EMERALD HEALTH THERAPEUTICS, INC.

(Formerly T-Bird Pharma, Inc.)

Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2016

(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, 2016 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, 2016		December 31, 2015 (Audited)
ASSETS				
Current				
Cash	$	10,930	$	81,836
Accounts receivable (Note 5)		21,923		42,140
Inventory (Note 6)		110,537		30,644
Biological assets (Note 7)		152,186		140,422
Prepaid expenses		27,701		27,736
Total current assets		323,277		322,778
Plant and equipment (Note 8)		582,609		407,127
Deposits on equipment (Note 8)		-		41,774
		582,609		448,901
TOTAL ASSETS	$	905,886	$	771,679
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	$	243,401	$	212,198
Due to related parties (Note 9)		672,134		972,677
Total current liabilities		915,535		1,184,875
TOTAL LIABILITIES		915,535		1,184,875
SHAREHOLDERS' EQUITY				
Share capital (Note 10)		4,454,952		3,076,966
Contributed surplus		2,742,671		2,666,874
Accumulated deficit		(7,207,272)		(6,157,036)
TOTAL SHAREHOLDERS' (DEFICIT) EQUITY		(9,649)		(413,196)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$	905,886	$	771,679

Nature and continuance of operations (Note 1)
Commitments (Note 13)
Events after the reporting period (Note 18)

On behalf of the Board of Directors:

/s/ Punit Dhilllon
Director

/s/ Dr. Avtar Dhilllon
Director

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

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,	
	2016	2015	2016	2015
Revenue	$ 38,729	$ -	$ 80,137	$ -
Cost of sales				
Cost of goods sold	34,469	-	71,987	-
Production costs	140,492	67,497	255,925	67,497
Gain on changes in fair value of biological assets	(34,078)	(29,066)	(108,476)	(29,066)
Gross margin	(102,154)	(38,431)	(139,299)	(38,431)
Expenses				
General and administrative	242,016	410,729	468,646	878,395
Pre-distribution growing costs	-	79,609	-	194,047
Sales and marketing	66,035	42,755	142,680	54,702
Research and development (net of government contributions)	66,587	6,294	173,260	8,598
Depreciation	31,926	11,516	50,554	22,466
Share-based payments (Note 10)	37,618	876,420	75,797	1,048,244
	444,182	1,427,322	910,937	2,206,452
NET LOSS AND COMPREHENSIVE LOSS	546,336	1,465,753	1,050,236	2,244,883
Basic and diluted loss per common share	$ 0.01	$ 0.03	$ 0.02	$ 0.05
Weighted average number of common shares outstanding (note 11)				
-basic	50,431,115	46,070,841	47,157,923	46,070,841
-diluted	50,431,115	46,070,841	47,157,923	46,070,841

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

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								
	Shares		Amount		Contributed Surplus		Deficit		Total Shareholders' Equity
Balance, December 31, 2014	46,070,841	$	3,076,966	$	1,490,473	$	(2,659,765)	$	1,907,674
Share-based payments	-		-		1,176,401		-		1,176,401
Net loss and comprehensive loss	-		-		-		(3,497,271)		(3,497,271)
Balance, December 31, 2015	46,070,841	$	3,076,966	$	2,666,874	$	(6,157,036)	$	(413,196)
Shares issued on conversion of debt	8,097,651		1,392,796		-		-		1,392,796
Share issuance costs	-		(14,810)		-		-		(14,810)
Share-based payments	-		-		75,797		-		75,797
Net loss and comprehensive loss	-		-		-		(1,050,236)		(1,050,236)
Balance, June 30, 2016	54,168,492	$	4,454,952	$	2,742,671	$	(7,207,272)	$	(9,649)

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

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, 2016	For the three months ended June 30, 2015	For the six months ended June 30, 2016	For the six months ended June 30, 2015
Operating activities				
Net loss and comprehensive loss	$ (546,336)	$ (1,465,753)	$ (1,050,236)	$ (2,244,883)
Items not involving cash				
Depreciation (Note 8)	31,926	11,516	50,554	22,466
Gain on changes in fair value of biological assets	(34,078)	(29,066)	(108,476)	(29,066)
Share-based payments (Note 10)	37,618	876,420	75,797	1,048,244
Accrued interest	6,100	-	15,607	-
Loss on disposal of assets	1,100	-	1,100	-
Changes in non-cash operating working capital items (Note 12)	95,622	(51,024)	137,983	(18,540)
Net cash flows used in operating activities	(408,048)	(657,907)	(877,671)	(1,221,779)
Investing activities				
Purchase of plant and equipment (Note 8)	(89,254)	(13,216)	(185,362)	(94,596)
Deposits on equipment (Note 8)	-	-	-	-
Net cash flows used in investing activities	(89,254)	(13,216)	(185,362)	(94,596)
Financing activities				
Advances from related parties (Note 9)	506,214	2,319	1,006,937	78
Share issuance costs	(7,346)	-	(14,810)	-
Net cash flows generated from financing activities	498,868	2,319	992,127	78
Increase (decrease) in cash during the period	1,566	(668,804)	(70,906)	(1,316,297)
Cash, beginning of period	9,364	1,071,302	81,836	1,718,795
Cash, end of period	$ 10,930	$ 402,498	$ 10,930	$ 402,498

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

1. NATURE AND CONTINUANCE OF OPERATIONS

Emerald Health Therapeutics Inc. (the "Company"), (formerly T-Bird Pharma, Inc.) was incorporated by articles of incorporation 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 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"). Its registered office is at Suite 2600 Oceanic Plaza, 1066 West Hastings Street, Vancouver, B.C. 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-based company which was incorporated by articles of incorporation 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 Marihuana for Medical Purposes Regulations.

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, 2016, the Company had a working capital deficiency, had not yet achieved profitable operations and had accumulated losses of $7,207,272 (December 31, 2015 - $6,157,036) since its inception. The continuing operations of the Company are dependent upon its ability to continue to raise adequate capital 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 related and third parties. As of June 30, 2016, the Company owes $672,134 (December 31, 2015 - $972,677) to related parties (Note 9). 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. 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, 2015. 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 2. 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 22, 2016.

Basis of measurement

These condensed interim consolidated financial statements have been prepared on a historical cost basis except for certain financial assets measured at fair value. These consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

All dollar amounts presented are in Canadian dollars unless otherwise specified. In addition, there may be minor differences due to rounding of numbers.

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.

3. ACCOUNTING POLICIES

These interim condensed consolidated financial statements have been prepared using the same accounting policies as those used in the Company's annual financial statements at December 31, 2015 with the exceptions noted below.

IAS 16, Property, Plant and Equipment and IAS 41, Agriculture

Applicable to 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; and
- Clarify that produce growing on bearer plants remains within the scope of IAS 41.

The Company has determined that there is not a significant impact arising from the application of this new standard as the plants in question do not meet the definition of bearer plants introduced in the amendment.

Disclosure Initiative (*Amendments to IAS 1)*

Effective for annual periods beginning on or after January 1, 2016, IAS 1 *Presentation of Financial Statements* is amended to address perceived impediments to preparers exercising their judgement in presenting their financial reports by making the following changes:

- clarification that information should not be obscured by aggregating or by providing immaterial information, materiality considerations apply to all parts of the financial statements, and even when a standard requires a specific disclosure, materiality considerations do apply;
- clarification that the list of line items to be presented in these statements can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements and clarification that an entity's share of OCI of equity-accounted associates and joint ventures should be presented in aggregate as single line items based on whether or not it will subsequently be reclassified to profit or loss; and
- additional examples of possible ways of ordering the notes to clarify that understandability and comparability should be considered when determining the order of the notes and to demonstrate that the notes need not be presented in the order so far listed in paragraph 114 of IAS 1.

The Company has determined that there is not a significant impact arising from the application of this new standard.

(Expressed in Canadian dollars)

4. 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 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.

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, 2018, 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. The standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

5. ACCOUNTS RECEIVABLE

The accounts receivable as at June 30, 2016 $21,923 (December 31, 2015 $42,140) primarily consisted of Goods and Service Tax ("GST") receivable from the Canada Revenue Agency and amounts receivable towards a research and development project from the Government of Canada.

6. INVENTORY

The Company's inventory is comprised of:

		June 30, 2016		December 31, 2015
Finished goods	$	106,624	$	29,894
Other		3,913		750
	$	110,537	$	30,644

Included in production costs is an adjustment of $26,559 in inventory from cost to net realizable value. Prior to obtaining the authorization to sell from Health Canada in May 2015, production costs incurred in excess of net realizable value have been expensed as pre-distribution growing costs.

(Expressed in Canadian dollars)

7. BIOLOGICAL ASSETS

The Company's biological assets consist of seeds and cannabis on plants. The continuity of biological assets for the six months ended June 30, 2016 and 2015 is as follows:

	June 30, 2016	June 30, 2015
Carrying amount, December 31, 2015	$ 140,422	$ -
Purchase (use of) seeds	(2,640)	-
Changes in fair value less costs to sell due to biological transformation	108,476	29,066
Transferred to inventory upon harvest	(94,072)	-
Carrying amount	$ 152,186	$ 29,066

A portion of the Company's cannabis seeds, with a carrying value of $17,360, are restricted with respect to distribution due to the conditions under which they were acquired. As at June 30, 2016, included in the carrying amount of biological assets is $25,113 in seeds and $127,073 in live plants.

All of the plants are to be harvested as agricultural produce (ie. Medical cannabis).

The significant assumptions used in determining the fair value of medical cannabis plants are as follows:

- plant waste based on various stage of growth;
- yield per plant;
- pricing of final product;
- percentage of costs incurred to date compared to the total costs to be incurred (to estimate the fair value of an in-process plant); and
- costs incurred for each stage of plant growth.

The Company estimates the harvest yields for the plants at various stages of growth. The Company's estimates are, by their nature, subject to change. Changes in the anticipated yield will be reflected in future changes in the gain or loss on changes in fair value of biological assets.

(Expressed in Canadian dollars)

8. PLANT AND EQUIPMENT

	Leasehold improvements	Growing and extract equipment	Other equipment	Total
Cost				
Balance, December 31, 2014	$ 148,363	$ 54,713	$ 20,516	$ 223,592
Additions	55,597	204,200	10,664	270,461
Disposals	(19,633)	-	-	(19,633)
Balance, December 31, 2015	$ 184,327	258,913	$ 31,180	$ 474,420
Additions	602	147,347	79,187	227,136
Disposals	-	-	(3,143)	(3,143)
Balance, June 30, 2016	$ 184,929	$ 406,260	$ 107,224	$ 698,413
Accumulated depreciation				
Balance, December 31, 2014	$ 8,520	9,392	$ 2,972	$ 20,884
Additions	18,709	20,103	7,597	46,409
Balance, December 31, 2015	$ 27,229	$ 29,495	$ 10,569	$ 67,293
Additions	9,387	29,670	11,497	50,554
Disposals	-	-	(2,043)	(2,043)
Balance, June 30, 2016	$ 36,616	$ 59,165	$ 20,023	$ 115,804
Net book value				
At December 31, 2015	**$ 157,098**	**$ 229,418**	**$ 20,611**	**$ 407,127**
At June 30, 2016	**$ 148,313**	**$ 347,095**	**$ 87,201**	**$ 582,609**

Deposits on equipment as at March 31, 2016 in the amount of $85,993 (December 31, 2015 – $41,774) was used towards lab equipment received during the current period.

9. RELATED PARTY TRANSACTIONS

The balances due to related parties, with the exception of the demand loans owing to Emerald Health Sciences, Inc. (“Sciences”), a related party of the Company, are unsecured, non-interest bearing and have no specific terms of repayment.

Amounts loaned to the Company by Sciences bear interest at 12% per annum and are repayable on demand. The Company also agreed to pay a fee for services provided by Sciences pursuant to a service contract based on cost. As of June 30, 2016, the Company owed $654,524 for the loan and services, including accrued interest of $6,100.

(Expressed in Canadian dollars)

9. RELATED PARTY TRANSACTIONS (continued)

In March 2016, Sciences agreed to convert the debt owing to it into common shares, subject to approval by the TSXV. The total debt outstanding as of February 26, 2016, the date Sciences agreed to the conversion of the debt, was $1,392,796 which converted to 8,097,651 common shares at a deemed price of $0.172 per share. The TSXV approved the conversion of the debt and issuance of the new shares in May 2016. Sciences owns 52% of the issued and outstanding common shares as of June 30, 2016.

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 June 30, 2016	For the three months ended June 30, 2015	For the six months ended June 30, 2016	For the six months ended June 30, 2015
Wages and short-term benefits	$ 75,398	$ 75,074	$ 150,796	$ 177,315
Share-based payments (Note 10)	23,877	558,183	51,677	639,135
	$ 99,275	$ 633,257	$ 202,473	$ 816,450

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, such officers are entitled to a minimum severance amount equal to six months of salary.

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.

10. SHARE CAPITAL

Authorized
Unlimited number of common shares without par value

Issued
54,168,492 common shares (2015 – 46,070,841)

Escrow Transfer

In 2015, the Company, together with certain of its shareholders, completed the transaction with Sciences, whereby 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.

(Expressed in Canadian dollars)

10. SHARE CAPITAL (continued)

In March 2016, Sciences agreed to convert the debt owing to it into common shares. The total debt outstanding as of February 26, 2016, the date Sciences agreed to the conversion of the debt, was $1,392,796 which converted to 8,097,651 common shares at a deemed price of $0.172 per share. The transaction was approved by the TSXV in May 2016 and the total number of issued and outstanding common shares increased to 54,168,492 of which Sciences owns 52%.

Surplus and Value Escrow Agreements

In 2014, the Company entered into a Surplus Security Escrow Agreement and a Value Security Escrow Agreement under TSXV Policy 5.4 *Escrow, Vendor Consideration and Resale Restrictions* in connection with a Reverse Takeover.

Approximately 59% of the outstanding common shares were subject to the Surplus Security Escrow Agreement and as of June 30, 2016, 18,990,646 common shares (70%) held under the Surplus Security Escrow Agreement remained in escrow. Approximately 11% of the common shares were subject to the Value Security Escrow Agreement as of June 30, 2016, 2,280,382 common shares (45%) held under the Surplus 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%

In June 2015, the shareholders of the Company approved the termination, in certain circumstances, of the escrow agreements entered into by the Company. As of June 30, 2016, no specific transaction was being contemplated that would require the termination of the escrow agreements.

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

(Expressed in Canadian dollars)

10. SHARE CAPITAL (continued)

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.

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, 2014	2,950,000	$0.47
Granted	1,850,000	$0.44
Forfeited	(177,758)	$0.40
Expired	(272,242)	$0.59
Cancelled	(400,000)	$0.53
Balance at December 31, 2015	3,950,000	$0.44
Granted	300,000	$0.175
Expired	(250,000)	$0.40
Balance at June 30, 2016	4,000,000	$0.43

During the six-month period ending June 30, 2016, the Company granted 300,000 stock options to an employee with an exercise price of $0.175, vesting monthly over 36 months with a five-year term. During the same period, 250,000 options granted to the former CEO expired without being exercised.

The fair values of the options granted in March 31, 2016 were determined on the date of the grant using the Black-Scholes option pricing model with the following assumptions:

	Grant March 2016
Number of share options granted	300,000
Exercise price	$0.175
Market value on grant date	$0.175
Risk free interest rate	0.74%
Expected life	5 years
Annualized volatility	80%
Expected dividends	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.

(Expressed in Canadian dollars)

10. SHARE CAPITAL (continued)

Incentive stock options outstanding and exercisable at June 30, 2016 are summarized as follows:

	Outstanding			Exercisable	
Exercise price	Quantity	Remaining contractual life (Years)	Weighted average exercise price	Quantity	Weighted average exercise price
$0.175	300,000	4.70	$ 0.175	33,333	$ 0.175
$0.40	1,250,000	3.18	$ 0.40	1,113,889	$ 0.40
$0.41	350,000	3.58	$ 0.41	159,914	$ 0.41
$0.45	1,500,000	3.82	$ 0.45	1,500,000	$ 0.45
$0.55	600,000	3.42	$ 0.55	316,667	$ 0.55
	4,000,000	3.61	$ 0.43	3,123,803	$ 0.44

The Company recorded share-based compensation expense related to the incentive stock options of $38,179 and $876,420 for the three month periods ended June 30, 2016 and 2015. During the quarter ended June 30, 2015, 1,500,000 options were granted to directors with immediate vesting and a previous grant to directors was modified, for a share-based compensation expense of $505,652. The expense was charged to the consolidated statement of loss and comprehensive loss.

Also during the quarter ended June 30, 2015, the Board assigned 830,000 of private option 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 and share-based compensation expense of $273,900 was recorded.

(Expressed in Canadian dollars)

11. 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, 2016 and 2015:

	For the three months ended June 30,		For the six months ended June 30,	
	2016	**2015**	**2016**	**2015**
Numerator				
Net Loss for the period	$ 546,335	$ 1,427,323	$ 1,050,236	$ 2,206,452
Denominator				
For basic- weighted average number of shares outstanding	50,431,115	46,070,841	47,157,923	46,070,841
Effect of dilutive securities incentive share options	-	-	-	-
For diluted – adjusted weighted average number of shares outstanding	50,431,115	46,070,841	47,157,923	46,070,841
Loss per share				
Basic	$ (0.01)	$ (0.03)	$ (0.02)	$ (0.05)
Diluted	$ (0.01)	$ (0.03)	$ (0.02)	$ (0.05)

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. For the periods ended June 30, 2016 and 2015, no stock options or warrants were anti-dilutive and therefore would not impact the weighted average number of common shares outstanding.

(Expressed in Canadian dollars)

12. CHANGES IN NON-CASH OPERATING WORKING CAPITAL ITEMS

The following table sets forth the changes in the non-cash operating working capital items for the three and six month periods ended June 30, 2016 and 2015:

	For the three months ended June 30, 2016	2015	For the six months ended June 30, 2016	2015
Accounts receivable	12,609	25,667	20,217	8,430
Prepaid expenses	(7,655)	(6,369)	35	(3,070)
Inventory and biological assets (Note 6)	22,018	(14,355)	16,819	(29,025)
Accounts payable and accrued liabilities	41,465	(55,967)	31,202	5,125
Advances from related parties (Note 9)	27,185	-	69,710	-
	$ 95,622	$ (51,024)	$ 137,983	$ (18,540)

13. COMMITMENTS

The Company leases it premises for $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.

The Company entered a purchase agreement with another Licenced Producer to supplement inventory.

		Due by year ending				
	Total	2016	2017	2018	2019	2020 and thereafter
Production facilities	$166,250	$ 28,500	$57,000	$57,000	$23,750	-
Purchase agreement	152,901	152,901	-	-	-	-
	$ 319,151	$181,401	$57,000	$57,000	$23,750	$ -

(Expressed in Canadian dollars)

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, 2016 and December 31, 2015, the classification of the financial instruments, as well as their carrying values and fair values, are shown in the table below:

	June 30, 2016		**December 31,2015**	
	Fair Value	**Carrying Value**	**Fair Value**	**Carrying Value**
Financial Assets				
FVTPL:				
Cash	$10,930	$10,930	$81,836	$81,836
Loans and accounts, recorded at amortized cost:				
Accounts receivable	21,923	21,923	42,140	42,140
Financial Liabilities				
Other financial liabilities, recorded at amortized cost:				
Accounts payable and accrued liabilities	243,400	243,400	212,198	212,198
Due to related parties	676,934	672,134	981,077	972,677

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.

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, 2016				
Financial Assets - Cash	$ 10,930	$ 10,930	-	-
As at December 31, 2015				
Financial Assets - Cash	$ 81,836	$ 81,836	-	-

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, 2016 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, 2016, the Company had negative working capital, which includes the demand loans of $654,524 owing to Sciences. Sciences agreed to provide funds as needed in order for the Company to continue to meet its ongoing financial obligations. 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.

15. CAPITAL MANAGEMENT

The Corporation'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 Corporation considers shareholders' equity as capital. Through the ongoing management of its capital, the Corporation will modify the structure of its capital based on changing economic conditions. In doing so, the Corporation may issue new shares. Annual budgeting is the primary tool used to manage the Corporation'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 marihuana pursuant to the Marihuana for Medical Purposes Regulations. As at June 30, 2016 and December 31, 2015, 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. EVENTS AFTER THE REPORTING PERIOD

a) Supplemental Sales Licence

In July 2016, Botanicals received approval from Health Canada for a Supplemental Licence allowing for the sale of cannabis oils.

b) Private Placement and Debt Conversion

In August 2016, the Company and Sciences completed a private placement of up to 4,077,687 units, in one or more tranches, at a price of $0.205 per unit, for potential gross proceeds of $1,936,900 if all of the warrants are exercised. Each unit is comprised of one common share and one common share purchase warrant, each warrant entitles the holder to acquire an additional common share at an exercise price equal to $0.27 per share. The Company and Sciences also agreed to the conversion of debt outstanding as of August 5, 2016, into 4,494,955 Common Shares. Sciences also reached an agreement with an outgoing director to purchase 4.4 million shares. Upon completion of all of these transactions, Sciences will own 68% of the common shares of the Company on a fully-diluted basis. These transactions are subject to approval by the TSXV.

c) Health Canada Regulations

In August 2016, Health Canada announced new regulations called the Access to Cannabis for Medical Purposes Regulations (ACMPR). The ACMPR will replace the Marihuana for Medical Purposes Regulations (MMPR) as the regulations governing Canada's medical cannabis program, and will come into force on August 24, 2016. The new regulations are not expected to impact the operations of the Company.