



EMERALD HEALTH THERAPEUTICS, INC.

(Formerly T-Bird Pharma Inc. and formerly Firebird Energy Inc.)

Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2015

(Expressed in Canadian Dollars)

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

The accompanying unaudited condensed interim consolidated financial statements of Emerald Health Therapeutics Inc. for the three and six months ended June 30, 2015 have been prepared by Management and approved by the Board of Directors. The Company's independent auditors have not performed a review of these financial statements, in accordance with the standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

EMERALD HEALTH THERAPEUTICS, INC. (FORMERLY T-BIRD PHARMA INC.)
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Unaudited – prepared by management)
(Expressed in Canadian dollars)

	June 30, 2015	December 31, 2014 (Audited)
ASSETS		
Current		
Cash and cash equivalents	\$ 402,498	\$ 1,718,795
Accounts receivable (Note 6)	34,118	42,548
Biological assets (Note 7)	29,066	-
Inventory (Note 7)	35,620	6,595
Prepaid expenses (Note 8)	73,958	70,888
Total current assets	575,260	1,838,826
Plant and equipment (Note 9)	274,838	202,708
TOTAL ASSETS	\$ 850,098	\$ 2,041,534
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$ 119,134	\$ 114,009
Due to related parties (Note 10)	19,929	19,851
Total current liabilities	139,063	133,860
TOTAL LIABILITIES	139,063	133,860
SHAREHOLDERS' EQUITY		
Share capital (Note 11)	3,076,966	3,076,966
Contributed surplus	2,538,717	1,490,473
Accumulated deficit	(4,904,648)	(2,659,765)
TOTAL SHAREHOLDERS' EQUITY	711,035	1,907,674
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 850,098	\$ 2,041,534

Nature and continuance of operations (Note 1)
Commitments (Note 13)
Subsequent Events (Note 18)

On behalf of the Board of Directors:

/s/ Punit Dhillon
Director

/s/ David Raffa
Director

See accompanying notes

EMERALD HEALTH THERAPEUTICS, INC. (FORMERLY T-BIRD PHARMA INC.)
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(Unaudited – prepared by management)
(Expressed in Canadian dollars)

	For the three months ended June 30,		For the six months ended June 30,	
	2015	2014	2015	2014
EXPENSES				
General and administrative	228,883	65,933	523,775	70,556
Operating and facilities	299,885	76,180	587,098	102,343
Sales and marketing	42,755	-	54,702	-
Research and development (net of government contribution of \$22,490)	6,294	-	8,598	-
Amortization	11,516	4,479	22,466	6,863
Share-based payments (Note 11)	876,420	252,595	1,048,244	252,595
	1,465,753	399,187	2,244,883	432,357
Other expenses				
Reverse acquisition transaction costs (Note 2)	-	51,050	-	51,050
	-	51,050	-	51,050
Loss before income taxes	1,465,753	450,237	2,244,883	483,407
Income tax expense	-	-	-	-
NET LOSS AND COMPREHENSIVE LOSS	1,465,753	450,237	2,244,883	483,407
Basic and diluted loss per common share	\$ 0.03	\$ 0.01	\$ 0.05	\$ 0.02
Weighted average number of common shares outstanding (note 12)				
-basic	46,070,841	33,524,471	46,070,841	31,771,971
-diluted	46,070,841	33,524,471	46,070,841	31,771,971

See accompanying notes

EMERALD HEALTH THERAPEUTICS, INC. (FORMERLY T-BIRD PHARMA INC.)
CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS'
EQUITY
(Unaudited – prepared by management)
(Expressed in Canadian dollars, except share number)

	Common Shares Without Par Value		Contributed Surplus	Deficit	Total Shareholders' Equity
	Shares	Amount			
Balance, December 31, 2013	30,000,000	\$ 1	\$ -	\$ (14,660)	\$ (14,659)
Shares issued for April subscription	1,578,750	252,600	-	-	252,600
Shares issued for May private placement	3,750,264	600,042	-	-	600,042
Net loss for the period	-	-	-	(483,407)	(483,407)
Balance, June 30, 2014	35,329,014	\$ 852,643	\$ -	\$ (498,067)	\$ 354,576
Balance, December 31, 2014	46,070,841	\$ 3,076,966	\$ 1,490,473	\$ (2,659,765)	\$ 1,907,674
Share-based payments	-	-	1,048,244	-	1,048,244
Net loss for the period	-	-	-	(2,244,883)	(2,244,883)
Balance, June 30, 2015	46,070,841	\$ 3,076,966	\$ 2,538,717	\$ (4,904,648)	\$ 711,035

See accompanying notes

EMERALD HEALTH THERAPEUTICS INC. (FORMERLY T-BIRD PHARMA INC.)
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited – prepared by management)
(Expressed in Canadian dollars)

	For the three months ended June 30,		For the six months ended June 30,	
	2015	2014	2015	2014
Operating activities				
Loss for the period	\$ (1,465,753)	\$ (450,237)	\$ (2,244,883)	\$ (483,407)
Items not involving cash				
Amortization	11,516	4,479	22,466	6,863
Share-based payments	876,420	252,595	1,048,244	252,595
Changes in non-cash operating working capital				
Accounts receivable	25,667	-	8,430	-
Prepaid expenses	(6,369)	(15,843)	(3,070)	(15,843)
Inventory and biological assets	(43,421)	-	(58,091)	-
Accounts payable and accrued liabilities	(55,967)	41,786	5,125	49,643
Net cash flows used in operating activities	(657,907)	(167,220)	(1,221,779)	(190,149)
Investing activities				
Purchase of plant and equipment	(13,216)	(38,239)	(94,596)	(66,079)
Net cash flows used in investing activities	(13,216)	(38,239)	(94,596)	(66,079)
Financing activities				
Advances from related parties	2,319	15,904	78	50,091
Repayment of loans and note payable	-	(21,110)	-	(3,017)
Proceeds from share issuance	-	600,047	-	600,047
Net cash flows (used in) generated from financing activities	2,319	594,841	78	647,121
Increase(decrease) in cash and cash equivalents during the period	(668,804)	389,382	(1,316,297)	390,893
Cash, and cash equivalents beginning of period	1,071,302	1,512	1,718,795	1
Cash, and cash equivalents end of period	\$ 402,498	\$ 390,894	\$ 402,498	\$ 390,894

See accompanying notes

EMERALD HEALTH THERAPEUTICS INC. (FORMERLY T-BIRD PHARMA INC.)
NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
For the three and six months ended June 30, 2015 and 2014
(Unaudited – prepared by management)
(Expressed in Canadian dollars)

1. NATURE AND CONTINUANCE OF OPERATIONS

Emerald Health Therapeutics Inc. (the "Company" or "Corporation"), (formerly T-Bird Pharma, Inc. ("T-Bird") and formerly Firebird Energy Inc.) was incorporated by articles of incorporation pursuant to the Business Corporations Act of British Columbia on July 31, 2007 as Firebird Capital Partners Inc. Its registered office is at Suite 2600 Oceanic Plaza, 1066 West Hastings Street, Vancouver, B.C. V6E 3X1. On December 27, 2012 the Company changed its name to Firebird Energy Inc. On September 4, 2014, Firebird Energy Inc. completed the acquisition of all of the issued and outstanding common shares of Thunderbird Biomedical Inc. ("Thunderbird"), by way of a reverse takeover (the "Transaction") under the rules of the TSX Venture Exchange and concurrently changed its name to Thunderbird Biomedical Inc. In June 2015, the Company changed its name to Emerald Health Therapeutics, Inc. and Thunderbird changed its name to Emerald Health Botanicals Inc. The Company is classified as a Tier 2 Venture Issuer on the TSX Venture Exchange.

The Company was engaged in the exploration, development, and production of oil and natural gas and liquidated all oil and gas assets plus related liabilities immediately prior to the acquisition of Thunderbird, now Emerald Health Botanicals Inc. ("EH Botanicals"). EH Botanicals is a private Victoria-based company and was incorporated by articles of incorporation pursuant to the Business Corporations Act of British Columbia on January 28, 2013. The principal business of EH Botanicals is the production of medical marijuana pursuant to the Marijuana for Medical Purposes Regulations. On May 6, 2015, EH Botanicals received notice from Health Canada confirming the renewal of its production license, including the expansion of its license to include full authorization to commence medical marijuana sales

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. As of June 30, 2015, the Company had not yet achieved profitable operations and had accumulated losses of \$4,904,648 (December 31, 2014 - \$2,659,765) since its inception. The continuing operations of the Company are dependent upon its ability to continue to raise adequate capital, which the Company was successful in completing during the year ended December 31, 2014, and to commence profitable operations in the future and repay its liabilities arising from normal business operations as they become due. Alternative financing options may include obtaining bank credit facilities and short-term loans from third parties. 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.

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

2. REVERSE ACQUISITION

On September 4 2014, the Company completed a reverse takeover transaction (the "RTO" or the "Transaction") pursuant to a share exchange agreement made on July 30, 2014, between Firebird and Thunderbird. Firebird acquired all of the issued and outstanding shares of Thunderbird in consideration for three T-Bird Pharma shares for each common share of Thunderbird. Under these terms, T-Bird Pharma issued 35,329,014 common shares to complete the acquisition.

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2. REVERSE ACQUISITION (Continued)

Concurrent with the completion of the Transaction, the Company affected a consolidation of its share capital, on a 15 (old) for 1 (new) basis.

Also concurrent with the completion of the Transaction, the Company completed a private placement of 7,500,000 post-consolidation units at \$0.40 per unit, for gross proceeds of \$3 million. Each unit is comprised of one common share and one-half of one common share purchase warrant, with each whole warrant being exercisable into one share at an exercise price of \$0.80 until September 4, 2015.

The value of net monetary assets of Firebird (a legal parent) acquired in exchange for all of the issued and outstanding common shares of Thunderbird (a legal subsidiary) is set out as follows:

Cash	\$ 1,555
Accounts receivable	16,467
Prepays	30,750
Accounts payable	<u>(30,048)</u>
Net assets acquired	<u>\$ 18,724</u>

In accordance with IFRS 3, Business Combinations, the substance of the transaction was a reverse acquisition of a non-operating company. The transaction does not constitute a business combination since Firebird does not meet the definition of a business under the standard. As a result, under IFRS the transaction is accounted for as a capital transaction with Thunderbird being identified as the acquirer and the transaction being measured at the fair value of the equity consideration issued to Firebird.

IFRS 2, Share-based Payments, applies to transactions where an entity grants equity instruments and cannot identify specifically some or all of the goods or services received in return. Since Thunderbird shareholders have issued shares with a fair value in excess of the net assets received, IFRS 2 would indicate that the difference is recognized in comprehensive loss as a reverse acquisition transaction cost.

The fair value of the consideration is determined based on the percentage of ownership the legal parent's shareholders have in the combined entity after the reverse takeover transaction. By reference to a completion of a private placement of 7,500,000 units at \$0.40 per unit on a closing date of the Transaction, the fair value of each Company common share at the time of the Transaction was \$0.335. Accordingly, the value of the 4.35% (i.e. 2,005,312 shares) of the share capital owned by former owners of the Company at the time of the Transaction was \$671,780. In addition, the Company incurred \$93,238 related to this Transaction.

The amount assigned to the reverse acquisition transaction cost is \$746,294, being the difference between the fair values of the equity consideration (\$671,780), related legal costs (\$93,238) and the net identifiable assets of Firebird (\$18,724). Under IFRS, this amount is included in the statement of comprehensive loss.

Consideration	\$ 671,780
Legal costs	93,238
Net monetary assets acquired	<u>(18,724)</u>
Transaction costs	<u>\$ 746,294</u>

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3. BASIS OF PRESENTATION

Statement of Compliance

These condensed interim consolidated financial statements have been prepared in accordance with IAS 34, “Interim Financial Reporting” (“IAS 34”), as issued by the International Accounting Standards Board (“IASB”). They do not include all of the information required for full annual financial statements, and should be read in conjunction with the Company’s financial statements for the year ended December 31, 2014. Accordingly, accounting policies, estimates, and judgements applied are the same as those applied in the Company’s annual financial statements except with the new policies adopted in the period as discussed in Note 5. The Company assesses its accounting estimates and judgements every reporting period.

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

The condensed interim consolidated financial statements were authorized for filing by the Board of Directors on August 25, 2015.

Basis of measurement

These condensed interim consolidated financial statements have been prepared in Canadian dollars on a historical cost basis except for warrants, options, the reverse acquisition transaction and biological assets, which are measured at fair value. Historical cost is generally based upon the fair value of the consideration given in exchange for assets. The expenses within the statements of comprehensive loss are presented by function.

Consolidation

These condensed interim consolidated financial statements include the accounts of the Company and its 100% controlled subsidiary, Emerald Health Botanicals Inc. Intercompany transactions and balances between the Company and its subsidiary are eliminated in full on consolidation.

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

4. ACCOUNTING POLICIES

These interim condensed consolidated financial statements have been prepared using the same accounting policies as those used in EH Therapeutics’ annual financial statements at December 31, 2014 with the exceptions noted below.

Basis of Presentation

The Company has revised its presentation of the statement of loss and comprehensive loss to reflect the categorization of expenses by function, rather than by nature as it had previously. This change is a change in accounting policy and the Company has accordingly restated the prior year’s presentation. The Company views this change as reflecting information which is more reliable and relevant to users as the individual expense categories may not have been good predictors of future cash flows.

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4. ACCOUNTING POLICIES (continued)

Biological assets

The Company measures biological assets consisting of medical cannabis plants at fair value less cost to sell up to the point of harvest, which becomes the basis for the cost of finished goods inventories after harvest. Seeds are measured at fair market value.

Inventory

Inventories of harvested finished goods and packing materials are valued at the lower of cost and net realizable value. Inventories of harvested cannabis are transferred from biological assets at their fair value at harvest, which becomes deemed cost. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Cost is determined using the average cost basis. Products for resale and supplies and consumables are valued at cost.

5. NEW ACCOUNTING PRONOUNCEMENTS

Standards issued but not yet effective up to date of issuance of the Company's financial statements are listed below. The Company has not yet assessed the impact of these new standards on disclosures, financial position or performance when applied at a future date. The Company intends to adopt those standards when they become effective.

IAS 1, Presentation of Financial Statements ("IAS 1") – amended to clarify IAS 1 to address perceived impediments to preparers exercising their judgment in presenting their financial reports. It is effective for annual periods beginning on or after January 1, 2016.

IAS 16, Property, Plant and Equipment and IAS 41, Agriculture are amended to:

- Include 'bearer plants' within the scope of IAS 16 rather than IAS 41, allowing such assets to be accounted for as property, plant and equipment and measure initial recognition on a cost or revaluation basis in accordance with IAS 16
- Introduce a definition of 'bearer plants' as a living plant that is used in the production or supply of agricultural produce, is expected to bear produce for more than one period and has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales
- Clarify that produce growing on bearer plants remains within the scope of IAS 41.

Applicable to annual periods beginning on or after January 1, 2016.

IFRS 7, Financial Instruments - Disclosure – amended to clarify whether a servicing contract is continuing involvement in a transferred asset and to clarify offsetting disclosure requirements in condensed interim financial statements. It is effective for annual periods beginning on or after July 1, 2016.

IAS 34, Interim Financial Reporting – amended to clarify the meaning of "elsewhere in the interim report" and require a cross-reference. It is effective for annual periods beginning on or after July 1, 2016.

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5. NEW ACCOUNTING PRONOUNCEMENTS (continued)

IFRS 15, Revenue from Contracts with Customers - clarifies the principles for recognizing revenue from contracts with customers. IFRS 15 will also result in enhanced disclosure about revenue, provide guidance for transactions that were not previously addressed comprehensively (i.e. service revenue and contract modifications) and improve guidance for multiple-element arrangements. The standard is effective for annual periods beginning on or after January 1, 2017, with early adoption permitted.

IFRS 9, Financial Instruments - replaces the guidance in IAS 39 - Financial Instruments; Recognition and Measurement, on the classification and measurement of financial assets. The standard eliminates the existing IAS 39 categories of held to maturity, available-for-sale and loans and receivable. Financial assets will be classified into one of two categories on initial recognition, financial assets measured at amortized cost or financial assets measured at fair value. Gains and losses on re-measurement of financial assets measured at fair value will be recognized in profit or loss, except that for an investment in an equity instrument which is not held-for-trading, IFRS 9 provides, on initial recognition, an irrevocable election to present all fair value changes from the investment in other comprehensive income (OCI). The standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

6. ACCOUNTS RECEIVABLE

The accounts receivable as at June 30, 2015 \$34,118 (December 31, 2014 – \$42,548) primarily consisted of contribution revenue towards a research and development project receivable from the Government of Canada and Goods and Service Tax (“GST”) receivable from the Canada Revenue Agency.

7. BIOLOGICAL ASSETS AND INVENTORY

The Company’s biological assets consists of seeds and cannabis on plants. Cannabis on plants is measured at fair value less costs to sell, considered as their percentage of grow to harvest less cost to sell at their point of harvest. Seeds are measured at fair market value. Biological assets become the basis for the cost of the finished goods inventory. All finished goods inventories are valued at the lower of cost or net realizable value. Included in the three and six month June 30, 2015 statements of comprehensive loss is a gain on biological assets of \$29,066 recorded in operating and facilities expense.

The Company’s biological assets and inventory is comprised of:

	June 30, 2015	December 31, 2014
Biological assets	\$ 29,066	\$ -
Inventory:		
Finished goods	30,900	6,595
Product for resale	3,120	-
Supplies and consumables	1,600	-
	\$ 35,620	\$ 6,595

Prior to obtaining the authorization to sell from Health Canada in May 2015, the dried marihuana in finished goods inventory was classified under other assets.

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8. PREPAID EXPENSES

The prepaid expenses as at June 30, 2015 \$73,958 (December 31, 2014 – \$70,888) primarily consisted of prepaid rent and utility deposits.

9. PLANT AND EQUIPMENT

	Leasehold improvements	Equipment	Total
Cost			
Balance, December 31, 2013	\$ -	\$ 4,641	\$ 4,641
Additions	148,363	70,588	218,951
Balance, December 31, 2014	148,363	75,229	223,592
Additions	38,113	56,483	94,596
Balance, June 30, 2015	\$ 186,476	\$ 131,712	\$ 318,188
Accumulated amortization			
Balance, December 31, 2013	\$ -	\$ 696	\$ 696
Additions	8,520	11,668	20,188
Balance, December 31, 2014	8,520	12,364	20,884
Additions	8,947	13,519	22,466
Balance, June 30, 2015	\$ 17,467	\$ 25,883	\$ 43,350
Net book value			
At December 31, 2014	\$ 139,843	\$ 62,865	\$ 202,708
At June 30, 2015	\$ 169,009	\$ 105,829	\$ 274,838

10. RELATED PARTY TRANSACTIONS

The balances due to related parties are unsecured, non-interest bearing and have no specific terms of repayment.

In January 2015, the CEO stepped down and was replaced by the President and COO. The former CEO will continue to provide consulting services to the company for a period of twelve months from February 1, 2015 to January 31, 2016 for \$10,000 per month. There were no termination costs incurred and the stock options held by the former CEO are exercisable until the end of the consulting period. (Note 13).

A director was engaged to provide consulting services to the Company from May 2014 until August 2015. The total expense for the six months ended June 30, 2015 was \$30,000 (2014 - \$5,250).

In April 2015, the incoming directors were granted a total of 1,500,000 options at an exercise price of \$0.45, with an expiry date of April 25, 2020 and immediate vesting. The two directors that stepped down surrendered 125,000 options each.

As of June 30, 2015, the Company owed \$2,319 to EH Sciences for costs incurred on behalf of the Company.

During the period ended June 30, 2014, the Company's wholly owned subsidiary acquired certain equipment and lease commitments attached to the leased premises from a related entity controlled by the

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10. RELATED PARTY TRANSACTIONS (continued)

then CEO at fair market value in the amount of \$32,828. This amount was paid in full as of December 31, 2014.

During the six month period ended June 30, 2014, the Company borrowed loans from two of its senior management. These loans remain outstanding in the amount of \$17,610 and are non-interest bearing. Also during the period ended June 30, 2014, the Company borrowed funds from a director and the spouse of a shareholder of \$5,000 each. These loans were interest bearing at 15% per annum. The Company paid off the two interest-bearing loans in June 2014 and July 2014 respectively.

Remuneration of directors and key management of the Company

The remuneration awarded to directors and to senior key management including the Executive Chairman, the President and Chief Executive Officer and the Chief Financial Officer, includes the following:

	For the three months ended		For the six months ended	
	June 30,		June 30,	
	2015	2014	2015	2014
Short-term benefits	\$ 2,574	\$ -	\$ 4,566	\$ -
Termination benefits	-	-	-	-
Share-based payments (Note 11)	558,183	-	639,135	-
	\$ 560,757	\$ -	\$ 643,701	\$ -

These transactions are in the normal course of the operations on normal commercial terms and conditions and at market rates, which is the amount of consideration established and agreed to by the related parties.

In the event that the President and Chief Executive Officer's or the Chief Financial Officer's employment agreements are terminated by the Company, other than for just cause, the Officers are entitled to a minimum severance amount equal to six months of salary.

11. SHARE CAPITAL

Authorized

Unlimited number of common voting shares without par value

Issued

46,070,841 common voting shares (2014 – 46,070,841)

On April 28, 2014, the Company issued 1,578,750 common shares from treasury at a price of \$0.000003 per share for total cash proceeds of \$5. The fair value of these shares was \$252,600; therefore, stock based compensation of \$252,595 was recorded for the difference between the fair value and cash consideration paid. The fair value of these shares was determined using the financing of 3,750,264 common shares sold at a price of \$0.16 per share on May 2, 2014.

On May 2, 2014, the Company issued 3,750,264 common shares from treasury at a price of \$0.16 per share for total cash proceeds of \$600,042.

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11. SHARE CAPITAL (continued)

On September 4, 2014, upon completion of the Transaction, the Company issued 36,565,529 shares to acquire all of the outstanding shares of EH Botanicals, formerly Thunderbird. Concurrent with the Transaction, the Company effected a consolidation of its share capital on a 15 (old) for 1 (new) basis. Also concurrent with the Transaction the Company also issued 2,005,312 shares to former shareholders of Firebird, the original company participating in the reverse takeover transaction (see Note 2). All references to common shares in these financial statements reflect the share consolidation.

On September 4, 2014, the Company closed a private placement by issuing 7,500,000 units at a price of \$0.40 per unit for gross proceeds of \$3,000,000. Each unit comprises one common share and one half of one common share purchase warrant, with each whole warrant being exercisable into one share at an exercise price of \$0.80 until September 4, 2015. The fair value of the warrants included in the units was estimated to be \$0.13 using the Black-Scholes option pricing model using the following assumptions: risk free interest rate of 1.12%, expected volatility of 117.05%, an expected life of 1 year and no expected dividends. The Company also issued 525,000 finder's warrants, with each whole warrant being exercisable into one share at an exercise price of \$0.40 until September 4, 2015. The fair value of finder's warrants was estimated to be \$0.21 using the Black-Scholes option pricing model using the following assumptions: risk free interest rate of 1.12%, expected volatility of 117.05%, an expected life of 1 year and no expected dividends.

Escrow Transfer

In April 2015, the Company, together with certain of its shareholders, completed the transaction with Emerald Health Sciences, Inc. (formerly Medna Biosciences Inc.) ("EH Sciences") whereby EH Sciences acquired (the "Escrow Transfer") a total of 20,156,790 common shares of the Company (44% of the Company's issued shares) from five of its founding shareholders, including its former CEO and CFO, at a price of \$0.21 per share. The shares are held in escrow and will be transferred within escrow and remain bound by those terms and conditions. The Escrow Transfer was approved by the TSX Venture Exchange. Three representatives from EH Sciences joined the Board of Directors and three existing directors stepped down.

Surplus and Value Escrow Agreements

On September 4, 2014, concurrent with the Transaction, the Company entered into a Surplus Security Escrow Agreement and a Value Security Escrow Agreement. The Agreements were entered into under Exchange Policy 5.4 *Escrow, Vendor Consideration and Resale Restrictions* in connection with a Reverse Takeover.

Approximately 58.9% of the common shares were subject to the Surplus Security Escrow Agreement and are releasable in tranches of 5% upon the date of completion of the private placement financing ("Closing"), 5% six months from the date of Closing, 10% 12 months from the date of Closing, 10% 18 months from the date of Closing, 15% 24 months from the date of Closing, 15% 30 months from the date of Closing and 40% 36 months from the date of Closing, subject to the condition that no common shares shall be released from escrow until the Company has received an amended license from Health Canada permitting sale of medical marijuana. The amended license was received in May 2015 and 10% of the common shares held under the Surplus Security Escrow Agreement were released as of June 30, 2015.

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11. SHARE CAPITAL (continued)

Approximately 11% of the common shares were subject to the Value Security Escrow Agreement and are releasable in tranches of 10% upon the date of completion of the private placement financing (“Closing”), 15% six months from the date of Closing, 15% 12 months from the date of Closing, 15% 18 months from the date of Closing, 15% 24 months from the date of Closing, 15% 30 months from the date of Closing and 15% 36 months from the date of Closing. 25% of the common shares held under the Value Security Escrow Agreement were released as of June 30, 2015.

In June 2015, the shareholders approved the termination, in certain circumstances, of the escrow agreements entered into by the Company. As of June 30, 2015, no specific transaction was being contemplated that would require the termination of the escrow agreements.

Warrants

As at June 30, 2015 and December 31, 2014, the Company had warrants outstanding enabling holders to acquire the following:

Number of Warrants	Exercise Price	Expiry Date
3,750,000	\$0.80	September 4, 2015
525,000	\$0.40	September 4, 2015
4,275,000		

The fair value of the warrants in the amount of \$600,341 is included in Contributed Surplus.

Share based payments

In June 2015, the shareholders of the Company approved the adoption of a new Stock Option Plan (the “New Plan”) in compliance with the policies of the TSX Venture Exchange. All options to acquire common shares of the Company previously issued to directors, officers, employees and consultants of the Company that were still outstanding were deemed to have been granted and issued under the New Plan and otherwise be governed by the terms and conditions of the New Plan, subject to the specific terms and conditions as to exercise price, vesting periods, if any, and expiry dates as were applicable to such options under the previous plan.

The maximum number of stock options available under the New 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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11. SHARE CAPITAL (continued)

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, 2013	-	-
Granted	2,950,000	\$0.44
Balance at December 31, 2014	2,950,000	\$0.44
Granted	1,850,000	\$0.44
Cancelled	(400,000)	\$0.53
Balance at June 30, 2015	4,400,000	\$0.44

In January 2015, the Company granted 350,000 stock options at an exercise price of \$0.41 to an employee with an expiry date of January 26, 2020, vesting over three years commencing on February 16, 2015.

In February 2015, the Company modified a previous grant by reducing the number of options granted by 150,000. All other terms of the original grant remained the same. The modification resulted in an acceleration of vesting and the recognition of an additional \$48,600 in share based payments expense in the three month period ended March 31, 2015.

In April 2015, the incoming directors were granted a total of 1,500,000 options at an exercise price of \$0.45, an expiry date of April 25, 2020 and immediate vesting. Two of the directors that stepped down surrendered 125,000 options each and the vesting period on the remaining options was accelerated. The modifications resulted in an acceleration of vesting and the recognition of an additional \$100,652 in share based payments expense in the three month period ended June 30, 2015.

The fair values of the options granted during the period were determined on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	Grant January 2015	Grant April 2015
Number of share options granted	350,000	1,500,000
Exercise price	\$0.41	\$0.45
Market value on grant date	\$0.41	\$0.45
Risk free interest rate	0.79%	0.87%
Expected life	5 years	5 years
Annualized volatility	80%	80%
Forfeiture rate	Nil	Nil
Expected dividends	Nil	Nil

Volatility was estimated by using the historical volatility of other companies that the Company considers

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11. SHARE CAPITAL (continued)

comparable that have 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.

Incentive stock options outstanding and exercisable at June 30, 2015 are summarized as follows:

Exercise price	Outstanding		Exercisable	
	Quantity	Remaining contractual life (Years)	Quantity	Weighted average exercise price
\$0.40	1,800,000	4.18	1,580,556	\$ 0.40
\$0.41	350,000	4.58	43,247	\$ 0.41
\$0.45	1,500,000	4.82	1,500,000	\$ 0.45
\$0.55	600,000	4.42	116,667	\$ 0.55
\$0.75	150,000	4.18	150,000	\$ 0.75
	4,400,000	4.48	3,390,470	\$ 0.44

The Company recorded share-based compensation expense related to the incentive stock options of \$593,720 and \$756,744 for the three and six month periods ended June 30, 2015. The expense has been charged to the consolidated statement of loss and comprehensive loss.

In connection with the termination of the CEO in January 2015, and pursuant to a settlement agreement between the Company and the former CEO, the former CEO granted an irrevocable option (the “Private Option”) to the Company to acquire up to 1,000,000 of the common shares of the Company held by the former CEO, and currently held in escrow, at an exercise price of \$0.10 per Optioned Share, for a period of three years following the date of the Settlement Agreement. The Board may assign the Private Option to one or more assignees, or designate into whose name the Optioned Shares will be transferred upon exercise of the Private Option.

During the quarter ended March 31, 2015, the Board assigned 150,000 of the Optioned Shares with 45,000 vesting in September 2015, 45,000 vesting in December 2015 and 60,000 vesting in March 2016. The fair value of the private option was determined using the Black-Scholes option pricing model with the following assumptions: exercise price \$0.425; market value on grant date of \$0.40; risk free interest rate of 0.61% and an expected life of 4 years. For the three and six month periods ended June 30, 2015 respectively, \$8,800 and \$17,600 was included in share based payments expense related to the private option.

During the quarter ended June 30, 2015, the Board assigned 830,000 of the Optioned Shares in consideration as a finder’s fee for the Escrow Transfer. The fair value of the private option was determined using the Black-Scholes option pricing model with the following assumptions: exercise price \$0.10; market value on grant date of \$0.42; risk free interest rate of 0.70% and an expected life of 2 years. Share-based compensation expense of \$273,900 was recorded.

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12. LOSS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share for the three and six month periods ended June 30, 2015 and 2014:

	For the three months ended June 30,		For the six months ended June 30,	
	2015	2014	2015	2014
Numerator				
Net Loss for the period	\$ 1,465,753	\$ 450,237	\$ 2,244,883	\$ 483,407
Denominator				
For basic- weighted average number of shares outstanding	46,070,841	33,524,471	46,070,841	31,771,971
Effect of dilutive securities incentive share options/warrants	-	-	-	-
For diluted – adjusted weighted average number of shares outstanding	46,070,841	33,524,471	46,070,841	31,771,971
Loss per share				
Basic	\$ (0.03)	\$ (0.01)	\$ (0.05)	\$ (0.02)
Diluted	\$ (0.03)	\$ (0.01)	\$ (0.05)	\$ (0.02)

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 year, if dilutive. There were 3,390,470 stock options and 4,275,000 warrants excluded from the weighted average number of common shares outstanding during the period as they were anti-dilutive.

13. COMMITMENTS

On January 1, 2014, EH Botanicals assumed a lease for premises to conduct its operations, for the period January 1, 2014 to May 31, 2014. The Company renegotiated the lease at \$4,750 per month for an initial term from June 1, 2014 to May 31, 2019 with an option to renew for an additional two, five year terms.

On September 1, 2014 the Company signed a lease for expansion premises to conduct its operations for an initial month-to-month period from November 1, 2014 to July 31, 2015, a second period from August 1, 2015 to October 31, 2015 and a third period from November 1, 2015 to October 31, 2019. There is an option to renew for an additional two, five year terms and an option to purchase the land and building during the period November 1, 2014 to October 31, 2017. Basic rent for the initial month-to-month lease

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13. COMMITMENTS (continued)

period is \$26,552 per month plus additional rent of \$9,221 per month starting November 1, 2014 to cover operating costs. The lease can be terminated any time with advance notice in the initial month-to-month period.

On September 1, 2014, the Company retained an investor relations consulting firm to provide investor relations services on behalf of the Company. The Agreement is for a term of eighteen months and may be terminated by either party by giving 90 days' written notice of such termination. The Company will pay a monthly retainer fee of \$7,500 and any reasonable pre-approved expenses incurred on behalf of the Company.

A director was engaged to provide consulting services to the Company at \$5,000 per month from September 1, 2014 to August 31, 2015.

In connection with the termination agreement, the former CEO was retained by the Company as an independent outside consultant to provide consulting advice from time to time to the Company. The term of the consultancy commenced on February 1, 2015 and will end on January 31, 2016 (the "Consultancy Period"). In consideration for this consultancy, the Company will pay a consulting fee of \$10,000 per month, for the Consultancy Period. Stock options previously granted to the CEO will remain exercisable during the consultancy period.

	Total	2015	2016	Due by year ending		
				2017	2018	2019 and thereafter
Production facilities	\$ 223,250	\$ 28,500	\$57,000	\$57,000	\$57,000	\$23,750
Investor relations	60,000	45,000	15,000	-	-	-
Consulting services	80,000	70,000	10,000	-	-	-
	\$ 363,250	\$143,500	\$82,000	\$57,000	\$57,000	\$23,750

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14. FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are measured on an ongoing basis at fair value or amortized cost. The disclosure in the notes to these financial statements describe how the categories of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognized.

As at June 30, 2015 and December 31, 2014, the classification of the financial instruments, as well as their carrying values and fair values, are shown in the table below:

	June 30, 2015		December 31, 2014	
	Fair Value	Carrying Value	Fair Value	Carrying Value
Financial Assets				
FVTPL:				
Cash and cash equivalents	\$ 402,498	\$ 402,498	\$1,718,795	\$1,718,795
Loans and accounts receivable, recorded at amortized cost:				
Accounts receivable	34,118	34,118	42,548	42,548
Financial Liabilities				
Other financial liabilities, recorded at amortized cost:				
Accounts payable and accrued liabilities	119,134	119,134	114,009	114,009
Due to Related Parties	19,929	19,929	19,851	19,851

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 approximates the fair value because of the short-term nature of these instruments.

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14. FINANCIAL INSTRUMENTS (continued)

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 June 30, 2015				
Financial Assets				
Cash and cash equivalents	\$ 402,498	\$ 402,498	-	-
As at December 31, 2014				
Financial Assets				
Cash and cash equivalents	\$ 1,718,795	\$ 1,718,795	-	-

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

Currency risk

The Company's functional and reporting currency is the Canadian dollar and major purchases are transacted in Canadian dollars. The Company has not hedged its exposure to currency fluctuations. As a result, the Company's exposure to foreign currency risk is minimal.

Credit risk

The Company's cash is 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 June 30, 2015 is the carrying value of its financial assets.

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 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 June 30, 2015, the Company had positive working capital of \$436,197. Accordingly, the Company is able to meet its current obligations and has minimal liquidity risk. 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.

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14. FINANCIAL INSTRUMENTS (continued)

Management and the Board of Directors are actively involved in the review, planning and approval of significant expenditures and commitments.

15. CAPITAL MANAGEMENT

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.

16. SEGMENTED INFORMATION

The Company has one reportable operating segment of production of medical marijuana pursuant to the Marijuana for Medical Purposes Regulations. As at June 30, 2015 and December 31, 2014, all of the Company's operations and assets were in Canada.

17. RECLASSIFICATIONS

Certain amounts in the prior years' financial statements have been reclassified to conform to the current period presentation. The expense categories on the Condensed Interim Consolidated Statements of Loss and Comprehensive Loss have been changed to disclose the information by function rather than by nature of the expense.

18. SUBSEQUENT EVENTS

a) Application for supplemental license

In August 2015, EH Botanicals applied to Health Canada for a supplemental license to conduct activities with cannabis for the purposes of producing and selling cannabis oils and similar products. This application was in response to the change in Health Canada regulations announced in July 2015.

b) Loan agreement

Subsequent to the reporting period, the Company entered into a loan agreement with EH Sciences pursuant to which EH Sciences has agreed to loan monies to the Company on a revolving basis, in amounts and at times agreed to by the parties. Amounts loaned to the Company will bear interest at 5% per annum and will be repayable on demand.