



**emerald**  
HEALTH THERAPEUTICS

*EMERALD HEALTH THERAPEUTICS, INC.*

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

For the three and six months ended June 30, 2021 and 2020

*(Expressed in Canadian Dollars)*

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**EMERALD HEALTH THERAPEUTICS, INC.**  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
(Unaudited - Amounts reflected in thousands of Canadian dollars, except share and per share amounts)

	June 30	December 31
	2021	2020
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents (Note 2 (c))	\$ 26,886	\$ 25,998
Accounts receivable	2,398	1,992
Receivable from Joint Venture Sale (Note 17)	-	20,286
Biological assets (Note 3)	388	969
Inventory (Note 4)	4,816	4,611
Prepaid expenses	753	1,135
Asset held-for-sale (Note 5)	7,452	-
Due from related parties (Note 8)	50	50
<b>Total current assets</b>	<b>42,743</b>	<b>55,041</b>
Plant and equipment (Note 5)	21,268	34,531
Plant under construction (Note 5)	-	5,411
Deposits on materials and equipment (Note 5)	200	214
Refundable deposits	379	575
Intangible assets (Note 6)	1,666	1,859
Promissory note receivable (Note 13)	385	-
Right-of-use assets (Note 14)	321	509
Long-term investment (Note 12)	496	134
<b>Total non-current assets</b>	<b>24,715</b>	<b>43,233</b>
<b>TOTAL ASSETS</b>	<b>\$ 67,458</b>	<b>\$ 98,274</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (Note 19 (d))	\$ 6,116	\$ 11,019
Deferred payment (Note 7)	-	9,375
Due to related parties (Note 8)	593	1,619
Lease liability on held for sale assets (Note 14)	3,497	-
Lease liability (Note 14)	271	651
<b>Total current liabilities</b>	<b>10,477</b>	<b>22,664</b>
Lease liability (Note 14)	138	3,464
CEBA loan (Note 2 (d))	40	40
<b>TOTAL LIABILITIES</b>	<b>\$ 10,655</b>	<b>\$ 26,168</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 9)	252,706	249,763
Warrants (Note 11)	823	1,718
Contributed surplus	28,663	29,126
Accumulated deficit	(225,389)	(207,148)
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>56,803</b>	<b>73,459</b>
Non-controlling interest (Note 2, 8)	-	(1,353)
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 67,458</b>	<b>\$ 98,274</b>

Nature and continuance of operations (Note 1)

Events after the reporting period (Note 21)

On behalf of the Board of Directors:

/s/ Jim Heppell  
Director

/s/ Punit Dhillon  
Director

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

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

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

	Three months ended June 30 2021	Three months ended June 30 2020	Six months ended June 30 2021	Six months ended June 30 2020
<b>Revenue</b>				
Revenue from sale of goods (Note 15)	\$ 3,777	\$ 3,106	\$ 6,429	\$ 6,439
Excise taxes	(733)	(625)	(1,130)	(1,069)
<b>Net revenue</b>	<b>3,044</b>	<b>2,481</b>	<b>5,299</b>	<b>5,370</b>
<b>Cost of sales</b>				
Cost of goods sold	1,330	807	2,463	2,783
Production costs	1,342	377	2,777	1,418
Amortization of Health Canada license (Note 6)	1	215	3	429
Inventory write-down (Note 4)	173	-	404	1,054
Realized fair value amounts on inventory sold	1,045	940	1,600	1,102
Unrealized gain on changes in fair value of biological assets (Note 3)	(540)	(871)	(635)	(1,515)
<b>Gross (loss) profit</b>	<b>(307)</b>	<b>1,013</b>	<b>(1,313)</b>	<b>99</b>
<b>Expenses</b>				
General and administrative (Note 16)	2,256	1,898	4,483	4,679
Sales and marketing	567	260	994	936
Research and development	640	275	911	708
Depreciation and amortization (Note 5, 6 and 14)	448	195	901	1,071
Share-based payments (Note 10)	194	844	337	1,830
Loss on disposal of equipment	-	-	-	203
	<b>4,105</b>	<b>3,472</b>	<b>7,626</b>	<b>9,427</b>
<b>Loss from operations</b>	<b>(4,412)</b>	<b>(2,459)</b>	<b>(8,939)</b>	<b>(9,328)</b>
Other (expenses) income				
Share of (loss) income from joint venture	-	(187)	-	5,017
Interest and other income	782	809	1,869	822
Finance costs and other expenses (Note 8, 16)	(31)	(1,229)	(33)	(2,425)
Impairment of assets	(10,668)	(17,063)	(10,668)	(17,063)
Gain on settlement of deferred payment	-	-	293	-
Gain (loss) on dilution of joint venture ownership	-	1,199	-	(850)
Gain on sale of long term investment	-	-	249	-
Fair value changes in long-term investment	373	-	373	-
Fair value changes in financial assets (Note 12, 19)	-	(13)	-	5
<b>Loss before income taxes</b>	<b>(13,956)</b>	<b>(18,943)</b>	<b>(16,856)</b>	<b>(23,822)</b>
<b>NET LOSS AND COMPREHENSIVE LOSS</b>				
	<b>(13,956)</b>	<b>(18,943)</b>	<b>(16,856)</b>	<b>(23,822)</b>
<b>Net loss and comprehensive loss attributable to:</b>				
Emerald Health Therapeutics, Inc.	(13,956)	(18,862)	(16,856)	(23,596)
Non-controlling interest	-	(81)	-	(226)
	<b>(13,956)</b>	<b>(18,943)</b>	<b>(16,856)</b>	<b>(23,822)</b>
Net loss per common share				
Basic and diluted	0.07	0.10	0.08	0.13
Weighted average number of common shares outstanding				
Basic and diluted	213,316,889	191,663,238	211,670,384	182,868,081

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

**EMERALD HEALTH THERAPEUTICS, INC.**  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
(Unaudited - Amounts reflected in thousands of Canadian dollars, except share and per share amounts)

	Share Capital		Warrants		Contributed Surplus	Convertible Debt Reserves	Accumulated Deficit	Total Shareholders' Equity	Non-Controlling Interest	Total Equity
	# of Shares	Amount	# of Warrants	Amount						
Balance, January 1, 2021	206,360,372	\$ 249,763	41,916,849	\$ 1,718	\$ 29,126	\$ -	\$ (207,148)	\$ 73,459	\$ (1,353)	\$ 72,106
Shares issued on option exercise (Note 9, 10)	191,875	80	-	-	(30)	-	-	50	-	50
Shares issued on restricted share unit vesting (Note 9, 10)	519,848	770	-	-	(770)	-	-	-	-	-
Shares issued on warrant exercises (Note 9, 11)	6,250,000	2,208	(6,250,000)	(895)	-	-	-	1,313	-	1,313
Share issuance costs	-	(115)	-	-	-	-	-	(115)	-	(115)
Share-based payments (Note 10)	-	-	-	-	337	-	-	337	-	337
Net loss and comprehensive loss	-	-	-	-	-	-	(16,856)	(16,856)	-	(16,856)
Acquisition of subsidiary with NCI (Note 8)	-	-	-	-	-	-	-	-	(32)	(32)
Acquisition of NCI without change of control (Note 8)	-	-	-	-	-	-	(1,385)	(1,385)	1,385	-
<b>Balance, June 30, 2021</b>	<b>213,322,095</b>	<b>\$ 252,706</b>	<b>35,666,849</b>	<b>\$ 823</b>	<b>\$ 28,663</b>	<b>\$ -</b>	<b>\$ (225,389)</b>	<b>\$ 56,803</b>	<b>\$ -</b>	<b>\$ 56,803</b>
Balance, January 1, 2020	160,986,373	\$ 237,151	26,470,671	\$ 2,449	\$ 28,146	\$ 383	\$ (164,196)	\$ 103,933	\$ (766)	\$ 103,167
Shares issued on prospectus offering (Note 9)	21,696,178	4,935	-	-	-	-	-	4,935	-	4,935
Share issued on settlement of related party transaction (Note 9)	9,713,666	2,914	-	-	(97)	-	-	2,817	-	2,817
Share issued on settlement of convertible debt interest (Note 9)	1,322,627	384	-	-	-	-	-	384	-	384
Warrants issued on prospectus offering (Note 9, 11)	-	-	21,696,178	164	-	-	-	164	-	164
Shares issued on stock option exercises	175,000	726	-	-	(726)	-	-	-	-	-
Shares issued on warrant exercises	6,250,000	1,958	(6,250,000)	(895)	-	-	-	1,063	-	1,063
Share issuance costs	-	(221)	-	-	-	-	-	(221)	-	(221)
Share-based payments (Note 10)	-	-	-	-	1,830	-	-	1,830	-	1,830
Net loss and comprehensive loss	-	-	-	-	-	-	(23,596)	(23,596)	(226)	(23,822)
<b>Balance, June 30, 2020</b>	<b>200,143,844</b>	<b>\$ 247,847</b>	<b>41,916,849</b>	<b>\$ 1,718</b>	<b>\$ 29,153</b>	<b>\$ 383</b>	<b>\$ (187,792)</b>	<b>\$ 91,309</b>	<b>\$ (992)</b>	<b>\$ 90,317</b>

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

**EMERALD HEALTH THERAPEUTICS, INC.**  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited - Amounts reflected in thousands of Canadian dollars, except share and per share amounts)

	Six months ended June 30 2021	Six months ended June 30 2020
<b>Operating activities</b>		
Net loss	\$ (16,856)	\$ (23,822)
Items not involving cash		
Depreciation	1,701	2,730
Gain on changes in fair value of biological assets	(635)	(1,515)
Gain on changes in fair value of financial assets	-	(5)
Inventory write-down	404	1,054
Share-based payments	337	1,830
Share of income from joint venture	-	(5,017)
Interest and accretion expense	(4)	1,657
Impairment of assets	10,668	17,063
Loss on disposal of assets	14	203
Loss on dilution of Joint Venture ownership	-	850
Gain on settlement of deferred payment	(293)	-
Gain on sale of long-term investment	(249)	-
Gain on termination of lease	(17)	-
Gain on changes in fair value of long-term investment	(373)	-
Changes in non-cash operating working capital		
Accounts receivable	(637)	662
Due from related parties	-	(1)
Prepaid expenses	302	(296)
Inventory and biological assets	946	(3,093)
Accounts payable and accrued liabilities	(4,337)	2,958
Due to related parties	(1,026)	(158)
<b>Net cash flows used in operating activities</b>	<b>(10,055)</b>	<b>(4,900)</b>
<b>Investing activities</b>		
Investment in Joint Venture	-	(710)
Issuance of notes receivable	(447)	-
Long-term investment	(64)	-
Acquisition of assets	(5)	(428)
Deposits on material and equipment	(66)	(93)
Sale of plant and equipment	15	16
Sale of Joint Venture Interest (Note 17)	20,522	-
Sale of long-term investment	383	-
Purchase of plant and equipment	(1,136)	(635)
Purchase of intangible assets	(57)	(232)
Repayment of deferred payment	(9,000)	-
<b>Net cash flows provided by (used in) investing activities</b>	<b>10,145</b>	<b>(2,082)</b>
<b>Financing activities</b>		
Payment of lease liabilities	(236)	(267)
Acquisition of NCI	(32)	-
Proceeds from prospectus offering	-	5,100
Proceeds from CEBA loan (Note 2(d))	-	40
Share issuance costs	(115)	(221)
Warrant exercises	1,313	1,063
Stock option exercises	50	-
Interest paid	(182)	(185)
<b>Net cash flows provided by financing activities</b>	<b>798</b>	<b>5,530</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>888</b>	<b>(1,452)</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>25,998</b>	<b>2,525</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 26,886</b>	<b>\$ 1,073</b>
Supplemental Information:		
Fair value of shares issued to settle outstanding loan amount and trade payables (Note 9)	\$ -	\$ 2,914
Fair value of shares issued to settle interest on convertible debentures (Note 9)	\$ -	\$ 384

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

**EMERALD HEALTH THERAPEUTICS, INC.**

**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**For the three and six months ended June 30, 2021 and 2020**

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

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**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. The common shares of the Company are listed on the Canadian Stock Exchange ("CSE") under the trading symbol "EMH." The Company is also traded on the OTCQX, with its common shares listed under the trading symbol "EMHTF."

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

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

These condensed interim consolidated financial statements have been prepared by management on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. As at June 30, 2021, the Company had not yet achieved profitable operations, had a loss for the six months ended June 30, 2021 of \$16,856 and accumulated losses since inception of \$225,389. As at June 30, 2021, the Company had \$26,886 in cash and cash equivalents. The Company is actively managing current cash flows until such time as the Company is profitable. Management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern, such as the need to commence profitable operations.

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

**2. Significant Accounting Policies and Judgements**

*a) Basis of Presentation and Measurement*

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

These condensed interim consolidated financial statements 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, 2020. Accordingly, accounting policies, estimates, and judgements applied are the same as those applied in the Company's financial statements for the year ended December 31, 2020, unless otherwise indicated. The Company assesses its accounting estimates and judgements every reporting period.

*b) Basis of Consolidation*

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

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

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

when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

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

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

During the year ended December 31, 2020, the Company sold its equity interest in its Joint Venture Pure Sunfarms. See Note 16 for discussion relating to the sale.

During the three months ended June 30, 2021, the Company acquired the remaining 49% interest in EHN. See Note 8 for discussion relating to the acquisition.

*c) Cash and cash equivalents*

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

	Interest Rate %	June 30 2021	December 31 2020
		\$	\$
GIC - Maturing February 10, 2022	0.05%	102	102
GIC - Maturing March 11, 2022	0.50%	31	31
High interest savings - revolving	0.01%	24,030	25,002
Cash	-	2,723	863
<b>Total</b>		<b>26,886</b>	<b>25,998</b>

*d) Government Grants*

Government grants are recognized where there is reasonable assurance that the grant will be received, and all attached conditions will be complied with. When the grant relates to an expense item, it is recognized as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. The Canadian Emergency Wage Subsidy ("CEWS") and the Canadian Emergency Business Account ("CEBA") are recognized as government grants. The Company applied for and received the CEWS, which provides a 75% wage subsidy effective March 15, 2020. During the six months ended June 30, 2021, the Company determined that it is qualified for \$1,157 (June 30, 2020 - \$788). The Company has recognized this amount as other income during the period.



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

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

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

**3. Biological Assets**

The following table highlights the sensitivities and impact of changes in significant assumptions on the fair value of biological assets. The Company uses the average wholesale market price per gram of dried bulk cannabis, based on quality (Tetrahydrocannabinol % and terpene profile), net of post harvest costs of drying, curing and bulk packaging, as the average market price per gram.

Significant inputs & assumptions	Range of inputs		Sensitivity (000's)	Impact on fair value	
	June 30	December 31		June 30	December 31
	2021	2020		2021	2020
Average market price per gram less cost to sell	\$ 1.03	\$ 1.00	Increase/decrease of \$1 per gram	\$ 275	\$ 887
Weighted average yield (gram per plant)	111.28	114.01	Increase/decrease by 10 grams per plant	\$ 29	\$ 97

During the six months ended June 30, 2021, the Company's biological assets produced 1,631 kilograms of dried cannabis flower (June 30, 2020 – 5,520 kilograms). As of June 30, 2021, it is expected that the Company's biological assets will yield approximately 795 kilograms of dried cannabis flower when harvested. As of June 30, 2021, the weighted average stage of growth for the biological assets was 40% (December 31, 2020 – 52%). The average number of days from the point of propagation to harvest was 105 days (December 31, 2020 – 108 days).

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

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

	June 30	December 31
	2021	2020
	\$	\$
Carrying amount, beginning of year	969	4,159
Effect of unrealized changes in fair value of biological assets	635	6,405
Transferred to inventory upon harvest	(1,216)	(9,595)
Carrying amount, end of period	388	969

As at June 30, 2021, included in the carrying amount of biological assets is \$84 (December 31, 2020 - \$84) in seeds and \$304 (December 31, 2020 - \$885) in live plants.

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

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

**4. Inventory**

The Company's inventory is comprised of:

	<b>June 30 2021</b>	December 31 2020
	\$	\$
Harvested cannabis		
Work-in-process	<b>1,767</b>	2,348
Finished goods	<b>477</b>	225
	<b>2,244</b>	2,573
Extracted cannabis		
Work-in-process	<b>888</b>	1,171
Finished goods	<b>1,059</b>	267
	<b>1,947</b>	1,438
Supplies and consumables	<b>625</b>	600
	<b>4,816</b>	4,611

During the three and six months ended June 30, 2021, inventory expensed to cost of goods sold was \$2,375 and \$4,063, respectively (June 30, 2020 – \$1,747 and \$3,885). The fair value change in biological assets that was included in cost of goods sold during the three and six months ended June 30, 2021 was \$1,045 and \$1,600 (June 30, 2020 - \$940 and \$1,102).

During the three and six months ended June 30, 2021, a write-down of \$173 and \$404 was recognized for dried bulk cannabis and packaged inventory (June 30, 2020 - \$Nil and \$1,054) related to product deterioration and limited remaining shelf life.

**EMERALD HEALTH THERAPEUTICS, INC.**

**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**For the three and six months ended June 30, 2021 and 2020**

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

**5. Property, Plant and Equipment**

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

	Land	Buildings	Leasehold Improvement	Production, Lab and Growing Equipment	Computers	Other Equipment	Total
	\$	\$	\$	\$	\$	\$	\$
<b>Costs:</b>							
Balance, December 31, 2019	476	32,626	2,474	6,891	356	1,453	44,276
Additions	-	130	-	243	4	25	402
Disposals	-	-	-	(106)	(13)	-	(119)
Balance, December 31, 2020	476	32,756	2,474	7,028	347	1,478	44,559
Additions	-	356	2	100	33	5	496
Disposals	-	-	-	(154)	-	-	(154)
Held for sale	-	(11,967)	-	(1,430)	-	-	(13,397)
<b>Balance, June 30, 2021</b>	<b>476</b>	<b>21,145</b>	<b>2,476</b>	<b>5,544</b>	<b>380</b>	<b>1,483</b>	<b>31,504</b>

	Land	Buildings	Leasehold Improvement	Production, Lab and Growing Equipment	Computers	Other Equipment	Total
	\$	\$	\$	\$	\$	\$	\$
<b>Accumulated depreciation and impairments:</b>							
Balance, December 31, 2019	-	708	519	1,202	175	272	2,876
Additions	-	1,292	575	1,231	97	263	3,458
Disposals	-	-	-	(28)	(6)	-	(34)
Impairment	-	3,728	-	-	-	-	3,728
Balance, December 31, 2020	-	5,728	1,094	2,405	266	535	10,028
Additions	-	358	285	486	45	123	1,297
Disposals	-	-	-	(125)	-	-	(125)
Impairment	-	-	2	-	1	7	10
Held for sale	-	(665)	-	(309)	-	-	(974)
<b>Balance, June 30, 2021</b>	<b>-</b>	<b>5,421</b>	<b>1,381</b>	<b>2,457</b>	<b>312</b>	<b>665</b>	<b>10,236</b>

	Land	Buildings	Leasehold Improvement	Production, Lab and Growing Equipment	Computers	Other Equipment	Total
	\$	\$	\$	\$	\$	\$	\$
<b>Net book value:</b>							
<b>June 30, 2021</b>	<b>476</b>	<b>15,724</b>	<b>1,095</b>	<b>3,087</b>	<b>68</b>	<b>818</b>	<b>21,268</b>
December 31, 2020	476	27,028	1,380	4,623	81	943	34,531

Depreciation relating to manufacturing equipment and production facilities is capitalized into inventory and is expensed to cost of sales upon the sale of goods. For the three and six months ended June 30, 2021, \$325 and \$652 (June 30, 2020 - \$892 and \$1,207) of depreciation was recognized in cost of sales.

*Impairment*

*Plant under construction*

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

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*Assets Held for Sale*

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

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

During the period ended June 30, 2021, the Company determined there was a further fair value loss on the reclassification to held for sale based on market conditions and additional third-party sales broker information. The broker information was used to determine a listing price for the facility, and was determined using information from manufacturers, historical data and industry standards which constitute both observable and unobservable inputs (level 2 and level 3). This resulted in recording an impairment of \$10,658; \$7,419 against the building and \$3,239 against PUC. The remaining asset values relating to the Metro Vancouver facility reclassified to held for sale were \$3,969 of buildings, \$1,035 of production and growing equipment and \$2,172 of PUC.

*Deposits*

During the six months ended June 30, 2021, the Company prepaid for intangible assets, grow equipment, extraction equipment, packaging equipment and construction that totalled \$200 (December 31, 2020 - \$214).

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**6. Intangible Assets**

The Company's intangible assets continuity is as follows:

	Patents	Extraction Assets	Health Canada Licence	Computer Software	Total
<b>Cost:</b>	\$	\$	\$	\$	\$
Balance, December 31, 2019	802	370	89,174	1,236	91,582
Additions	76	187	-	22	285
Balance, December 31, 2020	878	557	89,174	1,258	91,867
Additions	65	-	-	-	65
<b>Balance, June 30, 2021</b>	<b>943</b>	<b>557</b>	<b>89,174</b>	<b>1,258</b>	<b>91,932</b>

	Patents	Extraction Assets	Health Canada Licence	Computer Software	Total
<b>Accumulated amortization and impairments:</b>	\$	\$	\$	\$	\$
Balance, December 31, 2019	-	-	71,717	339	72,056
Additions	-	-	487	535	1,022
Impairment	90	-	16,840	-	16,930
Balance, December 31, 2020	90	-	89,044	874	90,008
Additions	-	-	3	255	258
<b>Balance, June 30, 2021</b>	<b>90</b>	<b>-</b>	<b>89,047</b>	<b>1,129</b>	<b>90,266</b>

	Patents	Extraction Assets	Health Canada Licence	Computer Software	Total
<b>Net book value:</b>	\$	\$	\$	\$	\$
<b>June 30, 2021</b>	<b>853</b>	<b>557</b>	<b>127</b>	<b>129</b>	<b>1,666</b>
December 31, 2020	788	557	130	384	1,859

**7. Deferred Payment of Verdélite Purchase**

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

**8. Related Party Transactions**

*With Emerald Health Sciences Inc.*

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

As at June 30, 2021, the Company owed \$508 (December 31, 2020 - \$1,327) to Sciences for total services provided. These amounts are included in the due to related parties caption on the consolidated statements of financial position and bear interest at a rate of 10% per annum. As at June 30, 2021, Sciences owed the

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Company \$50 (December 31, 2020 – \$50) for invoices paid on behalf of Sciences, this amount is included in the due from related parties caption on the consolidated statements of financial position and is non-interest bearing.

*With the Company's former joint venture*

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

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

During the year ended December 31, 2017, the Company entered into a 30-year lease with a company (the "Landlord") that is controlled by Avtar Dhillon, MD, the Executive Chairman of the Company with respect to land in Metro Vancouver, British Columbia on which the Company constructed its production facility. The lease amount was determined by an independent valuation and was approved by the nonconflicted directors of the Company. During the three and six months ended June 30, 2021, the Company paid to the Landlord \$95 and \$190 (June 30, 2020 - \$85 and \$170) in rent. As at June 30, 2021, the Company recognized lease liabilities held for sale of \$3,497 (December 31, 2020 - \$3,516) relating to the land in Metro Vancouver.

*With an Entity with Common Directors*

During the three months ended June 30, 2021, the Company acquired the remaining 49% equity ownership in Naturals that was held by Emerald Health Bioceticals ("Bioceticals") for \$32 (US\$25). The Company now owns 100% ownership in Naturals, which was reflected by the movement of \$1,385 from Non-Controlling Shareholders' Interest to the Company's equity.

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

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

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

	For the three months ended June 30 2021	For the three months ended June 30 2020	For the six months ended June 30 2021	For the six months ended June 30 2020
	\$	\$	\$	\$
Wage and short term benefits	935	310	1,341	905
Share-based compensation (Note 13)	42	454	275	799
	977	764	1,616	1,704

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Included in Due to Related Parties on the consolidated statements of financial position at June 30, 2021 is \$85 (December 31, 2020 - \$52) due to related parties with respect to key management personnel and expense reimbursements and are non-interest bearing.

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

**9. Share Capital**

Authorized

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

Issued

- 213,322,095 Common Shares (December 31, 2020 – 206,360,372)
- Nil preferred shares (December 31, 2020 – nil)

During the six months ended June 30, 2021, the outstanding share capital increased by 6,961,723 Common Shares due to the following transactions:

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

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

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

	<b>Stock Options</b>	<b>Weighted Average Exercise Price</b>
	<b>#</b>	<b>\$</b>
Balance at December 31, 2019	12,381,634	2.99
Granted	9,877,500	0.24
Forfeited	(3,547,222)	2.85
Exercised	(1,500,000)	0.45
Balance at December 31, 2020	17,211,912	1.66
Granted	300,000	0.23
Forfeited	(1,595,875)	1.69
Exercised	(191,875)	0.26
<b>Balance at June 30, 2021</b>	<b>15,724,162</b>	<b>1.64</b>

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

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

	<b>June 30 2021</b>	June 30 2020
Risk free interest rate	<b>0.48%</b>	0.34% - 1.65%
Expected life of options (years)	<b>2.99</b>	2.56
Expected annualized volatility	<b>100.86%</b>	93.07% - 100.09%
Expected dividend yield	<b>Nil</b>	Nil
Weighted average Black-Scholes value of each option	<b>\$ 0.14</b>	\$ 0.15

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



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

Range of exercise prices	Outstanding			Exercisable	
	Quantity	Remaining contractual life (years)	Weighted average exercise price	Quantity	Weighted average exercise price
\$			\$		\$
0.165 - 0.20	1,500,000	3.83	0.17	1,500,000	0.17
0.21 - 0.28	3,476,625	4.16	0.21	1,266,598	0.21
0.29 - 2.99	5,544,412	2.82	0.67	3,630,412	0.73
3.00 - 4.15	3,539,375	2.61	3.91	2,971,250	3.93
4.16 - 5.69	1,663,750	1.51	4.30	1,651,250	4.30
	<b>15,724,162</b>	<b>3.01</b>	<b>1.59</b>	<b>11,019,510</b>	<b>1.93</b>

The Company recorded share-based compensation expense related to the stock options of \$189 and \$267 for the three and six months ended June 30, 2021 (June 30, 2020 - \$620 and \$1,311). The expense has been charged to the consolidated statements of loss and comprehensive loss. The share-based compensation expense for the six months ended June 30, 2021 is net of \$92 of reversed expense related to cancelled options due to the Company's restructuring and close down of the Metro Vancouver facility.

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

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

	Number of RSUs	Weighted average fair value per unit at issue
		\$
Balance, December 31, 2019	670,000	4.46
Granted	550,000	0.27
Forfeited	(140,152)	4.15
Expired	(375,000)	4.56
<b>Balance at December 31, 2020</b>	<b>704,848</b>	<b>1.24</b>
Exercised	(519,848)	1.48
Cancelled	(35,000)	1.34
<b>Balance at June 30, 2021</b>	<b>150,000</b>	<b>0.38</b>

During the three and six months ended June 30, 2021, the Company did not issue any RSUs. The Company recorded share-based compensation expense related to the RSUs of \$5 and \$70 for the three and six months ended June 30, 2021 (June 30, 2020 - \$224 and \$519) to the consolidated statements of loss and comprehensive loss. During the six months ended June 30, 2021, 519,848 restricted stock units vested triggering the issuance of 519,848 Common Shares, for no cash proceeds.

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**11. Warrants**

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

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

**12. Long-term Investments**

*Avricore*

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

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

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

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

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

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

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

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

**13. Promissory Note**

On May 5, 2021, the Company provided FlowerPod, LLC ("FlowerPod") with a promissory note (the "Note") of \$447 (US\$350) that is repayable within two years and bears interest at 5% per annum. Along with the Note, the Company received 13,545 common share purchase warrants (the FlowerPod Warrants") that were exercisable for 10 years at US\$0.01 per share. The Note, which bears an off-market interest rate, was fair valued at issuance using the future cash flows model using an interest rate for similar debt where no equity component was also issued, which was estimated to be 12%. This resulted in an estimated fair value of \$381. The residual value of \$59 was determined to be the fair value of the FlowerPod Warrants. The Note will be accreted to face value over the term to maturity as a non-cash gain, as at June 30, 2021, \$7 of interest income was recorded.

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

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**14. Leases**

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

*(a) Right-of-Use Assets*

	Land	Buildings	Equipment	Total
	\$	\$	\$	\$
<b>Costs:</b>				
Balance, applied January 1, 2020	3,634	3,146	161	6,941
Additions	-	57	-	57
Disposals	-	(1,774)	-	(1,774)
Balance, applied December 31, 2020	3,634	1,429	161	5,224
Additions	-	8	1	9
Disposals	-	-	(93)	(93)
<b>Balance, June 30, 2021</b>	<b>3,634</b>	<b>1,437</b>	<b>69</b>	<b>5,140</b>
<b>Accumulated Depreciation:</b>				
Balance, applied January 1, 2020	303	968	42	1,313
Additions	121	460	44	625
Disposals	-	(433)	-	(433)
Impairment	3,210	-	-	3,210
Balance, applied December 31, 2020	3,634	995	86	4,715
Additions	-	130	14	144
Disposals	-	-	(40)	(40)
<b>Balance, June 30, 2021</b>	<b>3,634</b>	<b>1,125</b>	<b>60</b>	<b>4,819</b>
<b>Carrying value:</b>				
June 30, 2021	-	312	9	321
December 31, 2020	-	434	75	509

As noted above in Note 5, the ROU Land asset is part of the Metro Vancouver facility and was impaired by \$3,210 during the year ended December 31, 2020. There was no change to the related liability on the lease. During the period ended June 30, 2021, the lease liability related to the ROU Land asset of the Metro Vancouver facility totalling \$3,497 was reclassified to held for sale.

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*(b) Lease Liabilities*

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

	\$
Lease liabilities recognized at December 31, 2020	4,115
Lease renewals	9
Lease disposals	(56)
Lease payments	(318)
Lease liability on held for sale assets	(3,497)
Interest incurred	156
<b>Balance, June 30, 2021</b>	<b>409</b>

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

<b>Contractual Undiscounted Cash Flows:</b>	
	\$
Within 1 year	591
1 - <3 years	811
3 - <5 years	649
Over 5 years	6,720
<b>Balance, June 30, 2021</b>	<b>8,771</b>

For the three and six months ended June 30, 2021, an amount of \$27 and \$77 (June 30, 2020 - \$44 and \$116) has been recorded in operating costs for the Company related to variable lease payments, and amounts relating to short term leases, and leases for low value assets.

Included in the table above is the lease liability relating to the land in Metro Vancouver of \$3,497 classified as held for sale.

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**15. Revenue**

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

	<b>For the three months ended June 30, 2021</b>	<b>For the three months ended June 30, 2020</b>	<b>For the six months ended June 30, 2021</b>	<b>For the six months ended June 30, 2020</b>
	\$	\$	\$	\$
Dried Cannabis	2,656	2,281	4,284	4,244
Concentrates, Extracts and Edibles	1,116	808	2,140	2,080
Other	5	17	5	115
<b>Total</b>	<b>3,777</b>	<b>3,106</b>	<b>6,429</b>	<b>6,439</b>

**16. General and Administrative Expenses**

	<b>For the three months ended June 30 2021</b>	<b>For the three months ended June 30 2020</b>	<b>For the six months ended June 30 2021</b>	<b>For the six months ended June 30 2020</b>
	\$	\$	\$	\$
Professional, director and consulting fees	589	562	1,211	1,214
Corporate communications and media	13	89	51	143
Wages and benefits	1,007	812	1,771	2,225
Office and general	633	418	1,430	1,011
Travel and accommodations	14	17	20	86
<b>Total</b>	<b>2,256</b>	<b>1,898</b>	<b>4,483</b>	<b>4,679</b>

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

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

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**18. Segmented Information**

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

	<b>Cannabis</b>	<b>Other</b>	<b>Total</b>
	\$	\$	\$
For the three months ended June 30, 2021			
Sales	3,777	-	<b>3,777</b>
Gross margin	(174)	(133)	<b>(307)</b>
Interest and other income	515	263	<b>778</b>
Loss from operations	(2,280)	(2,132)	<b>(4,412)</b>
Net loss and comprehensive loss	(13,137)	(819)	<b>(13,956)</b>
For the six months ended June 30, 2021			
Sales	6,429	-	<b>6,429</b>
Gross margin	(1,178)	(135)	<b>(1,313)</b>
Interest and other income	938	920	<b>1,858</b>
Loss from operations	(4,951)	(3,988)	<b>(8,939)</b>
Net loss and comprehensive loss	(16,035)	(821)	<b>(16,856)</b>
	<b>Cannabis</b>	<b>Other</b>	<b>Total</b>
	\$	\$	\$
For the three months ended June 30, 2020			
Sales	3,088	18	<b>3,106</b>
Gross margin	820	192	<b>1,012</b>
Interest and other income	700	109	<b>809</b>
Loss from operations	470	(2,929)	<b>(2,459)</b>
Net loss and comprehensive loss	(15,496)	(3,447)	<b>(18,943)</b>
Share of loss from joint venture	(187)	-	<b>(187)</b>
For the six months ended June 30, 2020			
Sales	6,378	61	<b>6,439</b>
Gross margin	25	74	<b>99</b>
Interest and other income	713	109	<b>822</b>
Loss from operations	(2,585)	(6,743)	<b>(9,328)</b>
Net loss and comprehensive loss	(16,026)	(7,796)	<b>(23,822)</b>
Share of income from joint venture	5,017	-	<b>5,017</b>

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

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

**19. Financial Instruments**

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

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

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

	Amortized cost	FVTPL
	\$	\$
<b>Financial Assets</b>		
Cash and cash equivalents	26,886	-
Accounts receivable, excluding sales taxes receivable	2,398	-
Promissory note receivable	385	-
Long-term investments	-	496
<b>Financial Liabilities</b>		
Accounts payable and accrued liabilities	6,116	-
Lease liability	3,906	-
CEBA loan	40	-

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

*(a) Currency risk*

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

*(b) Credit risk*

Credit risk is the risk of an unexpected loss to the Company if a customer or third-party to a financial instrument fails to meet its contractual obligations. The Company's maximum exposure to credit risk as at June 30, 2021 is the carrying value of its financial assets. The Company's cash and redeemable short-term investment certificates are largely held in large Canadian financial institutions. The Company does not have any asset backed commercial paper. The Company maintains cash deposits with Schedule A financial institutions, which from time to time may exceed federally insured limits. With regards to receivables, the Company is not exposed to significant credit risk as the Company's sales are to government bodies or are typically paid at the time of the transaction. The Company provides credit to some of its customers in the normal course of business. The majority of the trade receivables held are with crown corporations. During the six months ended June 30, 2021, the Company earned 75% of its total revenues from two major customers.



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*(c) Interest rate risk*

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

*(d) Liquidity risk*

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

	June 30 2021	December 31 2020
Trade payables	\$ 2,960	\$ 6,296
Accrued liabilities	811	903
Excise tax payable	1,309	2,239
Payroll liabilities	222	1,046
Sales tax liabilities	734	529
Other payables	80	6
<b>Total</b>	<b>6,116</b>	<b>11,019</b>

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

	Total	≤ 1 year	Over 1 year - 3 years
Accounts payable and accrued liabilities	\$ 6,116	\$ 6,116	-
CEBA loan	40	-	40
	<b>6,156</b>	<b>6,116</b>	<b>40</b>

Liquidity risk is the risk that the Company will not be able to meet its obligations associated with financial liabilities. As at June 30, 2021, the Company had working capital of \$32,266 (December 31, 2020 – \$32,377).

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

**EMERALD HEALTH THERAPEUTICS, INC.**

**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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

**20. Capital Management**

As at June 30, 2021, the capital structure of the Company consists of \$67,458 (December 31, 2020 - \$98,274) in shareholders' equity and debt.

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

**21. Subsequent Events**

*RSU vest*

On August 3, 2021, 150,000 restricted stock units vested triggering the issuance of 150,000 Common Shares, for no cash proceeds.