



EMERALD HEALTH THERAPEUTICS, INC.

Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2017 and 2016

(Unaudited)

(Expressed in Canadian Dollars)

EMERALD HEALTH THERAPEUTICS, INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Unaudited)
(Expressed in Canadian dollars)

	March 31, 2017	December 31, 2016
ASSETS		
Current		
Cash and cash equivalents	\$ 14,753,474	\$ 3,217,205
Accounts receivable	81,325	28,701
Biological assets (Note 4)	206,880	162,986
Inventory (Note 5)	424,699	160,048
Prepaid expenses	38,173	32,783
Total current assets	15,504,551	3,601,723
Plant and equipment (Note 6)	583,803	529,188
Deposits on equipment (Note 6)	17,821	-
Intangible assets (Note 7)	38,365	45,418
Total non-current assets	639,989	574,606
TOTAL ASSETS	\$ 16,144,540	\$ 4,176,329
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$ 603,979	\$ 376,339
Due to related parties (Note 8)	276,189	97,696
Total current liabilities	880,168	474,035
SHAREHOLDERS' EQUITY		
Share capital (Note 9)	21,824,050	9,756,732
Warrants (Note 10)	409,400	-
Contributed surplus	3,334,317	3,043,099
Accumulated deficit	(10,303,395)	(9,097,537)
TOTAL SHAREHOLDERS' EQUITY	15,264,372	3,702,294
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 16,144,540	\$ 4,176,329

Nature and continuance of operations (Note 1)

Events after the reporting period (Note 13)

On behalf of the Board of Directors:

/s/ Punit Dhillon
Director

/s/ Bob Rai
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)
(Expressed in Canadian dollars)

	For the three months ended March 31, 2017	For the three months ended March 31, 2016
Revenue		
Sales	\$201,268	\$ 41,409
Cost of sales		
Cost of goods sold	165,752	37,518
Production costs	165,361	115,433
Gain on changes in fair value of biological assets	(90,345)	(74,398)
	240,768	78,553
Gross margin	(39,500)	(37,144)
Expenses		
General and administrative	788,956	226,630
Sales and marketing	92,169	76,645
Research and development	43,162	106,674
Depreciation	40,885	18,628
Share-based payments (Note 9)	201,186	38,179
	1,166,358	466,756
NET LOSS AND COMPREHENSIVE LOSS	1,205,858	503,900
Basic and diluted loss per common share	\$ 0.02	\$ 0.01
Weighted average number of common shares outstanding (Note 11)		
-basic and diluted	73,500,420	46,070,841

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EMERALD HEALTH THERAPEUTICS, INC.
CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(Unaudited)
(Expressed in Canadian dollars, except share and warrant numbers)

	Common Shares Without Par Value		Warrants		Contributed Surplus	Deficit	Total Shareholders' Equity
	# of Shares	Amount	# of Warrants	Amount			
Balance, December 31, 2016	67,794,698	\$ 9,756,732	-	\$ -	\$ 3,043,099	\$ (9,097,537)	\$ 3,702,294
Shares issued on stock option exercise	150,000	82,159	-	-	(31,909)	-	50,250
Shares issued on prospectus offering	10,235,000	13,407,850	-	-	-	-	13,407,850
Warrants issued on prospectus offering	-	-	5,117,500	409,400	-	-	409,400
Share issuance costs	-	(1,300,750)	-	-	-	-	(1,300,750)
Compensation options	-	(121,941)	-	-	121,941	-	-
Share-based payments	-	-	-	-	201,186	-	201,186
Net loss and comprehensive loss	-	-	-	-	-	(1,205,858)	(1,205,858)
Balance, March 31, 2017	78,179,698	\$ 21,824,050	5,117,500	\$ 409,400	\$3,334,317	\$ (10,303,395)	\$15,264,372
Balance, December 31, 2015	46,070,841	3,076,966	-	\$ -	\$ 2,666,874	\$ (6,157,036)	\$ (413,196)
Share issuance costs	-	(7,464)	-	-	-	-	(7,464)
Share-based payments	-	-	-	-	38,179	-	38,179
Net loss and comprehensive loss	-	-	-	-	-	(503,900)	(503,900)
Balance, March 31, 2016	46,070,841	\$ 3,069,502	-	\$ -	\$ 2,705,053	\$ (6,660,936)	\$ (886,381)

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)
(Expressed in Canadian dollars)

	For the three months ended March 31, 2017	For the three months ended March 31, 2016
Operating activities		
Net loss	\$ (1,205,858)	\$ (503,900)
Items not involving cash:		
Depreciation of plant and equipment	33,832	18,416
Amortization of intangible assets	7,053	212
Gain on changes in fair value of biological assets	(43,894)	(74,398)
Share-based payments	201,186	38,179
Accrued interest	-	9,507
Changes in non-cash operating working capital:		
Accounts receivable	(52,625)	7,608
Prepaid expenses	(5,390)	7,690
Inventory and biological assets	(264,652)	(5,199)
Accounts payable and accrued liabilities	227,642	(10,261)
Due to related parties	178,493	42,525
Net cash flows used in operating activities	(924,213)	(469,621)
Investing activities		
Purchase of plant and equipment	(88,447)	(51,890)
Deposits on equipment	(17,821)	(44,219)
Net cash flows used in investing activities	(106,268)	(96,109)
Financing activities		
Advances from related parties	-	500,722
Proceeds from prospectus offering	13,817,250	-
Stock option exercises	50,250	-
Share issuance costs	(1,300,750)	(7,464)
Net cash flows generated from financing activities	12,566,750	493,258
Increase (decrease) in cash and cash equivalents	11,536,269	(72,472)
Cash and cash equivalents, beginning of period	3,217,205	81,836
Cash and cash equivalents, end of period	\$ 14,753,474	\$ 9,364

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EMERALD HEALTH THERAPEUTICS, INC.
NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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(Unaudited)
(Expressed in Canadian dollars)

1. NATURE AND CONTINUANCE OF OPERATIONS

Emerald Health Therapeutics Inc. (the "Company"), was incorporated pursuant to the *Business Corporations Act* (British Columbia) on July 31, 2007 as Firebird Capital Partners Inc. and changed its name to Firebird Energy Inc. in December 2012. On September 4, 2014, the Company completed the acquisition of all of the issued and outstanding common shares of Thunderbird Biomedical Inc. ("Thunderbird"), by way of a reverse takeover (the "RTO") under the rules of the TSX Venture Exchange (the "TSXV") and concurrently changed its name to T-Bird Pharma, Inc. Thunderbird became a wholly owned subsidiary of the Company. In June 2015, the Company changed its name to Emerald Health Therapeutics, Inc. and Thunderbird changed its name to Emerald Health Botanicals Inc. ("Botanicals"). The Company's registered office is at Suite 2600 Oceanic Plaza, 1066 West Hastings Street, Vancouver, BC, V6E 3X1. The Company is classified as a Tier 2 Venture Issuer on the TSXV.

The Company owns 100% of the shares of Botanicals, a private Victoria, British Columbia based company which was incorporated pursuant to the *Business Corporations Act* (British Columbia) on January 28, 2013. The principal business of Botanicals is the production and sale of medical marihuana pursuant to the Access to Cannabis for Medical Purposes Regulations.

2. BASIS OF PRESENTATION

These interim financial statements do not include all disclosures normally provided in annual financial statements and should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2016. Accordingly, accounting policies, estimates, and judgements applied are the same as those applied in the Company's annual financial statements, unless otherwise indicated. The Company assesses its accounting estimates and judgements every reporting period.

The Company's interim results are not necessarily indicative of its results for a full year.

a) Statement of Compliance

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and its interpretations and comply with International Accounting Standard ("IAS") 34 *Interim Financial Reporting*.

These condensed interim consolidated financial statements were authorized for filing by the Board of Directors on May 25, 2017.

b) Basis of measurement

These condensed interim consolidated financial statements have been prepared on a historical cost basis except for cash and biological assets, which are measured at fair value.

c) Functional and presentation currency

The Company's functional currency is Canadian dollars. All dollar amounts presented are in Canadian dollars unless otherwise specified.

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3. ACCOUNTING POLICIES

These condensed interim consolidated financial statements have been prepared using the same accounting policies as those used in the Company's annual financial statements at December 31, 2016 with the exceptions noted below.

Cash and cash equivalents

Cash and cash equivalents include cash and redeemable short-term investment certificates with a maturity of less than one year held at major financial institutions. No amounts are considered restricted cash that is not available for use by the Company.

4. BIOLOGICAL ASSETS

The Company's biological assets consist of seeds and cannabis on plants. The continuity of biological assets for the three months ended March 31, 2017 and for the year ended December 31, 2016 is as follows:

	March 31, 2017	December 31, 2016
Carrying amount, beginning of period	\$ 162,986	\$ 140,422
Purchase (use of) seeds	-	(2,640)
Changes in fair value less costs to sell due to biological transformation	90,345	197,293
Transferred to inventory upon harvest	(46,451)	(172,089)
Carrying amount	\$ 206,880	\$ 162,986

As at March 31, 2017, included in the carrying amount of biological assets is \$25,113 (December 31, 2016 - \$25,113) in seeds and \$181,767 (December 31, 2016 - \$137,873) in live plants.

5. INVENTORY

The Company's inventory is comprised of:

	March 31, 2017	December 31, 2016
Finished goods	\$ 410,343	\$ 146,056
Supplies and consumables	14,356	13,992
	\$ 424,699	\$ 160,048

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6. PLANT AND EQUIPMENT

	Leasehold improvements	Growing and extract equipment	Other equipment	Total
Cost				
Balance, December 31, 2015	\$ 184,327	\$ 258,913	\$ 28,631	\$ 471,871
Additions	602	199,470	24,927	224,999
Disposals	-	(2,604)	(1,305)	(3,909)
Balance, December 31, 2016	\$ 184,929	\$ 455,779	\$ 52,253	\$ 692,961
Additions	37,187	39,787	11,473	88,447
Balance, March 31, 2017	\$ 222,116	\$ 495,566	\$ 63,726	\$ 781,408
Accumulated depreciation				
Balance, December 31, 2015	\$ 27,229	\$ 29,495	\$ 9,337	\$ 66,061
Additions	18,775	68,281	12,387	99,443
Disposals	-	(825)	(906)	(1,731)
Balance, December 31, 2016	\$ 46,004	\$ 96,951	\$ 20,818	\$ 163,773
Additions	7,277	22,429	4,126	33,832
Balance, March 31, 2017	\$ 53,281	\$ 119,380	\$ 24,944	\$ 197,605
Net book value				
At December 31, 2016	\$ 138,925	\$ 358,828	\$ 31,435	\$ 529,188
At March 31, 2017	\$ 168,835	\$ 376,186	\$ 38,782	\$ 583,803

The deposit on equipment as at March 31, 2017 in the amount of \$17,821 (December 31, 2016 – \$Nil) was for lab equipment received subsequent to the period end.

7. INTANGIBLE ASSETS

	Computer Software	Total
Cost		
Balance, December 31, 2015	\$ 2,549	\$ 2,549
Additions	61,771	61,771
Disposals	(2,185)	(2,185)
Balance, December 31, 2016	\$ 62,135	\$ 62,135
Balance, March 31, 2017	\$ 62,135	\$ 62,135

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Accumulated depreciation		
Balance, December 31, 2015	\$ 1,232	\$ 1,232
Additions	16,906	16,906
Disposals	(1,421)	(1,421)
Balance, December 31, 2016	\$ 16,717	\$ 16,717
Additions	7,053	7,053
Balance, March 31, 2017	\$ 23,770	\$ 23,770
Net book value		
At December 31, 2016	\$ 45,418	\$ 45,418
At March 31, 2017	\$ 38,365	\$ 38,365

8. RELATED PARTY TRANSACTIONS

During the three-month period ended March 31, 2017, Sciences charged \$170,471 (2016 - \$42,525) for services and \$105,717 (2016 - \$Nil) for invoices paid on behalf of the Company. As of March 31, 2017, the Company owed \$276,188 (2016 - \$1,507,821) to Sciences. The amount owing to Sciences as of March 31, 2016, also included cash advances and interest expense and was repaid in full by December 31, 2016.

As of March 31, 2017, Sciences holds an aggregate of 45,636,555 shares, representing 58.4% of the issued and outstanding Common Shares as at March 31, 2017 and 8,489,451 common share purchase warrants of the Company.

9. SHARE CAPITAL

Authorized

Unlimited number of common shares without par value

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

Issued

78,179,698 common shares (December 31, 2016 – 67,794,698)

Nil preferred shares (December 31, 2016 - nil)

The outstanding share capital has increased by 10,385,000 Common Shares since December 31, 2016 due to the following transactions:

- A prospectus offering, completed on February 10, 2017, for 10,235,000 units of the Company at a price of \$1.35 per unit (each, a “Unit”), for gross proceeds of \$13,817,250. Each Unit consisted of one Common Share and one-half of one common share purchase warrant of the Company, with each warrant entitling the holder to acquire an additional Common Share at an exercise price of \$2.00 for a period of 24 months from the closing date; and

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- During the three months ended March 31, 2017, 150,000 stock options were exercised at an exercise price of \$0.335 for gross proceeds of \$50,250.

Surplus and Value Escrow Agreements

In September 2014, the Company entered into a Surplus Security Escrow Agreement and a Value Security Escrow Agreement in connection with the RTO pursuant to TSXV Policy 5.4 *Escrow, Vendor Consideration and Resale Restrictions*.

Approximately 59% of the initial outstanding Common Shares issued in September 2014 were subject to the Surplus Security Escrow Agreement and as at March 31, 2017, 10,851,795 (2016 – 18,990,646) Common Shares held under the Surplus Security Escrow Agreement remained in escrow. Approximately 11% of the initial Common Shares were subject to the Value Security Escrow Agreement and as of March 31, 2017, 760,130 (2016 – 2,280,382) Common Shares held under the Value Security Escrow Agreement remained in escrow.

The Surplus Security Escrow Agreement and the Value Security Escrow Agreement are releasable in the following tranches:

	Surplus Security Escrow	Value Security Escrow
September 2014	-	10%
March 2015	-	15%
May 2015	10%	-
September 2015	10%	15%
March 2016	10%	15%
September 2016	15%	15%
March 2017	15%	15%
September 2017	40%	15%

Share based payments

The Company has a stock option plan (the “Plan”) that is administered by the Board of Directors of the Company who establish exercise prices, at not less than market price at the date of grant, and expiry dates, which have been set at five years from issuance.

The maximum number of stock options available under the Plan is equal to 10% of the outstanding shares of the Company from time to time. Subject to the terms of each grant as may be determined by the Board of Directors at the time options are granted, options may be exercisable for a period of up to ten years after the date of grant thereof. The number of shares reserved for issue to any individual director or officer will not exceed 5% of the number of then outstanding shares and the number of shares reserved for issue to any consultants or persons conducting investor relations activities will not exceed 2% of the number of then outstanding shares.

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The Board of Directors has the discretion to determine to whom options will be granted, the number and exercise price of such options and the terms and time frames in which the options will vest and be exercisable.

The exercise price of the options must be no less than the closing price on the day preceding the grant.

The changes in incentive stock options outstanding are summarized as follows:

	Number of Shares	Weighted Average Exercise Price
Balance at December 31, 2015	3,950,000	\$0.44
Granted	2,725,000	\$0.62
Forfeited	(25,000)	\$0.72
Exercised	(641,800)	\$0.43
Expired	(250,000)	\$0.40
Balance at December 31, 2016	5,758,200	\$0.53
Granted	875,000	\$1.395
Exercised	(150,000)	\$0.335
Balance at March 31, 2017	6,483,200	\$0.65

During the period, the Company granted 875,000 stock options to an employee and consultants under the Plan. The stock options granted had exercise prices between \$1.38 and \$1.51, expiry dates of five years and vest over periods of up to three years. The fair values of the stock options were determined to be between \$0.41 and \$0.71.

The fair values of the options granted during the period ended March 31, 2017 were determined on the date of the grant using the Black-Scholes option pricing model with the following assumptions:

	Grant January 4, 2017	Grant January 13, 2017	Grant February 24, 2017	Grant February 24, 2017	Grant February 24, 2017
Number of share options granted	150,000	100,000	175,000	350,000	100,000
Exercise price	\$1.38	\$1.51	\$1.38	\$1.38	\$1.38
Market value on grant date	\$1.34	\$1.51	\$1.38	\$1.38	\$1.38
Risk free interest rate	0.74%	0.79%	0.75%	0.75%	0.87%
Expected life	1 year	1 year	1 year	2 years	3 years
Annualized volatility	80%	80%	80%	80%	80%
Expected dividends	Nil	Nil	Nil	Nil	Nil

Volatility was estimated by using the historical volatility of other companies that the Company considers comparable that have similar trading and volatility history. 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.

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Incentive stock options outstanding and exercisable at March 31, 2017 are summarized as follows:

Exercise price	Outstanding		Exercisable		
	Quantity	Remaining contractual life (Years)	Weighted average exercise price	Quantity	Weighted average exercise price
\$0.175	225,000	3.9	\$ 0.175	33,333	\$ 0.175
\$0.335	210,000	4.4	\$0.335	210,000	\$0.335
\$0.40	1,000,000	2.4	\$ 0.40	951,389	\$ 0.40
\$0.41	300,000	2.8	\$ 0.41	197,413	\$ 0.41
\$0.45	1,500,000	3.1	\$ 0.45	1,500,000	\$ 0.45
\$0.55	381,500	2.7	\$ 0.55	248,167	\$ 0.55
\$0.72	1,916,700	4.5	\$0.72	979,200	\$0.72
\$1.38	850,000	2.8	\$1.38	167,708	\$1.38
\$1.51	100,000	1.8	\$1.51	30,000	\$1.51
	6,483,200	3.4	\$ 0.65	4,317,211	\$ 0.54

The Company recorded share-based compensation expense related to the incentive stock options of \$201,186 and \$38,179 for the three month periods ended March 31, 2017 and 2016. The expense has been charged to the consolidated statement of loss and comprehensive loss.

Compensation options

As part of a prospectus offering completed in February 2017, the Company issued 307,050 compensation options to the underwriter, exercisable into Units at \$1.35 per Unit for a period of twenty-four months. The fair value of the compensation options was determined using the Black-Scholes option pricing model with the following assumptions: exercise price \$1.35; market value on grant date of \$1.31; risk free interest rate of 0.77% and an expected life of one year. The fair value of the compensation options was determined to be \$121,941 and reduced the share capital amount.

10. WARRANTS

The Company issued the following common share purchase warrants:

	Number of Warrants	Weighted Average Price
Balance at December 31, 2015	-	-
Issued in September, 2016	4,077,687	\$0.27
Issued in November, 2016	4,411,764	\$0.85
Balance at December 31, 2016	8,489,451	\$0.57
Issued in February, 2017	5,117,500	\$2.00
Balance at March 31, 2017	13,606,951	\$1.11

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11. LOSS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share:

	For the three months ended March 31, 2017	For the three months ended March 31, 2016
Numerator		
Net loss for the period	1,205,858	503,900
Denominator		
For basic and diluted – weighted average number of shares outstanding	73,500,420	46,070,841
Loss per share		
Basic	\$ (0.02)	\$ (0.01)
Diluted	\$ (0.02)	\$ (0.01)

The basic loss per share is computed by dividing the net loss by the weighted average number of Common Shares outstanding during the period. The diluted loss per share reflects the potential dilution of Common Share equivalents, such as outstanding stock options and warrants, in the weighted average number of Common Shares outstanding during the period, if dilutive. For the periods ended March 31, 2017 and 2016, the Company was in a loss position and therefore all options are anti-dilutive.

12. FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are measured on an ongoing basis at fair value or amortized cost. As at March 31, 2017 and December 31, 2016, the classification of the financial instruments, as well as their carrying values and fair values, are shown in the table below:

	March 31, 2017		December 31, 2016	
	Fair Value	Carrying Value	Fair Value	Carrying Value
Financial Assets				
FVTPL:				
Cash	\$ 2,753,474	\$ 2,753,474	\$3,217,205	\$3,217,205
Loans and accounts, recorded at amortized cost:				
Cash equivalents	12,000,000	12,000,000	-	-
Accounts receivable	81,325	81,325	28,701	28,701
Financial Liabilities				
Other financial liabilities, recorded at amortized cost:				
Accounts payable and accrued liabilities	603,979	603,979	376,339	376,339
Due to related parties	276,189	276,189	97,696	97,696

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Fair value hierarchy financial instruments recorded at fair value at the statement of financial position dates are classified using the fair value hierarchy, which reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 – Valuation based on quoted prices [unadjusted] in active markets for identical assets or liabilities.

Level 2 – Valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 – Valuation techniques using inputs for the asset or liability that are not based on observable market data.

The carrying value of the cash and cash equivalents, accounts receivables, accounts payable and accrued liabilities and amounts due to related parties, approximates the fair value because of the short-term nature of these instruments.

The Company’s financial instruments that must be recorded at fair value are presented in the following table:

	Carrying Value	Fair Value Measurement		
		Level 1	Level 2	Level 3
As at March 31, 2017				
Financial Assets				
Cash	\$ 2,753,474	\$ 2,753,474	-	-
As at December 31, 2016				
Financial Assets				
Cash	\$ 3,217,205	\$ 3,217,205	-	-

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

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.

Credit risk

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. The Company’s maximum exposure to credit risk as at March 31, 2017 is the carrying value of its financial assets.

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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.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations associated with financial liabilities. As at March 31, 2017, the Company had positive working capital of \$14,624,383 (December 31, 2016 – positive working capital of \$3,127,688). The Company's ability to continue as a going concern is dependent on management's ability to raise required funding through future equity issuances and through short-term borrowing. The Company manages its liquidity risk by forecasting cash flows from operations and anticipating any investing and financing activities. Management and the Board of Directors are actively involved in the review, planning and approval of significant expenditures and commitments.

13. EVENTS AFTER THE REPORTING PERIOD

Financing - Prospectus Offering

In April 2017, the Company completed a public financing of 13,170,000 Units of the Company on a bought deal basis pursuant to a supplement to a base shelf prospectus dated January 25, 2017, receipted in each of the provinces of Canada (other than Quebec) at a price of \$1.85 per Unit, for total gross proceeds of \$24,364,500. In addition, the underwriter exercised its over-allotment option to acquire 1,465,100 common shares and 987,750 common share purchase warrants for proceeds of \$2,758,923 (the "April Prospectus Offering").

Each Unit consisted of one Common Share and one-half of one common share purchase warrant of the Company. Each full warrant entitles the holder to acquire one Common Share at a price of \$2.60 for a period of 24 months following the Closing Date, subject to acceleration. In the event that the closing sale price of the Common Shares on the TSXV is greater than \$3.50 per share for a period of 20 consecutive trading days at any time after the closing of the April Prospectus Offering, the Company may accelerate the expiry date of the warrants by giving notice to the holders thereof and in such case the warrants will expire on the 30th day after the date on which such notice is given by the Company.

In connection with the April Prospectus Offering, the Company also issued to the underwriter a total of 439,053 compensation options. Each compensation option entitles the holder to acquire a Unit at a price of \$1.85 per Unit for a period of 24 months following the closing of the Offering.

Omnibus Incentive Plan

In May 2017, the board of directors approved the adoption of a New Omnibus Incentive Plan (the "New Plan"), subject to shareholder approval. The New Plan replaces the stock option plan that was previously

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NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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approved by the shareholders (the “Previous Plan”) and no new options will be granted under the Previous Plan if the New Plan is approved, however any options granted under the Previous Plan will remain outstanding and governed by the terms of the Previous Plan. If the New Plan is not approved by the shareholders of the Company, the Previous Plan will remain in place and options may continue to be granted under the Previous Plan. The New Plan is also subject to approval by the TSXV and must be confirmed by shareholders at each annual general meeting after its initial approval.

Under the New Plan, the maximum number of common shares issuable upon the exercise or redemption and settlement of all awards granted under the New Plan shall not exceed 10% of the issued and outstanding Shares at the time of granting of such award less the number of Shares reserved for issuance under all other security based compensation arrangements of the Company. Under the New Plan, the following types of awards can be issued: stock options, share appreciation rights, restricted share units and other performance awards.

Issuance of Stock Options

Subsequent to March 31, 2017, the Company issued an aggregate of 1,120,000 stock options to purchase Common Shares, to various employees and consultants, at an average exercise price of \$1.25 per share. The options vest over periods of up to three years and may be exercised over periods up to five years, subject to forfeiture provisions requiring the options to expire 90 days after termination of the individual’s employment. The Company also issued 200,000 restricted share units (RSU’s) pursuant to the New Plan. Each RSU will be settled in Shares at a price of \$1.22 per RSU after three years.