



*EMERALD HEALTH THERAPEUTICS, INC.*

**Condensed Interim Consolidated Financial Statements**  
**(Unaudited)**

**For the three and nine months ended September 30, 2021 and 2020**

*(Expressed in Canadian Dollars)*

## **NOTICE OF NON-REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

In accordance with National Instrument 51-102 Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of these condensed interim consolidated financial statements, they must be accompanied by a notice indicating that these condensed interim consolidated financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The attached condensed interim consolidated financial statements for the nine months ended September 30, 2021 have not been reviewed by the Company's auditors.

Effective November 15, 2021, the Company engaged MNP LLP ("MNP") as its auditors upon the resignation of Deloitte LLP, its former auditors. As part of its engagement, MNP will be reviewing the Company's interim financial statements on an ongoing basis. As the appointment of MNP occurred very close to the filing deadline for the Company's condensed interim consolidated financial statements for the three and nine months ended September 30, 2021 and 2020, MNP was able to commence but not complete its review of the condensed interim consolidated financial statements before the filing deadline. MNP will continue and complete its review of the condensed interim consolidated financial statements.

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**EMERALD HEALTH THERAPEUTICS, INC.**
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

(Unaudited - Amounts reflected in thousands of Canadian dollars, except share and per share amounts)

	September 30 2021	December 31 2020
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents (Note 2 (d))	\$ 21,981	\$ 25,998
Accounts receivable	1,766	1,992
Receivable from Joint Venture Sale (Note 17)	-	20,286
Biological assets (Note 3)	563	969
Inventory (Note 4)	4,559	4,611
Prepaid expenses	999	1,135
Assets held-for-sale (Note 5)	3,087	-
Due from related parties (Note 8)	-	50
<b>Total current assets</b>	<b>32,955</b>	<b>55,041</b>
Plant and equipment (Note 5)	20,715	34,531
Plant under construction (Note 5)	-	5,411
Deposits on materials and equipment (Note 5)	77	214
Refundable deposits	379	575
Intangible assets (Note 6)	1,100	1,859
Promissory note receivable (Note 13)	421	-
Right-of-use assets (Note 14)	124	509
Long-term investment (Note 12, 13)	537	134
<b>Total non-current assets</b>	<b>23,353</b>	<b>43,233</b>
<b>TOTAL ASSETS</b>	<b>\$ 56,308</b>	<b>\$ 98,274</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (Note 19 (d))	\$ 4,670	\$ 11,019
Deferred payment (Note 7)	-	9,375
Due to related parties (Note 8)	70	1,619
Lease liability on held for sale assets (Note 14)	3,487	-
Lease liability (Note 14)	141	651
<b>Total current liabilities</b>	<b>8,368</b>	<b>22,664</b>
Lease liability (Note 14)	58	3,464
CEBA loan (Note 2 (e))	40	40
<b>TOTAL LIABILITIES</b>	<b>\$ 8,466</b>	<b>\$ 26,168</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 9)	252,717	249,763
Warrants (Note 11)	823	1,718
Contributed surplus	28,835	29,126
Accumulated deficit	(234,533)	(207,148)
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>47,842</b>	<b>73,459</b>
Non-controlling interest (Note 2, 8)	-	(1,353)
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 56,308</b>	<b>\$ 98,274</b>

Nature and continuance of operations (Note 1)

Events after the reporting period (Note 21)

On behalf of the Board of Directors:

/s/ Jim Heppell

Director

/s/ Punit Dhillon

Director

The accompanying notes form an integral part of these condensed interim consolidated financial statements

**EMERALD HEALTH THERAPEUTICS, INC.**
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**

(Unaudited - Amounts reflected in thousands of Canadian dollars, except share and per share amounts)

	Three months ended September 30 2021	Three months ended September 30 2020	Nine months ended September 30 2021	Nine months ended September 30 2020
<b>Revenue</b>				
Revenue from sale of goods (Note 15)	\$ 2,599	\$ 4,311	\$ 9,028	\$ 10,750
Excise taxes	(494)	(938)	(1,624)	(2,007)
<b>Net revenue</b>	<b>2,105</b>	<b>3,373</b>	<b>7,404</b>	<b>8,743</b>
<b>Cost of sales</b>				
Cost of goods sold	1,045	970	3,508	2,226
Production costs	1,373	2,177	4,150	3,596
Amortization of Health Canada license (Note 6)	1	29	4	458
Inventory write-down (Note 4)	274	1,819	677	2,874
Realized fair value amounts on inventory sold	462	1,528	2,062	4,158
Unrealized (gain) loss on changes in fair value of biological assets (Note 3)	(521)	2,339	(1,156)	825
<b>Gross (loss) profit</b>	<b>(529)</b>	<b>(5,489)</b>	<b>(1,841)</b>	<b>(5,394)</b>
<b>Expenses</b>				
General and administrative (Note 16)	2,356	2,732	6,839	7,410
Sales and marketing	579	287	1,573	1,222
Research and development	445	267	1,356	975
Depreciation and amortization (Note 5, 6, 14)	282	349	1,183	1,420
Share-based payments (Note 10)	204	755	541	2,585
Loss on disposal of equipment	235	32	249	235
	<b>4,101</b>	<b>4,422</b>	<b>11,741</b>	<b>13,847</b>
<b>Loss from operations</b>	<b>(4,630)</b>	<b>(9,911)</b>	<b>(13,582)</b>	<b>(19,241)</b>
Other (expenses) income				
Share of (loss) income from joint venture	-	(520)	-	4,497
Interest and other income	354	29	2,215	851
Finance costs and other expenses	(11)	(1,531)	(30)	(3,954)
Impairment of assets (Note 5, 6, 8)	(4,923)	(112)	(15,591)	(17,175)
Gain on settlement of deferred payment (Note 7)	-	-	293	-
Gain (loss) on dilution of joint venture ownership	-	-	-	(850)
Gain on sale of long term investment (Note 12)	-	-	249	-
Fair value changes in long-term investment (Note 13)	-	-	373	-
Fair value changes in financial assets (Note 12)	-	387	-	392
Exchange gain (Note 12, 13)	66	-	73	-
<b>Loss before income taxes</b>	<b>(9,144)</b>	<b>(11,658)</b>	<b>(26,000)</b>	<b>(35,480)</b>
<b>NET LOSS AND COMPREHENSIVE LOSS</b>	<b>(9,144)</b>	<b>(11,658)</b>	<b>(26,000)</b>	<b>(35,480)</b>
<b>Net loss and comprehensive loss attributable to:</b>				
Emerald Health Therapeutics, Inc.	(9,144)	(11,491)	(26,000)	(35,087)
Non-controlling interest	-	(167)	-	(393)
	<b>(9,144)</b>	<b>(11,658)</b>	<b>(26,000)</b>	<b>(35,480)</b>
<b>Net loss per common share</b>				
Basic and diluted	0.04	0.06	0.12	0.19
<b>Weighted average number of common shares outstanding</b>				
Basic and diluted	213,416,660	200,336,735	212,258,873	188,925,204

The accompanying notes form an integral part of these condensed interim consolidated financial statements

**EMERALD HEALTH THERAPEUTICS, INC.**
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

(Unaudited - Amounts reflected in thousands of Canadian dollars, except share and per share amounts)

	Share Capital		Warrants		Contributed Surplus	Convertible Debt Reserves	Accumulated Deficit	Total Shareholders' Equity	Non- Controlling Interest	Total Equity
	# of Shares	Amount	# of Warrants	Amount						
Balance, January 1, 2021	206,360,372	\$ 249,763	41,916,849	\$ 1,718	\$ 29,126	\$ -	\$ (207,148)	\$ 73,459	\$ (1,353)	\$ 72,106
Shares issued on option exercise (Note 9, 10)	191,875	80	-	-	(30)	-	-	50	-	50
Shares issued on restricted share unit vesting (Note 9, 10)	669,848	802	-	-	(802)	-	-	-	-	-
Shares issued on warrant exercises (Note 9, 11)	6,250,000	2,208	(6,250,000)	(895)	-	-	-	1,313	-	1,313
Share issuance costs	-	(136)	-	-	-	-	-	(136)	-	(136)
Share-based payments (Note 10)	-	-	-	-	541	-	-	541	-	541
Net loss and comprehensive loss	-	-	-	-	-	-	(26,000)	(26,000)	-	(26,000)
Acquisition of subsidiary with NCI (Note 8)	-	-	-	-	-	-	-	-	(32)	(32)
Acquisition of NCI without change of control (Note 8)	-	-	-	-	-	-	(1,385)	(1,385)	1,385	-
<b>Balance, September 30, 2021</b>	<b>213,472,095</b>	<b>\$ 252,717</b>	<b>35,666,849</b>	<b>\$ 823</b>	<b>\$ 28,835</b>	<b>\$ -</b>	<b>\$ (234,533)</b>	<b>\$ 47,842</b>	<b>\$ -</b>	<b>\$ 47,842</b>
Balance, January 1, 2020	160,986,373	\$ 237,151	26,470,671	\$ 2,449	\$ 28,146	\$ 383	\$ (164,196)	\$ 103,933	\$ (766)	\$ 103,167
Shares issued on prospectus offering	21,696,178	4,935	-	-	-	-	-	4,935	-	4,935
Shares issued on at-the-market offering	1,312,500	287	-	-	-	-	-	287	-	287
Share issued on settlement of related party transaction	9,713,666	2,914	-	-	(97)	-	-	2,817	-	2,817
Share issued on settlement of convertible debt interest	4,894,055	1,009	-	-	-	-	-	1,009	-	1,009
Warrants issued on prospectus offering	-	-	21,696,178	164	-	-	-	164	-	164
Shares issued on stock option exercises	175,000	726	-	-	(726)	-	-	-	-	-
Shares issued on warrant exercises	6,250,000	1,958	(6,250,000)	(895)	-	-	-	1,063	-	1,063
Share issuance costs	-	(379)	-	-	-	-	-	(379)	-	(379)
Share-based payments (Note 10)	-	-	-	-	2,585	-	-	2,585	-	2,585
Net loss and comprehensive loss	-	-	-	-	-	-	(35,087)	(35,087)	(393)	(35,480)
<b>Balance, September 30, 2020</b>	<b>205,027,772</b>	<b>\$ 248,601</b>	<b>41,916,849</b>	<b>\$ 1,718</b>	<b>\$ 29,908</b>	<b>\$ 383</b>	<b>\$ (199,283)</b>	<b>\$ 81,327</b>	<b>\$ (1,159)</b>	<b>\$ 80,168</b>

The accompanying notes form an integral part of these condensed interim consolidated financial statements

**EMERALD HEALTH THERAPEUTICS, INC.**
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited - Amounts reflected in thousands of Canadian dollars, except share and per share amounts)

	Nine months ended September 30 2021	Nine months ended September 30 2020
<b>Operating activities</b>		
Net loss	\$ (26,000)	\$ (35,480)
Items not involving cash		
Depreciation	2,158	3,851
Loss (gain) on changes in fair value of biological assets	(1,156)	825
Gain on changes in fair value of financial assets	-	(392)
Inventory write-down	677	2,874
Share-based payments	541	2,585
Share of income from joint venture	-	(4,497)
Interest and accretion expense	-	2,556
Impairment of assets	15,591	17,176
Loss on disposal of assets	249	218
Loss on dilution of Joint Venture ownership	-	850
Gain on settlement of deferred payment	(293)	-
Gain on sale of long-term investment	(249)	-
Gain on termination of lease	(34)	-
Gain on changes in fair value of long-term investment	(373)	-
Unrealized foreign exchange gain on investments	(70)	-
Conversion of investment warrants	(59)	-
Changes in non-cash operating working capital		
Accounts receivable	(15)	368
Due from related parties	-	(6)
Prepaid expenses	56	108
Inventory and biological assets	1,274	(1,905)
Accounts payable and accrued liabilities	(5,779)	5,517
Due to related parties	(1,499)	139
Net cash flows used in operating activities	(14,981)	(5,213)
<b>Investing activities</b>		
Investment in Joint Venture	-	(710)
Issuance of notes receivable	(447)	-
Long-term investment	(64)	-
Acquisition of assets	(5)	(519)
Deposits on material and equipment	(69)	(93)
Sale of plant and equipment	165	43
Sale of Joint Venture Interest (Note 17)	20,522	-
Sale of long-term investment	383	-
Purchase of plant and equipment	(1,157)	(782)
Purchase of intangible assets	(83)	(313)
Repayment of deferred payment	(9,000)	-
Net cash flows provided by (used in) investing activities	10,245	(2,374)
<b>Financing activities</b>		
Payment of lease liabilities	(246)	(363)
Acquisition of NCI	(32)	-
Proceeds from prospectus offering	-	5,100
Proceeds from at-the-market offering	-	287
Proceeds from CEBA loan (Note 2(e))	-	40
Share issuance costs	(136)	(380)
Warrant exercises	1,313	1,063
Stock option exercises	51	-
Interest paid	(231)	(267)
Net cash flows provided by financing activities	719	5,480
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(4,017)</b>	<b>(2,107)</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>25,998</b>	<b>2,525</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 21,981</b>	<b>\$ 418</b>
Supplemental Information:		
Fair value of shares issued to settle outstanding loan amount and trade payables	\$ -	\$ 2,914
Fair value of shares issued to settle interest on convertible debentures	\$ -	\$ 1,009

The accompanying notes form an integral part of these condensed interim consolidated financial statements

**EMERALD HEALTH THERAPEUTICS, INC.**

**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**For the three and nine months ended September 30, 2021 and 2020**

(Amounts reflected in thousands of Canadian dollars, except share and per share amounts)

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**1. Nature and Continuation of Operations**

Emerald Health Therapeutics, Inc. (the "Company"), was incorporated pursuant to the Business Corporations Act (British Columbia) on July 31, 2007. The common shares of the Company are listed on the Canadian Stock Exchange ("CSE") under the trading symbol "EMH." The Company is also traded on the OTCQX, with its common shares listed under the trading symbol "EMHTF."

The Company's registered and records office is at Suite 2500 – 666 Burrard Street, Vancouver, British Columbia, V6C 2X8.

The Company's principal business is the production, distribution, and sale of cannabis products in Canada, pursuant to the Cannabis Act (Canada) (the "Cannabis Act").

These condensed interim consolidated financial statements have been prepared by management on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. On November 29, 2021, subsequent to the financial statement date, the Company announced its intention to dispose of its cannabis production and sales business. As a result, effective November 29, 2021, the Company's cannabis production and sales business will be classified as assets held for sale. The Company's assets and liabilities have not been revalued as held for sale under IFRS 5 as at the September 30, 2021 reporting date of these condensed interim consolidated financial statements.

As at September 30, 2021, the Company had not yet achieved profitable operations, had a loss for the nine months ended September 30, 2021 of \$26,000 and accumulated losses since inception of \$234,533. As at September 30, 2021, the Company had \$21,981 in cash and cash equivalents. The Company is actively managing current cash flows until such time as the Company is profitable. Management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern, such as the need to commence profitable operations.

These condensed interim consolidated financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

**2. Significant Accounting Policies and Judgements**

*a) Basis of Presentation and Measurement*

These condensed interim consolidated financial statements of the Company have been prepared in accordance with International Accounting Standard 34 – *Interim Financial Reporting* using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. Unless otherwise noted, all amounts are presented in thousands of Canadian dollars, except share and per share data. These condensed interim consolidated financial statements were authorized for issue by the Audit Committee on November 29, 2021.

These condensed interim consolidated financial statements do not include all disclosures normally provided in annual financial statements and should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2020. Accordingly, accounting policies, estimates, and judgements applied are the same as those applied in the



**EMERALD HEALTH THERAPEUTICS, INC.****NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS****For the three and nine months ended September 30, 2021 and 2020**

(Amounts reflected in thousands of Canadian dollars, except share and per share amounts)

Company's consolidated financial statements for the year ended December 31, 2020, unless otherwise indicated. The Company assesses its accounting estimates and judgements every reporting period.

**b) COVID-19 Estimation Uncertainty**

In March 2020, the World Health Organization declared the outbreak of COVID-19 a global pandemic. The COVID-19 pandemic has impacted revenue in the Canadian consumer market, particularly in Ontario, as governments imposed retail access restrictions to curbside pickup at points during the pandemic, and have changed their purchasing patterns to reflect the slow-down in the market. The production and sale of medical and consumer cannabis have been recognized as essential services across Canada. All of the Company's facilities continue to be operational and the Company continues to work closely with local and national government authorities to ensure that the Company is following the required protocols and guidelines related to COVID-19 within each region.

Due to the rapid developments and uncertainty surrounding COVID-19, it is not possible to predict the impact that COVID-19 will have on the Company's business, financial position and operating results in the future. In addition, it is possible that estimates in the Company's financial statements will change in the near term as a result of COVID-19 and the effect of any such changes could be material, which could result in, among other things, impairment of long-lived assets including intangibles. The Company is closely monitoring the impact of the pandemic on all aspects of its business.

**c) Basis of Consolidation**

These condensed interim consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany transactions and balances are eliminated on consolidation. Subsidiaries are all entities over which the Company has control. The Company controls an entity when the Company 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 over the entity.

The subsidiaries of the Company at September 30, 2021 include the following:

Name of Entity	Ownership Interest as at September 30	Ownership Interest as at December 31
	2021	2020
Emerald Health Therapeutics Canada Inc. (EHTC)	100%	100%
Emerald Health Naturals Inc. (Naturals)	100%	51%
Avalite Sciences Inc. (Avalite)	100%	100%
Verdélite Sciences Inc. (Verdélite)	100%	100%
Verdélite Property Holdings Inc.	100%	100%

During the year ended December 31, 2020, the Company sold its equity interest in its Joint Venture Pure Sunfarms. See Note 17 for discussion relating to the sale.

During the nine months ended September 30, 2021, the Company acquired the remaining 49% interest in Naturals. See Note 8 for discussion relating to the acquisition.

**EMERALD HEALTH THERAPEUTICS, INC.****NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS****For the three and nine months ended September 30, 2021 and 2020**

(Amounts reflected in thousands of Canadian dollars, except share and per share amounts)

*d) Cash and cash equivalents*

Cash and cash equivalents are financial assets that are measured at amortized cost, which approximate fair value. Cash and cash equivalents include cash and redeemable short-term investment certificates held at major financial institutions as follows:

		<b>September 30</b>	<b>December 31</b>
	<b>Interest Rate %</b>	<b>2021</b>	<b>2020</b>
		\$	\$
GIC - Maturing February 10, 2022	0.05%	102	102
GIC - Maturing March 11, 2022	0.50%	31	31
High interest savings - revolving	0.01%	20,044	25,002
Cash	-	1,805	863
<b>Total</b>		<b>21,981</b>	<b>25,998</b>

*e) Government Grants*

Government grants are recognized where there is reasonable assurance that the grant will be received, and all attached conditions will be complied with. When the grant relates to an expense item, it is recognized as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. The Canadian Emergency Wage Subsidy ("CEWS") and the Canadian Emergency Business Account ("CEBA") are recognized as government grants. The Company applied for and received the CEWS, which provides a 75% wage subsidy effective March 15, 2020. During the three and nine months ended September 30, 2021, the Company determined that it is qualified for \$316 and \$1,559, respectively (September 30, 2020 - \$nil and \$787). The Company has recognized this amount as other income during the period.

On May 26, 2020, the Company obtained \$40 in revolving credit from the Government of Canada under the CEBA COVID-19 Economic Response Plan. The funding is granted in the form of an interest free revolving credit line of which up to \$40 may be drawn. On January 1, 2021, the \$40 balance remaining on the revolving credit line will automatically convert to a non-revolving term loan. Effective January 1, 2023, any outstanding balance on the term loan shall bear interest at a rate of 5% per annum. The term loan matures on December 31, 2025. If 75% of the outstanding balance of the non-revolving term loan is repaid on or before December 31, 2022, the remaining 25% of the balance shall be forgiven.

**EMERALD HEALTH THERAPEUTICS, INC.****NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS****For the three and nine months ended September 30, 2021 and 2020**

(Amounts reflected in thousands of Canadian dollars, except share and per share amounts)

**3. Biological Assets**

The following table highlights the sensitivities and impact of changes in significant assumptions on the fair value of biological assets. The Company uses the average wholesale market price per gram of dried bulk cannabis, based on quality (Tetrahydrocannabinol % and terpene profile), net of post harvest costs of drying, curing and bulk packaging, as the average market price per gram. The other significant assumptions used in determining the fair value of cannabis plants are as follows: plant attrition rate for various stages of development; percentage of total expected costs incurred to date; and costs incurred for each stage of plant growth.

Significant inputs & assumptions	Range of inputs		Sensitivity	Impact on fair value	
	September 30	December 31		September 30	December 31
	2021	2020		2021	2020
Average market price per gram less cost to sell	\$ 0.93	\$ 1.00	Increase/decrease of \$1 per gram	\$ 459	\$ 887
Weighted average yield (gram per plant)	126.44	114.01	Increase/decrease by 10 grams per plant	\$ 37	\$ 97

During the nine months ended September 30, 2021, the Company's biological assets produced 2,410 kilograms of dried cannabis flower (September 30, 2020 – 7,980 kilograms). As of September 30, 2021, it is expected that the Company's biological assets will yield approximately 827 kilograms of dried cannabis flower when harvested. As of September 30, 2021, the weighted average stage of growth for the biological assets was 61% (December 31, 2020 – 52%). The average number of days from the point of propagation to harvest was 105 days (December 31, 2020 – 108 days).

The Company's estimates are, by their nature, subject to change and changes in the significant assumptions will be reflected in the gain or loss on biological assets in future periods.

The Company's biological assets consist of cannabis seeds and cannabis plants. Changes in the Company's biological assets are as follows:

	September 30	December 31
	2021	2020
	\$	\$
Carrying amount, beginning of year	969	4,159
Effect of unrealized changes in fair value of biological assets	1,156	6,405
Transferred to inventory upon harvest	(1,562)	(9,595)
Carrying amount, end of period	563	969

As at September 30, 2021, included in the carrying amount of biological assets is \$84 (December 31, 2020 - \$84) in seeds and \$479 (December 31, 2020 - \$885) in live plants.

**EMERALD HEALTH THERAPEUTICS, INC.****NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS****For the three and nine months ended September 30, 2021 and 2020**

(Amounts reflected in thousands of Canadian dollars, except share and per share amounts)

**4. Inventory**

The Company's inventory comprises:

	<b>September 30 2021</b>	<b>December 31 2020</b>
	<b>\$</b>	<b>\$</b>
Harvested cannabis		
Work-in-process	<b>2,068</b>	2,348
Finished goods	<b>559</b>	225
	<b>2,627</b>	2,573
Extracted cannabis		
Work-in-process	<b>901</b>	1,171
Finished goods	<b>371</b>	267
	<b>1,272</b>	1,438
Supplies and consumables	<b>660</b>	600
	<b>4,559</b>	4,611

During the three and nine months ended September 30, 2021, inventory expensed to cost of goods sold was \$1,507 and \$5,570, respectively (September 30, 2020 – \$2,498 and \$6,384). The fair value change in biological assets that was included in cost of goods sold during the three and nine months ended September 30, 2021 was \$462 and \$2,062 (September 30, 2020 - \$1,528 and \$4,158).

During the three and nine months ended September 30, 2021, a write-down of \$274 and \$677 was recognized for dried bulk cannabis and packaged inventory (September 30, 2020 - \$1,819 and \$2,874) related to product deterioration, a packaging defect and limited remaining shelf life.

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**5. Property, Plant and Equipment**

The Company's property, plant and equipment continuity is as follows:

	Land	Buildings	Leasehold Improvement	Production, Lab and Growing Equipment	Computers	Other Equipment	Total
	\$	\$	\$	\$	\$	\$	\$
<b>Costs:</b>							
Balance, December 31, 2019	476	32,626	2,474	6,891	356	1,453	44,276
Additions	-	130	-	243	4	25	402
Disposals	-	-	-	(106)	(13)	-	(119)
Balance, December 31, 2020	476	32,756	2,474	7,028	347	1,478	44,559
Additions	-	493	2	200	33	8	736
Disposals	-	-	(123)	(262)	(12)	(272)	(669)
Asset held-for-sale	-	(11,967)	-	(1,430)	-	-	(13,397)
<b>Balance, September 30, 2021</b>	<b>476</b>	<b>21,282</b>	<b>2,353</b>	<b>5,536</b>	<b>368</b>	<b>1,214</b>	<b>31,229</b>

	Land	Buildings	Leasehold Improvement	Production, Lab and Growing Equipment	Computers	Other Equipment	Total
	\$	\$	\$	\$	\$	\$	\$
<b>Accumulated depreciation and impairments:</b>							
Balance, December 31, 2019	-	708	519	1,202	175	272	2,876
Additions	-	1,292	575	1,231	97	263	3,458
Disposals	-	-	-	(28)	(6)	-	(34)
Impairment	-	3,728	-	-	-	-	3,728
Balance, December 31, 2020	-	5,728	1,094	2,405	266	535	10,028
Additions	-	540	355	715	62	170	1,842
Disposals	-	-	(82)	(141)	(9)	(160)	(392)
Impairment	-	-	2	-	1	7	10
Asset held-for-sale	-	(665)	-	(309)	-	-	(974)
<b>Balance, September 30, 2021</b>	<b>-</b>	<b>5,603</b>	<b>1,369</b>	<b>2,670</b>	<b>320</b>	<b>552</b>	<b>10,514</b>

	Land	Buildings	Leasehold Improvement	Production, Lab and Growing Equipment	Computers	Other Equipment	Total
	\$	\$	\$	\$	\$	\$	\$
<b>Net book value:</b>							
<b>September 30, 2021</b>	<b>476</b>	<b>15,679</b>	<b>984</b>	<b>2,866</b>	<b>48</b>	<b>662</b>	<b>20,715</b>
December 31, 2020	476	27,028	1,380	4,623	81	943	34,531

Depreciation relating to manufacturing equipment and production facilities is capitalized into inventory and is expensed to cost of sales upon the sale of goods. For the three and nine months ended September 30, 2021, \$324 and \$976 (September 30, 2020 - \$717 and \$1,924) of depreciation was recognized in cost of sales.

*Impairment*
*Plant under construction ("PUC")*

At December 31, 2020, \$8,933 of expenditures had been capitalized to PUC relating to Phase 2 of the Metro Vancouver facility, and as described below, \$3,522 of the capitalized PUC was impaired at December 31, 2020, leaving a remaining balance of \$5,411, which was reclassified as assets held-for-sale, as per the following note.

**EMERALD HEALTH THERAPEUTICS, INC.**

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*Assets Held for Sale*

During the year ended December 31, 2020, the Company initiated a plan to close operations at the facility located in Metro Vancouver, British Columbia. During the nine months ended September 30, 2021, the Company listed the facility for sale, and as such reclassified the related assets and liabilities as held for sale.

During the year ended December 31, 2020, the fair value of this facility was determined based on a third-party appraisal using a FVLCD approach including the market and cost approaches. Consideration was given to information from manufacturers, historical data and industry standards which constitute both observable and unobservable inputs (level 2 and level 3). As a result, the Company recognized an impairment loss of \$8,105, split between the building asset, PUC and the ROU Land asset (Note 14), which were impaired by \$1,373, \$3,522 and \$3,210 respectively for the year ended December 31, 2020. These assets and the corresponding impairment loss was allocated to the cannabis operating segment (Note 18).

During the three and nine months ended September 30, 2021, the Company determined there was a further fair value loss on the reclassification to assets held for sale based on market conditions and additional third-party sales broker information. The broker information was used to determine a listing price for the facility, and was determined using information from manufacturers, historical data and industry standards which constitute both observable and unobservable inputs (level 2 and level 3). This resulted in recording an impairment of \$15,023; \$9,763 against the building, \$4,550 against PUC, and \$710 of production, lab and growing equipment. The remaining asset value of \$3,087 relating to the Metro Vancouver facility and reclassified to assets held for sale includes \$1,539 of buildings, \$411 of production and growing equipment, \$860 of PUC and \$277 of long-term deposits.

*Deposits*

During the nine months ended September 30, 2021, the Company prepaid for intangible assets, grow equipment, extraction equipment, packaging equipment and construction that totalled \$77 (December 31, 2020 - \$214).

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**6. Intangible Assets**

The Company's intangible assets continuity is as follows:

	Patents	Extraction Assets	Health Canada Licence	Computer Software	Total
<b>Cost:</b>	\$	\$	\$	\$	\$
Balance, December 31, 2019	802	370	89,174	1,236	91,582
Additions	76	187	-	22	285
Balance, December 31, 2020	878	557	89,174	1,258	91,867
Additions	84	-	-	-	84
Disposal	-	-	-	(11)	(11)
<b>Balance, September 30, 2021</b>	<b>962</b>	<b>557</b>	<b>89,174</b>	<b>1,247</b>	<b>91,940</b>

	Patents	Extraction Assets	Health Canada Licence	Computer Software	Total
<b>Accumulated amortization and impairments:</b>	\$	\$	\$	\$	\$
Balance, December 31, 2019	-	-	71,717	339	72,056
Additions	-	-	487	535	1,022
Impairment	90	-	16,840	-	16,930
Balance, December 31, 2020	90	-	89,044	874	90,008
Additions	-	-	4	280	284
Disposal	-	-	-	(9)	(9)
Impairment	-	557	-	-	557
<b>Balance, September 30, 2021</b>	<b>90</b>	<b>557</b>	<b>89,048</b>	<b>1,145</b>	<b>90,840</b>

	Patents	Extraction Assets	Health Canada Licence	Computer Software	Total
<b>Net book value:</b>	\$	\$	\$	\$	\$
<b>September 30, 2021</b>	<b>872</b>	<b>-</b>	<b>126</b>	<b>102</b>	<b>1,100</b>
December 31, 2020	788	557	130	384	1,859

The Company reviews the carrying value of its intangibles at each reporting period for indicators of impairment. During the period ended September 30, 2021, management noted indicators of impairment at the asset specific level. The extraction assets were determined to no longer be of use to the Company, and therefore the full \$557 was impaired.

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**7. Deferred Payment of Verdélite Purchase**

On January 13, 2021, the Company settled all outstanding amount owing to the Vendors of Verdélite in connection with the Company's 2018 acquisition. \$9,000 was paid, fully settling all remaining amounts owing including accrued interest. As a result, the Company no longer has any liability to the Vendors with respect to the purchase of Verdélite. A gain of \$293 was recognized on settlement.

**8. Related Party Transactions***With Emerald Health Sciences Inc.*

As at September 30, 2021, Emerald Health Sciences Inc. ("Sciences") held an aggregate of 39,401,608 Common Shares, representing 18% (December 31, 2020 – 39,401,608 shares, representing 19%) of the issued and outstanding Common Shares and it also held 9,099,706 (December 31, 2020 – 9,099,706) common share purchase warrants of the Company.

As at September 30, 2021, the Company owed \$nil (December 31, 2020 - \$1,327) to Sciences for total services provided. These amounts are included in the due to related parties caption on the consolidated statements of financial position and bear interest at a rate of 10% per annum. As at September 30, 2021, Sciences owed the Company \$nil (December 31, 2020 – \$50) for invoices paid on behalf of Sciences, this amount is included in the due from related parties caption on the consolidated statements of financial position and is non-interest bearing.

*With the Company's former joint venture*

As of September 30, 2021, Pure Sunfarms owes the Company \$170 (December 31, 2020 - \$170) for expenditures made on behalf of the joint venture. As at September 30, 2021 the Company owes to Pure Sunfarms \$5 (December 31, 2020 - \$5). These amounts were re-classified from the respective Due To and Due From Related Parties, to the respective accounts receivable and accounts payable on the consolidated statements of financial position at the date of sale (Note 17). Amounts are non-interest bearing.

*With a Company Controlled by the Company's Former Executive Chairman*

During the year ended December 31, 2017, the Company entered into a 30-year lease with a company (the "Landlord") that is controlled by Avtar Dhillon, MD, the former Executive Chairman of the Company with respect to land in Metro Vancouver, British Columbia on which the Company constructed its production facility. The lease amount was determined by an independent valuation and was approved by the nonconflicted directors of the Company. During the three and nine months ended September 30, 2021, the Company paid to the Landlord \$95 and \$286 (September 30, 2020 - \$99 and \$269) in rent. As at September 30, 2021, the Company recognized lease liabilities held for sale of \$3,487 (December 31, 2020 - \$3,516) relating to the land in Metro Vancouver. As of August 6, 2021, the company controlled by Avtar Dhillon ceased to be a related party upon his resignation.



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*With an Entity with Common Directors*

On May 11, 2021, the Company acquired the remaining 49% equity ownership in Naturals that was held by Emerald Health Bioceuticals ("Bioceuticals") for \$32 (US\$25). The Company now owns 100% ownership in Naturals, which was reflected by the movement of \$1,385 from Non-Controlling Shareholders' Interest ("NCI") to the Company's equity.

	<b>September 30, 2021</b>
	<b>\$</b>
Acquisition of 49% ownership interest	<b>(32)</b>
Net assets attributable to NCI	<b>(1,353)</b>
Decrease in equity attributable to the Company	<b>(1,385)</b>

Management's intention is to dispose of Naturals which is no longer operational. As a result, management evaluated Naturals' net assets for impairment at June 30, 2021. Taking into account the Company's intention to dispose of the asset, management concluded that the carrying value of certain assets, namely inventory and fixed assets were higher than the recoverable amount and recorded an impairment loss of \$131 of inventory and \$10 of furniture, fixtures and equipment.

**Remuneration of directors and key management of the Company**

The remuneration awarded to directors and to senior key management including the former Executive Chairman, the Chief Executive Officer and President, the former Chief Financial Officer, the former Chief Commercial Officer, the Chief Operating Officer, the Senior Vice President, Quality and Regulatory Affairs, the Vice President, Sale and Marketing, and the former Senior Vice President, Operations includes the following expenses recognized during the period:

	<b>For the three months ended September 30 2021</b>	<b>For the three months ended September 30 2020</b>	<b>For the nine months ended September 30 2021</b>	<b>For the nine months ended September 30 2020</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Wage and short term benefits	<b>505</b>	<b>366</b>	<b>1,846</b>	<b>1,271</b>
Share-based compensation (Note 10)	<b>70</b>	<b>395</b>	<b>362</b>	<b>1,194</b>
	<b>575</b>	<b>761</b>	<b>2,208</b>	<b>2,465</b>

Included in Due to Related Parties on the consolidated statements of financial position at September 30, 2021 is \$70 (December 31, 2020 - \$52) due to related parties with respect to key management personnel and expense reimbursements and are non-interest bearing.

These transactions are in the normal course of operations and are measured at the exchange value, being the amounts agreed upon between the parties.

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**9. Share Capital**

## Authorized

- Unlimited number of Common Shares without par value
- Unlimited number of preferred shares without par value, issuable in series

## Issued

- 213,472,095 Common Shares (December 31, 2020 – 206,360,372)
- Nil preferred shares (December 31, 2020 – nil)

During the nine months ended September 30, 2021, the outstanding share capital increased by 7,111,723 Common Shares due to the following transactions:

- During February 2021, 6,250,000 September Warrants at an exercise price of \$0.21 per Common Share were exercised by the holders resulting in proceeds of \$1,313 to the Company;
- On February 6, 2021, 359,848 restricted stock units vested, resulting in the issuance of 359,848 Common Shares for no cash proceeds;
- On April 1, 2021, 160,000 restricted stock units vested, resulting in the issuance of 160,000 Common Shares for no cash proceeds;
- A total of 191,875 stock options were exercised ranging in exercise price from \$0.21 to \$0.29 for gross proceeds of \$50; and
- On August 3, 2021, 150,000 restricted stock units vested, resulting in the issuance of 150,000 Common Shares for no cash proceeds

**10. Share-Based Compensation***(a) Stock Options*

The following table summarizes the stock options that remain outstanding as at September 30, 2021:

	Stock Options	Weighted Average Exercise Price
	#	\$
Balance at December 31, 2019	12,381,634	2.99
Granted	9,877,500	0.24
Forfeited	(3,547,222)	2.85
Exercised	(1,500,000)	0.45
Balance at December 31, 2020	17,211,912	1.66
Granted	300,000	0.23
Forfeited	(2,090,917)	1.62
Exercised	(191,875)	0.26
Expired	(938,333)	0.72
Balance at September 30, 2021	14,290,787	1.71

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During the three and nine months ended September 30, 2021, the Company granted 300,000 stock options to employees, directors and consultants. The stock options granted had an exercise price of \$0.23 and have an expiry date of five years. Stock options issued to employees and consultants vest over three years and stock options issued to directors vest either immediately, or over twelve months. The weighted average fair value of the stock options granted was \$0.14. There were no options exercised during the three months ended September 30, 2021. During the nine months ended September 30, 2021, 191,875 stock options were exercised with an average weighted trading share price of \$0.39.

The fair values of the options granted during the nine months ended September 30, 2021 and 2020 were determined on the date of the grant using the Black-Scholes option pricing model with the following assumptions:

		<b>September 30 2021</b>		September 30 2020
Share price	\$	<b>0.23</b>	\$	0.24
Risk free interest rate		<b>0.48%</b>		0.25% - 1.65%
Expected life of options (years)		<b>2.99</b>		2.59
Expected annualized volatility		<b>100.86%</b>		93.07% - 104.54%
Expected dividend yield		<b>Nil</b>		Nil
Weighted average Black-Scholes value of each option	\$	<b>0.14</b>	\$	0.14

Volatility was determined by using the historical volatility of the Company. The expected life in years represents the period of time that options granted are expected to be outstanding. The risk-free rate is based on Canada government bonds with a remaining term equal to the expected life of the options.

Incentive stock options outstanding and exercisable at September 30, 2021 are summarized as follows:

<b>Outstanding</b>				<b>Exercisable</b>	
<b>Range of exercise prices</b>	<b>Quantity</b>	<b>Remaining contractual life (years)</b>	<b>Weighted average exercise price</b>	<b>Quantity</b>	<b>Weighted average exercise price</b>
\$			\$		\$
0.165 - 0.20	1,500,000	3.58	0.17	1,500,000	0.17
0.21 - 0.28	3,413,875	3.91	0.21	1,951,625	0.21
0.29 - 2.99	4,299,412	3.08	0.67	2,636,037	0.80
3.00 - 4.15	3,432,500	2.35	3.90	3,020,625	3.89
4.16 - 5.69	1,645,000	1.28	4.43	1,645,000	4.43
	<b>14,290,787</b>	<b>2.95</b>	<b>1.71</b>	<b>10,753,287</b>	<b>2.03</b>

The Company recorded share-based compensation expense related to the stock options of \$201 and \$468 for the three and nine months ended September 30, 2021 (September 30, 2020 - \$532 and \$1,843). The expense has been charged to the consolidated statements of loss and comprehensive loss. The share-based compensation expense for the nine months ended September 30, 2021 is net of \$92 of reversed expense related to cancelled options due to the Company's restructuring and close down of the Metro Vancouver facility.

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**(b) Restricted Share Units ("RSUs")**

The following table summarizes the RSUs that remain outstanding as at September 30, 2021:

	Number of RSUs	Weighted average fair value per unit at issue
		\$
Balance, December 31, 2019	670,000	4.46
Granted	550,000	0.27
Forfeited	(140,152)	4.15
Expired	(375,000)	4.56
<b>Balance at December 31, 2020</b>	<b>704,848</b>	<b>1.24</b>
Exercised	(669,848)	1.20
Cancelled	(35,000)	1.34
<b>Balance at September 30, 2021</b>	<b>-</b>	<b>-</b>

During the three and nine months ended September 30, 2021, the Company did not issue any RSUs. The Company recorded share-based compensation expense related to the RSUs of \$3 and \$73 for the three and nine months ended September 30, 2021 (September 30, 2020 - \$223 and \$742) to the consolidated statements of loss and comprehensive loss. During the nine months ended September 30, 2021, 669,848 restricted stock units vested triggering the issuance of 669,848 Common Shares, for no cash proceeds.

**11. Warrants**

	Number of Warrants	Weighted Average Exercise Price
		\$
Balance at December 31, 2019	26,470,671	0.42
Issued in February 2020	10,344,827	0.39
Exercised in April 2020	(6,250,000)	0.17
Issued in June 2020	11,351,351	0.27
Balance at December 31, 2020	41,916,849	0.41
Exercised in February 2021 (a)	(6,250,000)	0.21
<b>Balance at September 30, 2021</b>	<b>35,666,849</b>	<b>0.45</b>
<b>Expiry:</b>		
November 2021	4,411,764	0.85
June 2023	11,351,351	0.27
November 2024	4,385,965	0.75
December 2024	5,172,942	0.39
February 2025	10,344,827	0.39
<b>Balance at September 30, 2021</b>	<b>35,666,849</b>	<b>0.45</b>

(a) During February 2021, the remaining 6,250,000 September Warrants were exercised by the holders at an exercise price of \$0.21, resulting in proceeds of \$1,313 to the Company.

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**12. Long-term Investments***Avricore*

On November 27, 2017, the Company purchased 1,666,667 units of Avricore, a related party, pursuant to a subscription agreement dated November 7, 2017. Each unit entitled the holder to 1,666,667 common shares and 1,666,667 common share purchase warrants. The common shares of Avricore are traded on the TSX Venture Exchange under the symbol "AVCR."

Each warrant entitled the holder to purchase one common share at the price of \$0.20 per share. The warrants were to expire November 27, 2022, or earlier if the accelerated exercise provision is enacted. If the closing sales price trades at \$0.25 or higher for 10 consecutive trading days, and Avricore, within 5 days of such event, provides notice by way of news release to the holders of the warrants of the early expiry of the warrants, then the warrants shall expire 30 days from the date of notice.

	Fair value December 31 2020	Change in fair value	Fair value September 30 2021
	\$		\$
Avricore - warrants (1)	134	-	-
<b>Total</b>	<b>134</b>	<b>-</b>	<b>-</b>

(1) Sold during the period ended June 30, 2021

During the period from October 5 to October 13, 2020, the Company sold its shares in Avricore. As at September 30, 2020, the fair value of the shares had increased by \$200 to \$250 from December 31, 2019, with this amount being recorded as a gain on change in fair value. The total sale amount of the 1,666,667 shares totaled \$206, resulting in a loss on sale of \$44.

On February 9, 2021, the Company exercised 1,666,667 common share purchase warrants at an exercise price of \$0.20 per share, recording a gain of \$516. During the period from February 11 to February 25, 2021, the Company sold its share in Avricore for gross proceeds of \$716, recording a loss of \$267.

*The Uplifters' Prima's, PBC ("Prima")*

On May 15, 2021, the Company made a strategic investment of \$64 (US\$50) in Prima's Series Seed-1 Preferred Stock financing round. Prima is a privately held entity, and the Company's investment was recorded at the investment amount which approximated fair value using Level 2 inputs. As at September 30, 2021, the value of the investment was \$67, resulting in an unrealized foreign exchange gain of \$3 being recorded.

**13. Promissory Note**

On May 5, 2021, the Company issued a promissory note to FlowerPod, LLC ("FlowerPod") (the "Note") of US\$350 that is receivable from FlowerPod within two years and bears interest at 5% per annum. Along with the Note, the Company received 13,545 common share purchase warrants (the FlowerPod Warrants") that were exercisable for 10 years at US\$0.01 per share. The Note, which bears an off-market interest rate, was fair valued at issuance using the future cash flows model using an interest rate for similar debt where no

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equity component was also issued, which was estimated to be 12%. This resulted in an estimated fair value of \$US307. The residual value of \$59 (\$US42) was determined to be the fair value of the FlowerPod Warrants. The Note will be accreted to face value over the term to maturity as a non-cash gain, for the three and nine months ended September 30, 2021, \$13 and \$20 of interest income was recorded. As at September 30, 2021, the value of the note was \$421, resulting in an unrealized foreign exchange gain of \$29 was recorded.

On May 5, 2021, the Company exercised the 13,545 FlowerPod Warrants at a price of \$0.01 per share, which represents an 18.71% ownership interest. The fair value of the common shares was determined using the funding round subscription price of \$32 (US\$26) per share (level 2), resulting in a fair value of \$432 (US\$352), and a gain of \$373 on the investment. As at September 30, 2021, the value of the investment was \$470, resulting in an unrealized foreign exchange gain of \$37 being recorded.

**14. Leases**

The Company's leases consist primarily of land, office space, as well as miscellaneous production and other equipment. Information about the right-of-use assets and associated lease liabilities are seen below.

*(a) Right-of-Use Assets*

	Land	Buildings	Equipment	Total
	\$	\$	\$	\$
<b>Costs:</b>				
Balance, applied January 1, 2020	3,634	3,146	161	6,941
Additions	-	57	-	57
Disposals	-	(1,774)	-	(1,774)
Balance, applied December 31, 2020	3,634	1,429	161	5,224
Additions	-	8	1	9
Disposals	-	(413)	(93)	(506)
<b>Balance, September 30, 2021</b>	<b>3,634</b>	<b>1,024</b>	<b>69</b>	<b>4,727</b>
<b>Accumulated Depreciation:</b>				
Balance, applied January 1, 2020	303	968	42	1,313
Additions	121	460	44	625
Disposals	-	(433)	-	(433)
Impairment	3,210	-	-	3,210
Balance, applied December 31, 2020	3,634	995	86	4,715
Additions	-	196	21	217
Disposals	-	(289)	(40)	(329)
<b>Balance, September 30, 2021</b>	<b>3,634</b>	<b>902</b>	<b>67</b>	<b>4,603</b>
<b>Carrying value:</b>				
<b>September 30, 2021</b>	<b>-</b>	<b>122</b>	<b>2</b>	<b>124</b>
December 31, 2020	-	434	75	509

As noted above in Note 5, the ROU Land asset is part of the Metro Vancouver facility and was impaired by \$3,210 during the year ended December 31, 2020. The ROU Land asset was impaired since the Metro Vancouver facility, that sits on the ROU Land asset, had operations shut down. The full carrying value for the ROU Land asset was impaired since there is no recoverable amount for the Company related to the Land. There was no change to the related liability on the lease. During the nine months ended September

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30, 2021, the lease liability related to the ROU Land asset of the Metro Vancouver facility totalling \$3,487 was reclassified to held for sale.

*(b) Lease Liabilities*

The following table reconciles the opening and ending balances of the lease liabilities:

	\$
Lease liabilities recognized at December 31, 2020	4,115
Lease renewals	10
Lease disposals	(193)
Lease payments	(477)
Lease liability on held for sale assets	(3,487)
Interest incurred	231
<b>Balance, September 30, 2021</b>	<b>199</b>
<b>As at September 30, 2021</b>	<b>\$</b>
Lease obligations	199
Less current portion	(141)
<b>Non-current portion</b>	<b>58</b>

The Company expects the following maturities of its undiscounted lease liabilities:

<b>Contractual Undiscounted Cash Flows:</b>	
	\$
Within 1 year	461
1 - <3 years	722
3 - <5 years	645
Over 5 years	6,640
<b>Balance, September 30, 2021</b>	<b>8,468</b>

For the three and nine months ended September 30, 2021, an amount of \$31 and \$108 (September 30, 2020 - \$52 and \$168) was recorded in operating costs for the Company related to variable lease payments, and amounts relating to short term leases, and leases for low value assets.

Included in the table above is the lease liability relating to the land in Metro Vancouver of \$3,487 classified as held for sale.

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**15. Revenue**

A summary of the Company's sales by product line is provided in the table below:

	<b>For the three months ended September 30, 2021</b>	<b>For the three months ended September 30, 2020</b>	<b>For the nine months ended September 30, 2021</b>	<b>For the nine months ended September 30, 2020</b>
	\$	\$	\$	\$
Dried Cannabis	2,026	3,595	6,310	7,839
Concentrates, Extracts and Edibles	573	695	2,713	2,775
Other	-	21	5	136
<b>Total</b>	<b>2,599</b>	<b>4,311</b>	<b>9,028</b>	<b>10,750</b>

**16. General and Administrative Expenses**

	<b>For the three months ended September 30 2021</b>	<b>For the three months ended September 30 2020</b>	<b>For the nine months ended September 30 2021</b>	<b>For the nine months ended September 30 2020</b>
	\$	\$	\$	\$
Professional, director and consulting fees	784	1,416	1,995	2,631
Corporate communications and media	24	54	75	198
Wages and benefits	818	775	2,589	3,000
Office and general	712	487	2,142	1,496
Travel and accommodations	18	-	38	85
<b>Total</b>	<b>2,356</b>	<b>2,732</b>	<b>6,839</b>	<b>7,410</b>

**17. Disposal of Interest in Joint Venture**

On February 9, 2021, the Company received from the Joint Venture partner \$19,900 plus \$622 in interest, representing full repayment of the promissory note issued by the Joint Venture partner to the Company as part of its purchase of the Company's interest in Pure Sunfarms. This was the final payment due as part of this transaction.



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**18. Segmented Information**

Key measures used by the CODM to assess performance and make resource allocation decisions include revenues, gross margin and net (loss) income. The Company's operating results are divided into two reportable segments. The two reportable segments are (i) Cannabis; and (ii) Other. The Company primarily operates in the Cannabis segment. All revenues are generated in Canada. The Company's investments in FlowerPod and Prima are located in the United States.

	<b>Cannabis</b>	<b>Other</b>	<b>Total</b>
	\$	\$	\$
For the three months ended Septemebr 30, 2021			
Sales	2,599	-	2,599
Gross margin	(527)	(2)	(529)
Interest and other income	316	38	354
Loss from operations	(2,577)	(2,053)	(4,630)
Net loss and comprehensive loss	(7,969)	(1,175)	(9,144)
For the nine months ended September 30, 2021			
Sales	9,028	-	9,028
Gross margin	(1,704)	(137)	(1,841)
Interest and other income	1,253	961	2,214
Loss from operations	(7,527)	(6,055)	(13,582)
Net loss and comprehensive loss	(24,004)	(1,996)	(26,000)
	<b>Cannabis</b>	<b>Other</b>	<b>Total</b>
	\$	\$	\$
For the three months ended September 30, 2020			
Sales	4,290	21	4,311
Gross margin	5,427	62	5,489
Interest and other income	16	13	29
Loss from operations	(6,283)	(3,628)	(9,911)
Net loss and comprehensive loss	(7,615)	(4,043)	(11,658)
Share of loss from joint venture	(520)	-	(520)
For the nine months ended September 30, 2020			
Sales	10,668	82	10,750
Gross margin	5,140	254	5,394
Interest and other income	729	122	851
Loss from operations	(9,071)	(10,170)	(19,241)
Net loss and comprehensive loss	(23,640)	(11,840)	(35,480)
Share of income from joint venture	4,497	-	4,497

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**19. Financial Instruments**

Financial instruments are measured either at fair value or at amortized cost. The table below lists the valuation methods used to determine fair value of each financial instrument.

The carrying value of the cash and cash equivalents, accounts receivable (excluding statutory receivable balances), due from related parties, refundable deposits, note receivable, accounts payable and accrued liabilities, deferred payment, payable to joint venture and amounts due to related parties, approximate the fair value because of the short-term nature of these instruments. These are carried at amortized cost.

The carrying values of the financial instruments at September 30, 2021 are summarized in the following table:

	Amortized cost	FVTPL
	\$	\$
<b>Financial Assets</b>		
Cash and cash equivalents	21,981	-
Accounts receivable, excluding sales taxes receivable	1,766	-
Promissory note receivable	421	-
Long-term investments	-	537
<b>Financial Liabilities</b>		
Accounts payable and accrued liabilities	4,670	-
Lease liability	3,686	-
CEBA loan	40	-

The Company is exposed to varying degrees to a variety of financial instrument related risks:

*(a) Currency risk*

The Company's functional and presentation currency is the Canadian dollar and major purchases are transacted in Canadian dollars. As a result, the Company's exposure to foreign currency risk is minimal.

*(b) Credit risk*

Credit risk is the risk of an unexpected loss to the Company if a customer or third-party to a financial instrument fails to meet its contractual obligations. The Company's maximum exposure to credit risk as at September 30, 2021 is the carrying value of its financial assets. The Company's cash and redeemable short-term investment certificates are largely held in large Canadian financial institutions. The Company does not have any asset backed commercial paper. The Company maintains cash deposits with Schedule A financial institutions, which from time to time may exceed federally insured limits. With regards to receivables, the Company is not exposed to significant credit risk as the Company's sales are to government bodies or are typically paid at the time of the transaction. The Company provides credit to some of its customers in the normal course of business. The majority of the trade receivables held are with crown corporations. During the nine months ended September 30, 2021, the Company earned 72% of its total revenues from four major provincial government entities.

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*(c) Interest rate risk*

Interest rate risk is the risk the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Financial assets and liabilities with variable interest rates expose the Company to cash flow interest rate risk. The Company does not hold any financial liabilities with variable interest rates. The Company does maintain bank accounts and redeemable short-term investment certificates which earn interest at variable rates, but it does not believe it is currently subject to any significant interest rate risk.

*(d) Liquidity risk*

The composition of the Company's accounts payable and accrued liabilities was as follows:

	<b>September 30 2021</b>	December 31 2020
	\$	\$
Trade payables	<b>2,896</b>	6,296
Accrued liabilities	<b>519</b>	903
Excise tax payable	<b>300</b>	2,239
Payroll liabilities	<b>172</b>	1,046
Sales tax liabilities	<b>774</b>	529
Other payables	<b>9</b>	6
<b>Total</b>	<b>4,670</b>	11,019

In addition to the commitments outlined in Note 14 - Leases, the Company has the following gross contractual obligations as at September 30, 2021, which are expected to be payable in the following respective periods:

	Total	Over 1 year - 3 ≤ 1 year      years	
	\$	\$	\$
Accounts payable and accrued liabilities	4,670	4,670	-
CEBA loan	40	-	40
	4,710	4,670	40

Liquidity risk is the risk that the Company will not be able to meet its obligations associated with financial liabilities. As at September 30, 2021, the Company had working capital of \$24,587 (December 31, 2020 – \$32,377).

The Company manages liquidity risk through the management of its capital structure and resources to ensure that it has sufficient liquidity to settle obligations and liabilities when they are due. Management monitors its operating requirements and prepares budgets and cash flow forecasts to identify cash flow needs for general corporate and working capital purposes. The Company's ability to fund its operating requirements depends on future operating performance and cash flows, which are subject to economic, financial, competitive, business, and regulatory conditions, and other factors, some of which are beyond its control, such as the potential impact of COVID-19. The Company's primary short-term liquidity needs are to fund its net operating losses, capital expenditures to maintain existing facilities, debt repayments, and

**EMERALD HEALTH THERAPEUTICS, INC.**

**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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lease payments. The Company's medium-term liquidity needs primarily relate to debt repayments and lease payments. The Company's long-term liquidity needs primarily relate to potential strategic plans.

**20. Capital Management**

As at September 30, 2021, the capital structure of the Company consists of \$56,308 (December 31, 2020 - \$98,274) in shareholders' equity and debt.

The Company's objective when managing its capital is to ensure sufficient equity financing to fund its planned operations in a way that maximizes the shareholder return given the assumed risks of its operations. The Company considers shareholders' equity as capital. Through the ongoing management of its capital, the Company will modify the structure of its capital based on changing economic conditions. In doing so, the Company may issue new shares. Annual budgeting is the primary tool used to manage the Company's capital. Updates are made as necessary to both capital expenditure and operational budgets in order to adapt to changes in risk factors, proposed expenditure programs and market conditions.

**21. Subsequent Events**

On November 29, 2021, the Company announced its intention to dispose of its cannabis production and sales business and pivot to a pharmaceutical development focus. As a result, effective November 29, 2021, the Company's cannabis production and sales business will be classified as assets held for sale. The Company's assets and liabilities have not been revalued as held for sale under IFRS 5 as at the September 30, 2021 reporting date of these condensed interim consolidated financial statements.