EMERALD HEALTH THERAPEUTICS, INC.

MANAGEMENT DISCUSSION AND ANALYSIS
For the three months ended March 31, 2018

Dated: May 28, 2018

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Forward-Looking Statements

Certain statements contained in this Management Discussion and Analysis ("MD&A") constitute forward-looking information or forward-looking statements under applicable securities laws (collectively, "forward-looking statements"). These statements relate to future events or future performance, business prospects or opportunities of Emerald Health Therapeutics, Inc. and its subsidiaries (together the "Company" or "Emerald"). All statements other than statements of historical fact may be forward-looking statements. Any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions or future events or performance (often, but not always, using words or phrases such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "forecast", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions) are not statements of historical fact and may be "forward-looking statements".

Examples of forward-looking statements in this MD&A include, but are not limited to, statements in respect of: the Company's intention to significantly increase its production of cannabis and cannabis oils through a multi-phase expansion plan; the building of a Health Canada licensed production facility to expand growing capability; the conversion to cannabis production of the 1.1 million-square foot (25-acre) greenhouse facility located on a 50-acre parcel of land in Delta, British Columbia (with ancillary buildings) by Village Farms International Inc. ("Village Farms") to Pure Sunfarms Corp. ("Pure Sunfams"), the Company's joint venture with Village Farms; the exercise by Pure Sunfarms to lease or purchase additional greenhouses from Village Farms; the expansion of the Company's 500,000 square foot greenhouse in Metro Vancouver, British Columbia; the purchase by the Company of 40% of Pure Sunfarms' production in 2018 and 2019; the payment of an additional $22.5 million in cash in respect of the acquisition of 8611165 Canada Inc. and its affilicate 9353-8460 Quebec Inc. (together "Agro-Biotech") and the planned expansion and production of Agro-Biotech; the investment by the Company of $5.0 million for a 51% ownership of 1160305 B.C. Ltd., to be renamed Emerald Health Naturals Inc. ("EHN); the grant by Emerald Health Bioceuticals, Inc. ("EHB") to EHN of the exclusive Canadian distribution rights to EHB's product line for 49% ownership of EHN; the expansion of Northern Vine Canada Inc.'s ("Northern Vine") operations; the development of a foundational blockchain-based supply chain management system and e-commerce marketplace for the legal cannabis industry; the entering into of a definitive agreement with Namaste Technologies Inc. to collaborate on strategic business opportunities worldwide and develop a fully integrated e-commerce platform to serve as a retail channel for the Company's patients; potential proceeds from the exercise of the Company's outstanding common share purchase warrants; increasing the Company's plant diversity and product offering; improving the Company's cultivation, manufacturing and standardization processes; partnerships with professional organizations in connection with educating medical service providers about medical cannabis products; the development of distribution channels for non-medical cannabis products in Canada; the expectations that no draft regulations relating to Bill C-45 *An Act respecting cannabis and to amend the Controlled Drugs and Substances Act, the Criminal Code and Other Acts* (the "Cannabis Act") will be released prior to July 1, 2018 and that the Cannabis Act will return to the Senate for a final debate and vote by June 7, 2018; the commencement of the legal adult use cannabis sales in Canada in August or September 2018; potential effects of regulations under the Cannabis Act and legislation introduced by provincial governments; the Company communicating with medical doctors and other healthcare professionals and providing the best education and services to these professionals; the Company undertaking clinical research to study the effects of its products on client health; the Company's longer term strategy of becoming a leading provider of quality products for the broader adult recreational cannabis market; the Company being able to take advantage of the legalization of adult use recreational cannabis when it occurs; the Company being well positioned to serve the adult use recreational cannabis market across Canada when the Cannabis Act is enacted through partnerships and acquisitions; the Company's intentions to acquire and/or construct additional cannabis production and manufacturing facilities and to expand the Company's marketing and sales initiatives; the Company achieving production at Pure Sunfarms' facility in the near term; and benefits received by the Company from its transactions with Emerald Health Sciences Inc. ("Sciences"), a control person of the Company, and the opportunities that such transactions provide; rapid production capacity expansion; the production gap for medical and non-therapeutic adult-use cannabis; building valuable intellectual property in Canada which could lead to accelerated sales growth and profit margins; and future sales opportunities in other emerging medical markets and the effect that each risk factor will have on the Company.

Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The reader of these statements is cautioned that any such statements are not guarantees of future performance and actual results or developments may differ materially from those projected in the forward-looking statements. These forward-looking statements involve risks and uncertainties relating to, among others: market price of cannabis; continued availability of capital financing and general economic, market or business conditions; reliance on cultivation, production and sales licences to produce and sell medical cannabis and cannabis oils issued to the Company under the ACMPR and its ability to maintain these licences; regulatory risks relating to the Company's compliance with the ACMPR; regulatory approvals for expansion of current production facility, development of new production facilities and greenhouse retrofits by the Company and Pure Sunfarms; Pure Sunfarms' reliance on its licence to cultivate cannabis issued to it under the ACMPR and its ability to maintain this licence; Northern Vine's reliance on its dealer licence to provide analytical testing of cannabis and production of Cannabidiol ("CBD") oil issued to it under the ACMPR and its ability to maintain this licence; the Company's ability to execute its multi-phase expansion plan and its plans with Pure Sunfarms; the Company's ability to execute a definitive agreement with DMG Blockchain and establish a joint venture; the Company's ability to execute a definitive agreement with Namaste and establish a joint venture; changes in laws, regulations and guidelines relating to medical cannabis including the adoption of the Cannabis Act, the implementation of provincial and territorial legislation related to the Cannabis Act and changes to the Excise Tax Act by the federal government of Canada; changes in government; changes in government policy; increased competition in the cannabis market; the limited operating history of the Company; the Company's reliance on key persons; difficulties in securing additional financing; unfavourable publicity or consumer perception of the cannabis industry; the impact of any negative scientific studies on the effects of cannabis; difficulties in construction or in obtaining qualified contractors to complete greenhouse retrofits; actual operating and financial performance of facilities, equipment and processes relative to specifications and expectations; results of litigation; the Company's ability to develop and commercialize pharmaceutical products; failure to obtain regulatory approval for pharmaceutical products; changes in the Company's over-all business strategy; and restrictions of the TSX Venture Exchange on the Company's business. See "Risks and Uncertainties" in this MD&A and other factors described in the Company's Annual Information Form under the heading "Risk Factors".

The Company believes that the expectations reflected in any forward-looking statements are reasonable, but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in, or incorporated by reference into, this MD&A should not be unduly relied upon. These statements speak only as of the date of this MD&A. The Company does not intend, and does not assume any obligation, to update these forward-looking statements, except as required by applicable laws. Actual results may differ materially from those expressed or implied by such forward-looking statements.

Management's Discussion and Analysis

The following MD&A is prepared as of May 28, 2018 is intended to assist the understanding of the results of operations and financial condition of the Company.

This MD&A should be read in conjunction with the unaudited condensed interim consolidated financial statements and accompanying notes of the Company for the three months ended March 31, 2018 which have been prepared in accordance with International Financial Reporting Standards ("IFRS") and International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34"). The reader should also refer to the audited financial statements and MD&A for the year ended December 31, 2017. This MD&A contains forward-looking statements that are subject to risk factors set out in a cautionary note contained herein. All figures are in Canadian dollars unless otherwise noted.

Additional information related to the Company is available on its website at www.emeraldhealth.ca. Other information related to the Company, including the Company's most recent Annual Information Form ("AIF") and financial statements referred to herein are available on the Canadian Securities Administrator's website at www.sedar.com.

Overview

The Company is a publicly traded company with headquarters in Victoria, British Columbia, Canada. Common shares of the Company (the "Common Shares") are listed on the TSXV under the trading symbol "EMH". The Company is classified as a Tier 1 Venture Issuer on the TSXV. The Company also trades on the OTCQX® Best Market, operated by OTC Markets Group under the ticker symbol "EMHTF", and on the Frankfurt Exchange, under the symbol "TBD".

The subsidiaries and joint ventures of the Company at March 31, 2018 are:

Name of entity	Ownership
Emerald Health Therapeutics Canada Inc. (formerly Emerald Health Botanicals)	100%
Pure Sunfarms Canada Inc.	100% (1)
Northern Vine Canada Inc.	53%
Pure Sunfarms Corp.	50%

Note:
(1) Pure Sunfarms has an option to acquire at any time 100% of the common shares of Pure Sunfarms Canada Inc. from the Company.

Through its operations, subsidiaries, and joint venture the Company is focused on four priorities to meet the current needs of the Canadian legal cannabis market and future demand in the therapeutic and non-therapeutic adult-use market: 1) Significant production expansion; 2) Research and development and clinical work; 3) Extraction expertise and value-added product development supported by protected intellectual property; and 4) Expanding nationwide distribution channels.

Recent Developments and Events after the Reporting Period

Expansion projects

The Company's joint venture, Pure Sunfarms continues to move towards achieving its goal of large-scale, high-quality, low-cost cannabis production. On March 2, 2018, Pure Sunfarms received its cannabis cultivation licence from Health Canada. The first harvests at Pure Sunfarms were completed in May 2018, and the process to attain its cannabis sales licence from Health Canada is currently underway. Additional space continues to be developed for cannabis production at the Pure Sunfarms' 1.1 million-square foot (25-acre) greenhouse facility located on a 50-acre parcel of land in Delta, British Columbia ("Delta 3"), with the entire 1.1 million square foot Delta 3 site expected to be in production in 2019.

The combination of Emerald's cannabis experience with its joint venture partner, Village Farms International, Inc. ("Village Farms"), a leading North American greenhouse produce grower, is expected to optimize the path to rapidly and cost effectively accelerate large scale, high quality, low cost Canadian cannabis production. It is estimated that the initial greenhouse could yield more than 75,000 kg of dried cannabis annually upon completion of conversion and full licensing.

Pure Sunfarms also holds options to lease or purchase from Village Farms a second 1.1 million square foot (25 acre) greenhouse ("Delta 2") and a 2.6 million square foot (60 acre) greenhouse ("Delta 1"). Both Delta 2 and Delta 1 are located adjacent to Delta 3. Combined, these three greenhouse assets provide the joint venture with a total potential aggregate production capacity of up to 4.8 million square feet (110 acres).

The Company continues to focus on its second expansion project, the building of a 500,000 square foot greenhouse in Metro Vancouver, British Columbia. The Company has recently experienced delays in obtaining required permitting for this project.

Supply Agreement

On April 30, 2018 the Company entered into a supply agreement with Pure Sunfarms whereby the Company has agreed to purchase 40% of Pure Sunfarms' production in 2018 and 2019, at a pre-determined price per gram.

This agreement secures a significant source of cannabis for the Company as it endeavours to be an important supplier of high-quality cannabis in the anticipated legalized adult-use cannabis market.

Acquisitions

On May 2, 2018 the Company acquired 100% of the issued and outstanding shares of 8611165 Canada Inc. and its affiliate 9353-8460 Quebec Inc. (together "Agro-Biotech") for consideration of $90 million, subject to adjustment, payable 50% in cash and 50% in Common Shares. The Company paid $22.5 million in cash upon closing and $45 million was satisfied by the issuance of 9,911,894 Common Shares, of which 4,955,947 Common Shares will be held in escrow until May 1, 2019, pursuant to an escrow agreement. An additional $22.5 million in cash is payable on May 1, 2019.

Agro-Biotech is a Licenced Producer under the ACMPR. Located in Saint-Eustache, Quebec. Agro-Biotech's assets include land and a 75,000 square foot indoor grow facility. The acquisition will increase the Company's growing capacity and strengthen its ability to market its products in Eastern Canada and nationwide.

The indoor hydroponic growing facility, which has access to low-cost energy and water, will be capable of high-yield production of Emerald's unique cannabis strains, several of which are currently being grown in Agro-Biotech's facility. Agro-Biotech's extensive experience in cannabis cultivation complements Emerald's downstream product development focus, which is backed by its depth of pharmaceutical industry R&D and clinical development expertise, and extensive consumer packaged goods and alcohol beverage marketing experience.

Agro-Biotech has built out 20,000 square feet of this facility and Emerald expects to have a total of 75,000 square feet equipped for indoor cannabis cultivation by year end at the Quebec facility. Emerald intends to meet the requirements to apply for an ACMPR sales licence for this facility before the end of August. This operation is estimated to have full production capacity exceeding 10,000 kg annually following completion of the build-out by year end. With the anticipated introduction of legalized recreational cannabis in Canada, Emerald's acquisition of Agro-Biotech expands its capacity to meet increased consumer demand in the second half of 2018.

On April 24, 2018, a statement of claim (the "Claim") was served on Agro-Biotech and its former shareholders by Pivot Phamaceuticals Inc. ("Pivot"), a party with whom Agro-Biotech and its former shareholders had previously entered into a non-binding letter of intent with respect to a potential sale of Agro-Biotech. The Claim seeks to recover $72.4 million in damages for loss of profits allegedly suffered as result of the bad faith and lack of cooperation by Agro-Biotech and its shareholders in the negotiations surrounding the contemplated acquisition by Pivot of Agro-Biotech. The Company believes the Claim is without merit and intends to defend the Claim to the fullest extent possible. See "*Risk and Uncertainties - Current Litigation relating to Agro-Biotech Acquisition*".

Emerald Health Naturals Inc.

On April 17, 2018 the Company entered into a binding agreement with EHB (a company related by common ownership), 1160305 BC Ltd., GAB Innovations, Inc. and Dr. Gaetano Morello, a director of Sciences, with respect to the formation of EHN. Subject to regulatory approval, the Company has agreed to invest $5.0 million for 51% ownership of EHN and EHB will grant EHN the exclusive Canadian distribution rights to EHB's product line for 49% ownership of EHN. EHB's product line consists of nutritional supplements, which use non-cannabis, non-psychoactive plant-based ingredients to provide potentially beneficial support to the body's endocannabinoid system.

The agreement launches the Company's multi-pronged program to market and sell a proprietary, award-winning non-cannabis line of endocannabinoid-supporting nutritional products in Canadian grocery, natural health product, and pharmacy stores.

Market research commissioned by the Company identified that approximately 6 of 10 current legal cannabis users also use natural health products. This strong consumer overlap between the two markets creates a unique opportunity for the Company to establish its health brand and begin sales of endocannabinoid-supporting products in natural health product channels. These channels are not expected to be authorized to sell cannabis under the anticipated Canadian federal cannabis regulations for recreational use expected in 2018. If these channels are approved in the future, the Company will be well positioned to leverage its brand and channel presence to introduce its cannabis-based products into these channels.

Northern Vine Canada Inc.

On May 15, 2018 the Company exercised its right to purchase additional common shares of Northern Vine for $2.75 million, increasing its ownership of Northern Vine to 65%. The additional investment will allow Northern Vine to expand its operations in oil extraction.

Namaste Technologies Inc.

On January 30, 2018 the Company and Namaste signed a non-binding letter of intent whereby the Company and Namaste propose to enter into a definitive agreement to collaborate on strategic business opportunities worldwide and develop a fully integrated e-commerce platform to serve as a retail channel for the Company's patients.

DMG Blockchain Solutions Inc.

On January 26, 2018 the Company and DMG Blockchain signed a non-binding letter of intent to form a joint venture, to be named CannaChain Technologies, for the purpose of developing a foundational blockchain-based supply chain management system and e-commerce marketplace for the legal cannabis industry.

Financings

In January, February and May 2018, the Company completed financings that resulted in total gross proceeds from unit issuances and warrant exercises of $67.8 million (net proceeds – $67.5 million) and has the potential to a raise an additional $41.8 million if the remaining outstanding warrants from these financings are exercised prior to expiry. The Company intends to use the proceeds of the financings to fund the completion of capital projects and potential future expansion and acquisitions, including partnership transactions, for research and development, to expand the Company's existing extraction capabilities, and for working capital and general corporate purposes.

On May 22, 2018 the Company closed a prospectus sale to a single Canadian institutional accredited investor (the "Investor") of 4,000,000 units pursuant to a supplement dated May 16, 2018 to the Company's base shelf prospectus at a price per unit of $4.20 for gross proceeds of $16,800,000. Each unit consists of one Common Share and one common share purchase warrant of the Company. Each warrant is exercisable into one Common Share for a period of eighteen months at a price of $5.20 per Common Share with an expiry date of November 22, 2019. In the event that the closing price of the Common Shares on the TSX Venture Exchange or such other principal stock exchange on which the Common Shares are then listed is greater than $6.50 per Common Share for a period of twenty consecutive trading days at any time after the closing on the prospectus sale, the Company may accelerate the expiry date of the warrants by giving notice to the warrant holders and in such case, the warrants will expire on the 30th day after the date on which notice is given by the Company.

On February 14, 2018 the Company closed a prospectus sale to the Investor of 3,000,000 units pursuant to a supplement dated February 9, 2018 to the Company's base shelf prospectus at a price per unit of $6.00 for gross proceeds of $18,000,000. Each unit consists of one Common Share and one common share purchase warrant of the Company. Each warrant is exercisable into one Common Share for a period of six months at a price of $7.00 per Common Share with an expiry date of August 9, 2018. In the event that the closing price of the Common Shares on the TSX Venture Exchange or such other principal stock exchange on which the Common Shares are then listed is greater than $8.50 per Common Share for a period of five consecutive trading days at any time after the closing on the prospectus sale, the Company may accelerate the expiry date of the warrants by giving notice to the warrant holders and in such case, the warrants will expire on the 15th day after the date on which notice is given by the Company.

On January 9, 2018 the Company closed a prospectus sale to the Investor of 3,000,000 units pursuant to a supplement dated January 5, 2018 to the Company's base shelf prospectus at a price per unit of $5.00

for gross proceeds of $15,000,000. Each unit consists of one Common Share and one common share purchase warrant of the Company. Each warrant was exercisable into one Common Share for a period of three years at a price of $6.00 per Common Share with an expiry date of January 9, 2021, subject to acceleration. On February 15, 2018 the 3,000,000 warrants were exercised for total gross proceeds of $18,000,000.

Research and development

The Company's research and development team has been continuing its work to increase plant diversity, as well as improving on its cultivation, manufacturing, and standardization processes in anticipation of a significant scale up.   In addition, the Company continues to develop its product offerings.

Sales and distribution

The Company remains committed to supplying medical clients with access to high quality medical cannabis under the ACMPR and, in partnership with other professional organizations, the Company intends to continue to communicate with medical doctors and other healthcare professionals, and to provide education and services to these professionals about medical cannabis products.

The Company's strategy also includes becoming a leading provider of high quality, low cost products for the broader cannabis market.   The Company believes it is well positioned to benefit from the legalization of non-medical cannabis in Canada, expected in the last half of 2018.

In April 2018 the Company engaged DDB Canada as its agency of record. DDB Canada will work to launch various brand initiatives and scale the Company's marketing communication efforts based on both domestic and global growth plans.

The Company's sales and marketing team continues to work with the provinces as they develop the distribution channels for non-medical cannabis products across Canada.

Regulatory

On April 13, 2017, the federal government of Canada introduced before parliament Bill C-45 *An Act respecting cannabis and to amend the Controlled Drugs and Substances Act, the Criminal Code and Other Acts* (the "Cannabis Act"), the draft legislation setting out the federal regulatory framework for legalization of cannabis for non-medical purposes. On March 22, 2018, Bill C-45 passed second reading in the Senate, giving the bill approval in principle. The bill now proceeds to the Standing Senate Committee for closer scrutiny, witness testimony and proposed amendments before returning to the Senate for a final debate and vote expected by June 7, 2018.

Once Bill C-45 is passed by the Senate, it is expected to receive royal assent and become law, however the Federal Health Minister has stated that an additional eight to twelve weeks will be needed from such date to prepare for retail sales.   It is anticipated that legal adult use cannabis sales in Canada will commence August or September 2018.

In addition, many other aspects regarding the distribution, sale and taxation of non-medical cannabis will be subject to provincial and municipal jurisdiction. The Company is currently preparing for the various governing regulations including packaging, product specifications, and distribution requirements and anticipates being regulatory compliant when legal adult use sales commence in Canada.

Until the Cannabis Act is in force, existing laws remain in place and the terms of the Cannabis Act are subject to change.

Disclosure of Outstanding Share Data

The Company's authorized share capital consists of an unlimited number of Common Shares of which 121,485,612 were issued and outstanding as of March 31, 2018 and 135,397,506 were issued and outstanding as of May 28, 2018, of which 4,955,947 will be held in escrow until May 1, 2019.

During the three months ended March 31, 2018, the Company granted an aggregate of 695,000 stock options to directors, employees and consultants. Each option is exercisable into one Common Share for a period of up to five years. The exercise prices at the time of the grants ranged from $5.21 and $6.68 per share. Subsequent to the period ended March 31, 2018, the Company granted an additional 50,000 stock options, with an exercise price of $4.55 per share, exercisable for up to five years.

There were 10,097,591 stock options and 830,000 restricted share units outstanding as of March 31, 2018. As of May 28, 2018, there were 10,147,591 stock options and 830,000 restricted share units outstanding.

There were 7,411,764 warrants outstanding as of March 31, 2018. As of May 28, 2018, there were 11,411,764 warrants outstanding.

Summary of Quarterly Results

The financial information in the following tables summarize selected financial information for the Company for the last eight quarters which was derived from annual financial statements prepared in accordance with IFRS or interim financial statements prepared in accordance with IFRS applicable to the preparation of interim financial statements, *IAS 34, Interim Financial Reporting*:

	2018	**2017**		
	March 31 ($)	**December 31 ($)**	**September 30 ($)**	**June 30 ($)**
Revenue	373,218	279,362	211,316	245,708
Share-based payments	1,954,047	1,979,553	271,968	369,788
Interest revenue	250,064	43,024	60,997	57,497
Share of loss from joint venture	(301,793)	(44,562)	(278,016)	-
Net Loss	(5,045,420)	(4,027,569)	(1,939,371)	(1,669,026)
Net Loss per share (basic and diluted)	(0.04)	(0.04)	(0.02)	(0.02)

	2017	2016		
	March 31 ($)	December 31 ($)	September 30 ($)	June 30 ($)
Revenue	201,268	124,251	48,933	38,729
Share-based payments	201,186	137,113	467,878	37,618
Net Loss	(1,205,858)	(880,424)	(1,009,841)	(546,336)
Net Loss per share (basic and diluted)	(0.02)	(0.01)	(0.02)	(0.01)

Results of Operations

Quarter ended March 31, 2018

The net loss for the quarter ended March 31, 2018 was $5.0 million (loss of $0.04 per share), compared to the net loss of $1.2 million (loss of $0.02 per share) for the same quarter in the prior year. Diluted loss per share is the same as basic loss per share as the outstanding options and warrants have an anti-dilutive effect on the loss per share.

Factors contributing to the net loss for the three-month period ended March 31, 2018 include the following:

Revenue

Revenue for the quarter ended March 31, 2018 was $373,218 compared to $201,268 for the same period in the prior year. The Company had a larger client base in the current period, resulting in an increase in revenue compared to the prior year. For the quarter ended March 31, 2018, revenue was comprised of approximately 43% dried product and 57% oils, compared to approximately 81% dried product and 19% oils in the quarter ended March 31, 2017.

Cost of goods sold

Cost of goods sold currently consists of three main categories: (i) cost of goods sold expensed to inventory (ii) production costs, and (iii) change in the fair value of biological assets.

Cost of sales represents the deemed cost of inventory that arose from the fair value measurement of biological assets, subsequent post-harvest costs capitalized to inventory, purchased dried cannabis, costs to produce cannabis oils capitalized to inventory (including the deemed cost of dried inventory that arose from the fair value measurement of biological assets that were used to produce cannabis oils), and packaging costs. Cost of goods sold expensed to inventory for the quarters ended March 31, 2018 and 2017 was $305,527 and $165,752 respectively. The increases in cost of goods sold in the current period is directly related to the increase in the amount of product sold by the Company.

Production costs include all indirect production related costs, including security, compliance, quality control and quality assurance costs, as well as related overhead. In addition, all inventory costs in excess of net realizable value are expensed to production costs. In the quarter ended March 31, 2018, the Company incurred production costs of $175,646 versus $165,361 in the quarter ended March 31, 2017.

The increase is due to more plants cultivated in the three months ended March 31, 2018 as compared to the three months ended March 31, 2017.

Changes in the fair value of biological assets is part of the Company's cost of goods sold due to IFRS standards relating to agriculture and biological assets (i.e. living plants or animals). This line item currently represents the change in fair value in biological assets (cannabis plants and seeds) during the period. The change in biological assets for the quarter ended March 31, 2018 was a gain of $392,991 compared to a gain of $90,345 in the same quarter in the prior year. The increase is due to the Company growing more plants at during the three months ended March 31, 2018.

Total gross margin is impacted significantly by the change in fair value for biological assets and the production cycle of those biological assets, resulting in an improvement in gross margin for the three months ended March 31, 2018 of $285,036, compared to the three months ended March 31, 2017 of $(39,500). Gross margin was also positively impacted by increased production volumes achieved in the three months ended March 31, 2018 as compared to the three months ended March 31, 2017.

Other expenses

General and Administrative – During the quarter ended March 31, 2018 the Company incurred general and administrative expenses of $2.6 million versus $0.8 million for the quarter ended March 31, 2017. The current quarter included expenses related to a significant increase in activities including corporate branding, business development, media, and project management to prepare for the anticipated legal adult use market. Additional staff have been hired and office space has been expanded. In the quarter ended March 31, 2018, general and administrative costs included; salaries and benefits of $381,612 (2017 - $145,689), consulting and professional services fees of $1,550,409 (2017 - $391,690), corporate branding and media $347,769 (2017 - $114,312), office and insurance of $256,827 (2017 - $93,755) and travel and accommodation of $75,389 (2017 - $43,510). Included in consulting and professional service fees, for the quarter ended March 31, 2018, are $1,050,000 in management fees to Sciences as per the amended agreement effective January 2018, see discussion of the management agreement with Sciences under "Transactions with Related Parties."

Sales and marketing – In the quarter ended March 31, 2018, the Company incurred sales and marketing expenses of $285,897 versus $92,169 in the comparable 2017 prior period. The current period increase reflects the increase in sales and marketing activity as the Company works towards branding the Company and launching products in anticipation of the legal adult use market.

Research and development – In the quarter ended March 31, 2018, the Company incurred research and development expenses of $97,544 versus $43,162 in the comparable 2017 prior period. Research and development projects in the current quarter include development and testing of processes to manufacture capsules and designing clinical trials. The prior period included research on cannabis oils and early stage planning for clinical trials.

Share-based compensation – In the quarter ended March 31, 2018, the Company incurred share-based compensation expenses of $1,954,047 versus $201,186 in the comparable 2017 prior period. The amounts are compensation expenses related to employee, director and consultant incentive stock options and restricted share units which are measured at fair value at the date of grant and expensed over the vesting period. During the current quarter, the Company granted 695,000 stock options and 5,000 restricted share units to employees and consultants. The increase in the share-based compensation expense is due to a significantly larger number of granted and outstanding options as at March 31, 2018 then there were as at March 31, 2017.

Share of loss from joint venture – In the quarter ended March 31, 2018, the Company recognized $301,793 as its 50% share of the loss from the Pure Sunfarms joint venture, which commenced operations during the three months ended September 30, 2017. Pure Sunfarms has begun producing cannabis for sale and expects to receive a cannabis sales licence from Health Canada in 2018.

Additional Disclosure for Venture Issuers Without Significant Revenue

As the Company did not have significant revenue from operations in either of its last two financial years, the following is a breakdown of the material costs incurred:

	For the three months ended March 31, 2018 ($)	For the three months ended March 31, 2017 ($)
Expensed research and development costs	$97,544	$43,162
General and administrative expenses	$2,612,006	$788,956
Purchase of plant and equipment	$2,276,511	$106,268

Liquidity and Capital Resources

The Company continually monitors and manages its cash flow to assess the liquidity necessary to fund operations. As at March 31, 2018, the Company had positive working capital of $88.7 million.

While the Company has incurred losses to date, management anticipates profitability of the business, though there can be no assurance that the Company will gain adequate market acceptance for its products or be able to generate sufficient gross margins to reach profitability.

The Company has committed to various projects which may require significant cash injections over the next 24 months, including the expansion of service and production facilities of Northern Vine, the Pure Sunfarms retro-fit of Delta 3, and potential retro-fits of Delta 2 and Delta 1; the Company's new production facility in Metro Vancouver, British Columbia; and Agro-Biotech's indoor grow facility. As at March 31, 2018, the Company committed to payments of $2.2 million during the remainder of 2018 for the supply of material and labour to build greenhouses at the Metro Vancouver site.

On May 15, 2018, the Company exercised its right to purchase additional common shares of Northern Vine for $2.75 million, increasing its ownership of Northern Vine to 65%.

In May 2018, the Company expended $22.5 million, and has agreed to pay an additional $22.5 million cash on May 1, 2019, under the Agro-Biotech purchase agreement.

Also in May 2018, the Company committed to contributing $5.0 million cash to EHN in exchange for a 51% initial ownership in EHN (subject to regulatory approval).

In addition, the Company has entered into operating lease commitments for land and office space through 2047. The future minimum lease payments for the next five years and thereafter are as follows:

	Due by year ending						
	Remainder of 2018	2019	2020	2021	2022	2023	Thereafter
Production facilities	$152,601	$183,230	$52,403	$31,113	$2,593	$-	$-
Office space	$71,820	$95,760	$39,900	$-	$-	$-	$-
Temporary housing	$24,300	$2,700	$-	$-	$-	$-	$-
Land	$240,000	$320,000	$320,000	$320,000	$320,000	$320,000	$7,440,000
Total	**$488,721**	**$601,690**	**$412,303**	**$351,113**	**$322,593**	**$320,000**	**$7,440,000**

Operating, Investing and Financing Activities

The chart below highlights the Company's cash flows:

	For the three months ended March 31, 2018 ($)	For the three months ended March 31, 2017 ($)
Net cash provided by (used in):		
Operating activities	($3,358,422)	($924,213)
Investing activities	($6,742,824)	($106,268)
Financing activities	$55,081,616	$12,566,750
Increase in cash	$44,980,370	$11,536,269

Cash used in operating activities for the three months ended March 31, 2018 was $3.4 million, compared to cash used of $1.0 million in the prior period. The current period amount reflects the increase in general and administrative expenditures, the increase in sales and marketing expenditures, and cash outflows from payments of current liabilities and increase in current assets from the prior year ended December 31, 2017 and acquired balances during the three months ended March 31, 2018.

Cash used in investing activities for the three months ended March 31, 2018 was $6.7 million, compared to cash used of $0.1 million in the prior year. In the current period, $2.0 million was used to invest in the Pure Sunfarms joint venture transaction; $2.0 million was paid as a deposit for the greenhouse being built at the Metro Vancouver site; $2.6 million was used in construction of the new production facility at the Metro Vancouver site; and $0.1 million was used to purchase lab extraction equipment.

Cash provided by financing activities for the three months ended March 31, 2018 was $55.1 million, compared to cash provided of $12.6 million in the prior period. Cash generated in the current period included $32.8 million from net proceeds received on the prospectus offerings completed in January and February 2018, $21.9 million received from warrant exercises, and $0.4 million from stock option exercises.

Financial Risk Management

The Company's board of directors has overall responsibility for the establishment and oversight of the Company's risk management policies on an annual basis. Management identifies and evaluates the Company's financial risks and is charged with the responsibility of establishing controls and procedures to ensure financial risks are mitigated in accordance with the approved policies.

Measurement uncertainty and impairment assessments

As of March 31, 2018, management of the Company has determined that no impairment indicators of its assets were present and no additional impairment write-downs in excess of those that had been previously recorded were required. Management continues to review each of its assets for indications of impairment.

Transactions with Related Parties

The Company has transactions with a control person of the Company, a company controlled by the Company's Executive Chairman, a company whose CEO is also a director of the Company, and with its joint venture.

With Emerald Health Sciences Inc.

The Company entered into a management agreement with Sciences, a control person of the Company, in May 2015, which has subsequently been amended, most recently in January 2018. For consideration of $350,000 per month, Sciences provides services and support in the following areas: corporate administration and strategy development, facility management and construction, corporate finance and advisory, including providing access to capital, business development, human resources, scientific and technical advice, and intellectual property development. With access to these services, the Company has been able to identify potential opportunities, select endeavours to pursue, successfully negotiate and develop key strategic partnerships. Most recently, access to services provided by Sciences was instrumental in the success of the January 2018, February 2018, and May 2018 financings, the acquisition of Agro-Biotech, the negotiation of the supply agreement with Pure Sunfarms, and the development of binding agreement to create EHN.

During the three months ended March 31, 2018 Sciences exercised 4,077,687 warrants at a price of $0.27 per warrant for total gross proceeds to the Company of $1,100,975.

As at March 31, 2018, Sciences held an aggregate of 45,234,242 Common Shares, representing approximately 37% of the issued and outstanding Common Shares and it held 4,411,764 common share purchase warrants of the Company.

With a company controlled by the Company's Executive Chairman

In 2017, the Company entered into a 30-year lease with a company (the "Landlord") that is controlled by Dr. Avtar Dhillon, the Executive Chairman of the Company with respect to land in Metro Vancouver, British Columbia on which the Company is constructing its new production facility. The lease amount of $80,000 per quarter was determined by an independent valuation. The Landlord also charged the Company $25,720 during the three months ended March 31, 2018 (2017 - $Nil) for services related to construction of the Company's new facility.

With a company whose CEO is also a director of the Company

As at March 31, 2018, the Company holds 1,666,667 common shares and 1,666,667 common share purchase warrants of VANC Pharmaceuticals Inc ("VANC") for investment purposes. The CEO of VANC is also a director of the Company.

The 1,666,667 common shares represent 5.3% of the issued and outstanding common shares of VANC at the date of this MD&A. Upon exercise of the common share purchase warrants of VANC, the Company will hold 3,333,334 common shares of VANC, representing 10.6% of the issued and outstanding common shares of VANC, assuming no other share issuances.

With the Company's joint venture

The Company also has related party transactions with Pure Sunfarms. As at March 31, 2018, Pure Sunfarms owes the Company $0.8 million (December 31, 2017 - $0.3 million) for expenditures made on behalf of the joint venture. These expenditures were made to facilitate the administration of the retro-fit of the Delta 3 property and Health Canada licence application. It is expected that once Pure Sunfarms is fully operational this type of transaction will cease. It is anticipated that future related party transactions with Pure Sunfarms will comprise of the purchase of cannabis from Pure Sunfarms.

Proposed Transactions

There are no material decisions by the Company's board of directors with respect to any imminent or proposed transactions that have not been disclosed herein.

Critical Accounting Policies and Estimates

Included in Note 3 of the Company's audited consolidated financial statements for the years ended December 31, 2017 and 2016 are the accounting policies and estimates that are critical to the understanding of the business operations and results of operations. Included in Note 3 of the Company's condensed interim consolidated financial statements for the three months ended March 31, 2018 are new accounting policies and changes to existing accounting policies adopted during the current year.

Changes in Accounting Standards not yet Effective

There are no relevant changes in accounting standards applicable to future periods other than as disclosed in the most recent annual financial statements for the year ended December 31, 2017.

Off-Balance Sheet Arrangements

The Company has not entered into any material off-balance sheet arrangements such as guarantee contracts, contingent interests in assets transferred to unconsolidated entities, derivative financial obligations, or with respect to any obligations under a variable interest equity arrangement.

Risks and Uncertainties

The Company's actual results may differ materially from those expected or implied by the forward-looking statements and forward-looking information contained in this interim management discussion and analysis due to the proposed nature of the Company's business and its present stage of development. A non-exhaustive list of risk factors associated with the Company are discussed in detail under the heading "Risk Factors" in the Company's AIF dated March 29, 2018.

The following is a non-exhaustive list of certain risk factors associated with the Company that have resulted from new business subsequent to March 29, 2018:

Current Litigation Relating to Agro-Biotech Acquisition

On February 21, 2018, Agro-Biotech, now the Company's wholly-owned subsidiary, and its former shareholders entered into a non-binding letter of intent (the "Letter of Intent") with Pivot with respect to a potential sale of Agro-Biotech. The parties entered into negotiations with respect to definitive documentation relating to such potential sale, however the parties were eventually unable to agree to final terms and the Letter of Intent terminated. On April 24, 2018, the Claim was served on Agro-Biotech and its former shareholders by Pivot. The Claim alleges that Agro-Biotech and the then shareholders of Agro-Biotech failed to negotiate in good faith with Pivot and claims damages in the amount of approximately $72.4 million as loss of profits. The Company retained litigation counsel in Quebec to advise as to the Claim and conducted in-depth due diligence of the facts surrounding the Claim. The Company believes that the Claim is without merit and intends on defending the Claim to the fullest extent possible, however the Company cannot reasonably predict the outcome of the Claim and results of litigation are impossible to determine. As a result, the Company may be subject to orders made against it for damages which may have a material adverse effect on the Company's business, financial condition, financial performance and financial prospectus. Even if the Company is successful in defending the Claim, litigation can redirect significant Company resources and attention away from the business of the Company which may have a material adverse effect on the Company's business, financial condition, financial performance and financial prospects.