Greg McLeish 416-860-8633
gmcleish@mackieresearch.com

Nicola McFadden 416-860-7658
nmcfadden@mackieresearch.com

Mackie Research Capital Corporation

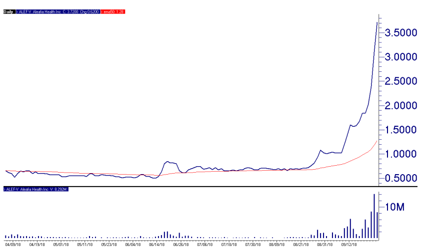
Target Change September 25, 2018

ALEAFIA HEALTH INC. – BUY

ALEF - TSXV	**$3.71**
Target:	**$6.50**
Proj. Return:	**75%**
Valuation:	**12x EV/EBITDA**

Share data	
Basic shares O/S (mm)	142.5
Fully Diluted (mm)	168.5
Market Cap ($mm)	$528.7
Enterprise Value ($mm)	$499.7
Cash ($mm)	$29.0
Debt ($mm)	$0.0
Next Reporting Date	**October**

Thomson Chart – One Year



Corporate Profile

Based in Woodbridge, Ontario, Aleafia Health Inc. is the combination of Canabo Medical Inc. and Aleafia Inc., focused on providing quality products and healthcare to its 50,000 patients across the country. The company currently operates a 7,000 ft² facility in Scugog, Ontario; however, it is currently retrofitting its new greenhouse facility in Niagara which increases funded cultivation capacity to over 38,000 kg/year.

Upcoming Events

- Q3/18 financial results – October

New JV Strongly Positions Aleafia in Recreational Cannabis - Increasing Target to $6.50 (was $1.75)

ACTION – New JV Strongly Positions Aleafia for Growth in Recreational Cannabis - Increasing Target to $6.50 (previous $1.75)

Today (September 25), Aleafia announced that it had entered into a cannabis retail joint venture with the Serruya family to launch One Plant™. We view this as a transformational development of Aleafia and we have made adjustments to our forecasts through 2020, and have also introduced new 2021 estimates. Based on our new 2021 estimates, we are increasing our target price to $6.50 from $1.75.

DETAILS – Aleafia Has Been Focused On Medical Cannabis, however 38,000kg of Funded Production Positions It Well For Growth In Recreational Market

Aleafia and Serruya Family to Enter Cannabis Retail Joint-Venture for Launch of One Plant™: The JV (51% ALEF) marks the first phase of a multiphase strategy that will see Aleafia enter the adult use Cannabis industry and related retail operations in Canada, joining Aleafia's two existing business pillars; cannabis cultivation and medical clinic operations. We view this JV as a transformational development for the company, backed and supported by Aaron Serruya, president of International Franchise Inc., a corporation owning over 4,500 quick service restaurant locations in over 50 countries. The initial launch will include over 20 retail locations in Ontario, with a subsequent expansion plan across Canada.

Aleafia's focus has been on medical cannabis, but its strong production profile firmly positions it for growth in the recreational market: On September 17, Aleafia announced that its 160,000 sq. ft. Niagara greenhouse retrofitting is on schedule and is expected to be complete in late 2018. Aleafia's existing licenced facility in Scugog, Ontario, is also expected to undergo a 150,000 ft² expansion. The two facilities combined are projected to produce a total of over 38,000,000 grams of cannabis dried flower annually, once both expansion plans have been executed.

Aleafia will diversify its product offerings by expanding into cannabis derivatives: The Canadian government has promised the inclusion of cannabis derivatives in Health Canada legislation by end 2019. If the Canadian market follows some of the trends seen in the U.S. where recreational marijuana is legal, products derived from cannabis oils should become a large and growing segment of the market. The company is currently looking at strategies for the production and sale of cannabis oils. Management will either look to build their own extraction facility or they will outsource oil extraction and capsule manufacturing to an external partner.

IMPACT – Increasing Target To $6.50 (previous $1.75) – Maintain BUY

To arrive at our new $6.50 target price, we applied a 12x EV/EBITDA multiple to our new 2021 estimate (adjusted for 51% of JV) and then discounted the result using a 10% discount rate.

NEW JOINT VENTURE FIRMLY POSITIONS ALEAFIA FOR ITS NEXT PHASE OF GROWTH

Aleafia and Serruya Family to Enter Cannabis Retail Joint-Venture for Launch of One Plant™: Aleafia (TSXV: ALEF) announced it has entered into a letter of intent to acquire a 51% in One Plant™, an adult-use cannabis retail operation. Together, the two parties will form a joint venture. Under the terms of the LOI, Aleafia and Serruya Family will establish a new corporation for the JV that will be owned 51% by Aleafia and 49% by Serruya Family. Aleafia will purchase its 51% stake in the JV company by way of the issuance of 5 million Aleafia shares to the Serruya Family. Aleafia will also contribute to the JV $5 million in cash and cannabis product on industry standard wholesale pricing, among other contributions:

- Initial launch to include over 20 retail locations in Ontario, with a subsequent expansion plan across Canada
- Licensing agreements with established international cannabis brands upon store launch
- Turn-key operation with ready-made store design and retail systems in place
- Intellectual property including genetics and packaging
- Vertical integration, with Aleafia cultivation facilities producing cannabis for processing, extraction, packaging and eventual listing in retail locations

Private placement: In addition, Aleafia announced that The Serruya Family will complete a strategic investment through a non-brokered private placement of $10,000,000 in Aleafia common shares at a price of $3.10 per share.

THESIS REMAINS INTACT - ALEAFIA HAS CONTINUED TO EXECUTE SINCE INITIATED COVERAGE IN JUNE 2018.

Aleafia has continued to execute since initiated coverage in June 2018. Over the last three months the company has made a number of positive announcements that should firmly position the company for growth in both medical and recreation cannabis.

Aleafia adds to senior management team: Over the last couple of months Aleafia made several additions to its senior management team which better positions the company for the next phase of its growth. They include:

- **Geoffrey Benic - CEO:** Mr. Benic is known for his role in helping to create and build the iconic Grocery Gateway brand.
- **Lucas Escott – Head Horticulturist:** Mr. Escott was one of the original founders of Mettrum Inc., which has since been acquired by Canopy Growth. At Mettrum, Mr. Escott led cannabis production companywide, and drove the design, build and Health Canada licensing for three separate Mettrum facilities.
- **Benjamin Ferdinand - CFO:** Mr. Ferdinand previously led TMX Group's (parent company of the Toronto Stock Exchange) firmwide platform initiatives as Managing Director, Platform Strategies.
- **Trevor Newell - Chief Marketing and Technology Officer:** Mr. Newell was cofounder and President of SHOP.CA Network Inc., Canada's first eCommerce Marketplace, creating a national brand with over 15 million products across 5,000 brands from 1,500 suppliers.

Aleafia will diversify its product offerings by expanding into cannabis oils and derivatives: In October 2017, the federal government's Standing Committee on Health (HESA) voted for an amendment that, if approved by the House, will ensure derivative cannabis products (e.g. edibles and concentrates) will be available no later than 12 months after recreational legalization comes into force. The company is currently looking at strategies for the production and sale of cannabis oils. Management will either look to build their own extraction facility or they will outsource oil extraction and capsule manufacturing to an external partner.

If the Canadian market follows some of the trends seen in the U.S. states where recreational cannabis is legal, products derived from cannabis oils should become a large and growing segment of the market. Data from Colorado and Oregon show that while dried flower is still the dominant method of consumption, sales of derivatives have been gaining market share over the past few years. According to BDS Analytics, when adult-use sales began in Colorado, on January 1, 2014, flower immediately dominated. By the end of that year's first quarter, flower commanded 67% of all cannabis sales in the state. However, four years later in 2018 sales of flower during the first quarter sunk to 44%. During this same period the share of concentrates in the cannabis market expanded from 15% to 31%. Oregon's market data trends are quite similar to Colorado with sales of flower declining to 44% in Q1/18 from 54% in Q1/17. Concentrates now make up make up 27% (vs 21% in Q1/17) of Oregon's sales edibles make up 16% (vs. 11% in Q1/17).

FINANCIAL FORECAST

This new joint venture firmly positions Aleafia for its next phase of growth and we view this as a transformational development for the company. Following this announcement, we have made adjustments to our forecasts through 2020 and we have also introduced new 2021 estimates. Our new estimates are outlined below:

Figure 1: Financial Forecast

YE December 31	2018E	2019E	2020E	2021E
Revenue	$6,181	$50,782	$210,455	$390,972
EBITDA	-$6,899	$3,689	$69,493	$135,181
EBITDA margin	-111.6%	7.3%	33.0%	34.6%
Net income	-$10,349	-$3,342	$41,758	$87,669
Net margin	-167.4%	-6.6%	19.8%	22.4%
EPS f.d.	($0.08)	($0.02)	$0.26	$0.54
DGE Sales (mm)	500	6,857	24,207	37,867
DGE $/gram	$4.00	$4.01	$4.01	$3.94

Source: MRCC

MAINTAIN BUY RECOMMENDATION – INCREASING TARGET TO $6.50 FROM $1.75.

We are maintaining our BUY recommendation on Aleafia, but we are increasing our target price to $6.50 from $1.75. To arrive at our new $6.50 target, we applied a 12x EV/EBITDA multiple to our new 2021 estimate (adjusted for 51% of JV) and then discounted the result using a 10% discount rate.

RISKS TO TARGET

Risks to target include: International treaties, provincial concerns, retail channels and supply/demand

RELEVANT DISCLOSURES APPLICABLE TO COMPANIES UNDER COVERAGE

Relevant disclosures required under IIROC Rule 3400 applicable to companies under coverage discussed in this research report are available on our web site at www.mackieresearch.com.

ANALYST CERTIFICATION

Each analyst of Mackie Research Capital Corporation whose name appears in this report hereby certifies that (i) the recommendations and opinions expressed in this research report accurately reflect the analyst's personal views and (ii) no part of the research analyst's compensation was or will be directly or indirectly related to the specific conclusions or recommendations expressed in this research report.