioned Divvy to continue to accelerate its market share as a strong, competitive player in the whole flower category. It is a testament to the growth and rapid success of the brand that we must continue innovating to keep up with the demand for our whole flower.”

Record International Net Revenue: Record quarterly net revenue of \$0.7 million was achieved for the Company’s growing international sales channel. The trajectory of the international growth pillar continues to climb, with a new committed sales agreement signed and EU-GACP certification attained in Q2 FY2023. Our first purchase order under the new sales agreement was received and shipments are expected to begin in Q3 FY2023.

“We continue to drive high-margin growth for the Company in Germany and Australia and are already executing against sales commitments and minimum purchase requirements with our new European based partner,” said Sale.

Continued Strength in Medical: In the increasingly challenging Canadian medical market, the Company’s continued growth remains driven by deepening penetration in key high value segments, including Veterans, Quebec, and third-party clinics. Medical net revenue increased 16% to \$3.0 million for the quarter ended September 30, 2022, compared with \$2.6 million in

the comparable calendar quarter last year.

"This market segment continues to be highly attractive as the Company is able to cross-sell its adult-use branded products to its patients, and the 'sticky,' recurring medical revenue encompasses mainly cannabis derivative products which deliver a higher gross profit margin than adult-use sales," said Symmes.

Adjusted SG&A¹⁰ -38% Decline Over the Prior Year: The Company continues to carry out significant cost rationalization initiatives into its FY2023. The Company has dramatically improved its Adjusted SG&A profile by extracting over \$11 million in annualized cost reductions over the last four quarters by implementing a strategic headcount realignment, integrating its medical business, insourcing certain finance, legal and IT functions and removing certain non-recurring brand and product launch-related costs.

"The Company's current SG&A profile is now flexible and scalable to facilitate continued revenue growth," said Matt Sale, CFO. "The Company continues to implement further targeted initiatives to improve operating leverage and contain its cost structure while also rapidly scaling across its three core sales channels. In Q2 FY2023, the Company further trimmed its headcount representing an incremental \$1.0 million in annualized cost savings. The Company is demonstrating capital efficiency and resilience, finding innovative ways to further develop Divvy's brand awareness among consumers, driving branded cannabis net revenue growth, and expanding margins and profitability."

Grimsby Greenhouse Realignment: In Q3 FY2023, the Company is enacting further cost savings initiatives with the winddown of its Grimsby greenhouse, representing an annualized net savings of approximately \$4.1 million. The Company is focused on continuing to build the brand awareness of its everyday value brand, Divvy, by supplying its consumers with innovative sought-after cultivation strains from the best sources of flower supply, whether that be internally grown or procured from other third-party growers. The Company will commence the process of winding down operations, effective November 2022, impacting 41 employees.

"Over the last four quarters the Company has experienced consistent whole flower stock outs as the scale of the Grimsby greenhouse was outstripped by consumer demand for our products. We have mitigated this issue by onboarding strategic partners to supply our ongoing requirements," said Symmes. "We want to sincerely thank our valued employees at the Grimsby greenhouse for their many contributions over the years, particularly in the launch of Divvy and transformation of our business to a branded cannabis provider."

"This development helps us drive further Adjusted EBITDA profitability," said Sale, "as the Company is able to support continued growth in our dried flower products at a price point which is also accretive to our margin profile."

"Aleafia today is delivering on its core commitments across all four pillars of our strategic growth plan," said Symmes. "With innovative and sought-after formats directed strategically toward high-margin adult-use categories, it's an exciting time for the Company as we demonstrate that we can achieve our lofty goals. Our motivated team is creating the best branded cannabis company in the country, devoted to expanding our reach in the adult-use, medical and international markets with best-in-class branded products. We believe this is the first of many profitable quarters and will continue to execute on our long-term strategy to drive sustainable profitable growth for the Company and all its shareholders. Although we're not the biggest and we're not the first, we strive to build the best branded cannabis company with the aspiration of leading in Canada and globally."

Operational and Financial Highlights

(\$,000s)	Three months ended		Six months ended	
	30-Sep-22	30-Sep-21	30-Sep-22	30-Sep-21
Operating Results				
Kilograms Sold - Dried Flower	7,389	5,860	15,886	13,671
Avg Net Realized Price	1.43	1.63	1.43	1.51
Adult-Use Market Share %	2.1%	1.3%	2.1%	1.3%
Adult-Use Market Share Ranking	14	18	14	18
Medical Use Orders	14,799	18,723	30,367	39,082
Medical Use Avg Order Value	\$ 165	\$ 143	\$ 160	\$ 144
Financial Results				
Revenue	14,487	11,931	30,906	24,028
Branded Cannabis Net Revenue	9,392	7,628	19,406	13,501
Wholesale Net Revenue	1,184	1,947	3,259	7,192
Net revenue	10,576	9,575	22,664	20,693
Branded Cannabis profit \$	3,738	1,866	6,257	3,001
Branded Cannabis profit %	40%	24%	32%	22%
Bulk Wholesale profit \$	-	(5,789)	108	(4,196)

Bulk Wholesale profit %	0%	-297%	3%	-58%
Gross profit before fair value adjustments	3,738	(3,923)	6,365	(1,195)
Total Gross profit %	35%	-41%	28%	-6%
Adjusted SG&A ⁽¹⁾	4,571	7,379	9,201	16,684
% of total net revenue	43%	77%	41%	81%
Adjusted EBITDA ⁽¹⁾	83	(8,814)	(855)	(12,248)

1. See "Cautionary Statements Regarding Certain non-IFRS Measures" section for term definition.

Cautionary Statement Regarding Non-IFRS Measures

Adjusted EBITDA, Adjusted SG&A, International Net Revenue, Adult-Use Cannabis Net Revenue, Branded Cannabis Net Revenue and Medical Cannabis Net Revenue are non-IFRS measures that do not have a standardized meaning and therefore may not be comparable to similar measures presented by other issuers. Definitions of each measure and a reconciliation of Adjusted EBITDA and Adjusted SG&A against the comparable IFRS measure can be found below. For additional information including the purpose of the non-IFRS measure, see "Cautionary Statement re Non-IFRS measures" in the Company's Management's Discussion and Analysis for the period ended September 30, 2022 found on SEDAR at www.sedar.com.

Adjusted EBITDA

Adjusted EBITDA is widely used by industry participants and analysts to measure company performance. The Company considers Adjusted EBITDA a key metric for measuring operating performance and cash flow, to manage working capital, debt repayments and capital expenditures. Adjusted EBITDA is calculated as net income (loss), excluding (i) amortization and depreciation, (ii) fair value changes in biological assets and changes in inventory sold, (iii) share-based payments, (iv) bad debt expense, (v) business transaction costs, (vi) non-operating expenses (income), (vii) taxes, (viii) interest expenses, (ix) one-time sale of assets, and (x) unrealized gain (loss) on marketable securities. Adjusted EBITDA is not recognized or defined under IFRS, and as a result, it may not be comparable to the data presented by competitors.

(\$,000s)	Three months ended		Six months ended	
	30-Sep-22	30-Sep-21 (Restated)	30-Sep-22	30-Sep-21 (Restated)
Net profit (loss)	7,047	(80,335)	2,577	(75,103)
Add back:				
Depreciation and amortization	1,953	1,836	3,903	4,733
Interest expense, net	2,054	1,983	4,814	3,738
Income tax expense (recovery)	-	(2,854)	-	(2,854)
EBITDA ⁽¹⁾	11,054	(79,370)	11,294	(69,486)
Inventory provision	-	2,382	-	2,382
FV changes in biological assets and changes in inventory sold	(11,893)	(3,434)	(14,983)	(7,006)
Share-based payments	956	1,050	1,526	1,589
Bad debt expense	-	(363)	-	1,531
Business transaction costs	45	905	361	1,966
Gain on sale of assets	(109)	-	(112)	(12,092)
Fair value through profit and loss adjustments	30	5,600	1,007	4,900
Impairment of intangible assets	-	53,093	-	53,093
Impairment of goodwill	-	11,314	-	11,314
Non-operating expense (income)	-	8	52	(439)
Adjusted EBITDA ⁽¹⁾	83	(8,815)	(855)	(12,248)

1. This is a non-IFRS measure, please see cautionary statement

Gross Profit before Fair Value Adjustments

Gross Profit before Fair Value adjustments is the gross profit before fair value adjustments and inventory provision. Management believes that this is a useful metric to assess the profitability of cannabis sales, as it eliminates the effects of non-cash FV changes in inventory and biological assets.

ADJUSTED SG&A

Adjusted selling, general and administrative ("Adjusted SG&A") is defined as SG&A expenses adjusted to exclude non-recurring costs. These non-recurring items may relate to certain transaction costs, one time subsidies, and severances. Medical clinic supply services amounts are included in SG&A. Adjusted SG&A is not recognized or defined under IFRS, and

as a result, it may not be comparable to the data presented by competitors.

(\$,000s)	Three months ended		Six months ended	
	30-Sep-22	30-Sep-21	30-Sep-22	30-Sep-21
SG&A	4,257	6,581	9,183	15,364
Business transaction costs	45	905	361	1,925
Bonus reversals, severance, other adjustments	269	(107)	(343)	(605)
Adjusted SG&A	4,571	7,379	9,201	16,684

Adult-use Cannabis Net Revenue is net cannabis revenue for Canadian adult-use sales.

Cannabis net revenue is sale of cannabis revenue less excise taxes

Branded Cannabis Net Revenue is calculated as Adult-use Cannabis Net Revenue, Medical Cannabis Net Revenue and clinic revenue.

International Net Revenue is net cannabis revenue for international medical sales.

Medical Cannabis Net Revenue is net cannabis revenue for Canadian and international medical sales

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About Aleafia Health:

The Company is a federally licensed Canadian cannabis company offering cannabis products in Canadian adult-use and medical markets and in select international markets, including Australia and Germany. The Company operates a virtual medical cannabis clinic staffed by physicians and nurse practitioners which provide health and wellness services across Canada.

The Company owns three licensed cannabis production facilities and operates a strategically located distribution centre all in the province of Ontario, including the largest, outdoor cannabis cultivation facility in Canada. The Company produces a diverse portfolio of cannabis and cannabis derivative products including dried flower, pre-roll, milled, vapes, oils, capsules, edibles, sublingual strips, and topicals.

Forward Looking Information

Certain statements herein relating to the Company constitute “forward looking information”, within the meaning of applicable securities laws, including without limitation, statements regarding future estimates, business plans and/or objectives, sales programs, forecasts and projections, assumptions, expectations, and/or beliefs of future performance, are “forward-looking information”. Such forward-looking statements involve unknown risks and uncertainties that could cause actual and future events to differ materially from those anticipated in such statements. Forward looking statements include, but are not limited to, statements with respect to our long term profitability, market share, net revenue, branded cannabis net revenue, Adjusted EBITDA, and other financial outlook projections for fiscal year 2023, our commercial operations, including production and / or sales of cannabis, quantities of future cannabis production, anticipated revenue in connection with such sales, and other Information that is based on forecasts of future results, estimates of production not yet determinable, and other key management assumptions. The following material factors or assumptions were used to develop the forward looking information: market size and growth of the Canadian adult-use and medical cannabis markets, retail store penetration, script trends, cultivation and processing capacity, costs of production, gross and net revenue per gram. Actual results may differ materially from those expressed or implied by such forward looking statements and involve risk and uncertainties relating to: future cultivation yield and quality, actual operating performance of facilities, product launches, facility licenses and amendments, average selling prices, cost of goods sold, operating expenses, Adjusted EBITDA, regulatory changes in the Canadian and international markets, and other uninsured risks. The forward looking information was approved by Management as of November 8, 2022. The Company assumes no responsibility to update or revise forward-looking information to reflect new events or circumstances unless required by law. The forward looking information is provided for information purposes only and readers are cautioned that it may not be appropriate for other purposes. This presentation is provided for general information purposes only and does not constitute an offer to sell or solicitation of an offer to buy any security in any jurisdiction.

¹ This is a non-IFRS measure. See cautionary statement re non-IFRS measures below.

² This is a non-IFRS measure. See cautionary statement re non-IFRS measures below.

³ Based on HiFyre retail sales pull through data in BC, AB, SK, and ON for the period Q1 2021 to Q3 2022 and excludes beverage and cultivation.

⁴ Based on OCS sales data of wholesale channel and non-premium segment in Q3 CY2022 and excludes beverage and cultivation.

⁵ This is a non-IFRS measure. See cautionary statement re non-IFRS measures below.

⁶ This is a non-IFRS measure. See cautionary statement re non-IFRS measures below.

⁷ Compared against publicly-traded cannabis producers in Canada that are in both the medical and adult-use markets without retail presence and a market capitalization of less than \$50 million.

⁸ This is forward looking information. Please see cautionary statement below.

⁹ Based on HiFyre retail sales pull through data in BC, AB, SK, and ON for the period Q1 2021 to Q3 2022 and excludes beverage and cultivation.

¹⁰ This is a non-IFRS measure. See cautionary statement re non-IFRS measures below.