Emerald Health Therapeutics Inc. (CSE : EMH)

Management Discussion & Analysis
For the year ended December 31, 2021

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Management's Discussion and Analysis

The following MD&A is prepared as of June 30, 2022 and is intended to assist the understanding of the results of operations and financial condition of the Company.

This MD&A should be read in conjunction with the audited consolidated financial statements and accompanying notes of the Company for the years ended December 31, 2021 and 2020 (together with this MD&A, the "Annual Filings") which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). This MD&A contains forward-looking statements that are subject to risk factors set out in a cautionary note contained herein. All figures are in Canadian dollars and presented in thousands (000's) unless otherwise noted.

Additional information related to the Company is available on its website at www.emeraldhealth.ca. Other information related to the Company and financial statements referred to herein are available on the Canadian Securities Administrator's website at www.sedar.com.

Overview

The Company was incorporated pursuant to the *Business Corporations Act* (British Columbia) on July 31, 2007 as Firebird Capital Partners Inc. and changed its name to Firebird Energy Inc. in December 2012. On September 4, 2014, the Company completed the acquisition of all 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 ("T-Bird"). At that time, Thunderbird became a wholly-owned subsidiary of T-Bird. In June 2015, the Company changed its name to Emerald Health Therapeutics, Inc. and Thunderbird changed its name to Emerald Health Botanicals Inc. ("Botanicals"). In February 2018, Botanicals changed its name to Emerald Health Therapeutics Canada Inc. ("EHTC").

The Company is a publicly traded company with headquarters in Victoria, British Columbia, Canada. Common shares of the Company (the "Common Shares") are listed on the Canadian Stock Exchange ("CSE") under the trading symbol "EMH". The Company also trades on the OTCQX® Best Market, operated by OTC Markets Group under the ticker symbol "EMHTF".

Since February 14, 2014, the Company has been primarily engaged in the production and sale of recreational and medical cannabis in Canada. On November 29, 2021, the Company announced that it intended to exit the recreational and medical cannabis business and pivot to a pharmaceutical development focus.

The Company owns:

(a) 100% of the shares of EHTC, a British Columbia-based license holder under the Cannabis Act (Canada) (the "Cannabis Act");

(b) 100% of the shares of Verdélite Sciences, Inc. ("Verdélite"), a Québec-based license holder under the Cannabis Act; and

(c) 100% of the shares of Verdélite Property Holdings, Inc. ("Verdélite Holdings"), a Québec-based holding corporation that owns the Verdélite facility (as defined below).

The Company, through EHTC, also holds 100% of the shares of Avalite Sciences Inc. (formerly Northern Vine Canada Inc.) ("Avalite"), a British Columbia-based licensed dealer under the provisions of the Controlled Drugs and Substances Act (Canada) (the "CDSA") and a license holder under the Cannabis Act. Avalite ceased active operations in January 2021.

Licenses

The Company currently indirectly holds several licenses (the "**Licenses**") from Health Canada under the Cannabis Act to produce and sell cannabis products through its wholly owned direct and indirect subsidiaries, EHTC, Verdélite and Avalite. The Licenses held by EHTC permit it to cultivate cannabis and produce and sell dried cannabis, cannabis oils, cannabis plants and cannabis seeds. The License held by Verdélite permits it to cultivate, extract, manufacture, synthesize, test, and sell cannabis. Verdélite has also obtained a cannabis research license that authorizes sensory and organoleptic testing of cannabis products in accordance with the research protocol and conditions of the license. The License held by Avalite permits it to process cannabis and produce cannabis oil, all in accordance with the terms and conditions specified in the applicable License and the Cannabis Act. Avalite also holds a license to possess psilocybin for sale, provision and transport purposes.

Coronavirus

In December 2019, the novel Coronavirus ("COVID-19") began to spread throughout the world. On March 11, 2020, the World Health Organization declared the outbreak of COVID-19 a global pandemic. In response to this, global reactions have led to significant restrictions on travel, quarantines, temporary business closures and a general reduction in consumer activity.

During the twelve months ended December 31, 2021, government restrictions and protocols as a response to COVID-19 have varied in detail and effect in response to fluctuating case levels and hospitalizations. These restrictions at times have included the limitation on retail cannabis to curbside and delivery options. However, as of the date of this MD&A, these restrictions have generally been lifted.

All of the Company's operating facilities in Canada operated at full capacity throughout 2021 and in compliance with the required protocols and guidelines related to COVID-19 within each region where the Company's facilities are located.

The Company's priority during 2021 was to safeguard the health and safety of its personnel, support and enforce government actions to slow the spread of COVID-19, and continually assess and mitigate the risks to its business operations. The Company took a number of measures to reduce risks and enhance the safety of staff working at all of its facilities. This included working remotely, reorganizing physical layouts, adjusting schedules to improve physical distancing, implementing extra health screening measures for employees, and applying rigorous standards for personal protective equipment.

Development of Business in the year ended December 31, 2021

On January 22, 2021, Avalite ceased active operations. The Company has since been considering other strategic alternatives for Avalite and its facility.

On January 13, 2021, the Company settled all outstanding amounts owing to the original vendors of the Verdélite entities (the "**Vendors**") in connection with the Company's 2018 acquisition of the Verdélite entities. The Company paid to the Vendors $9.00 million, fully settling all remaining amounts owing to the Vendors including accrued interest. The Company no longer has any liability to the Vendors with respect to the purchase price for the Verdélite entities.

On February 5, 2021, the Company received from Village Farms International, Inc. (“VF”) $19.90 million plus $0.62 million in interest, representing full repayment of the promissory note issued to the Company in connection with the sale of the Company's interest in Pure Sunfarms Corp. to VF in October 2020. This was the final payment due in connection with such sale.

On March 31, 2021, the Company ceased operations at its facility in Metro Vancouver, BC. On July 23, 2021, the Company announced that it had retained BC Farm & Ranch Realty Corp. to assist in the sale of its Metro Vancouver facility. The Company was unable to sell the facility and on April 14, 2022, entered into an agreement with the Landlord to terminate the long-term lease on the facility in exchange for transfer to the landlord of the non-leased equipment owned by the Company at the site. See "Development of the Business After the Reporting Period" and "Transactions with Related Parties", below.

At the close of business on April 26, 2021, the Common Shares were voluntarily de-listed from the TSXV. The Common Shares commenced trading on the CSE as of the open of market on April 27, 2021, under the trading symbol “EMH”.

On May 5, 2021, the Company entered into a licence agreement with FlowerPod LLC ("FlowerPod"), pursuant to which it agreed to exclusively license certain patented technology to FlowerPod for the development and sale of cannabis related products. The Company also provided FlowerPod with a promissory note of US$0.35 million that is repayable within two years and bears interest at 5% per annum. The Company was also granted a 18.71% equity ownership position in FlowerPodand the Company was entitled to receive certain monthly licence and research and development payments from FlowerPod.

On December 22nd, 2021, the Company entered into a binding term sheet to sell to FlowerPod the patented technology it had previously licensed to FlowerPod and to terminate its ownership interest in FlowerPod. Pursuant to the term sheet, Emerald is entitled to receive US$1.00 million in cash and a US$0.5 million one-year interest-bearing promissory note bearing interest at 10% per annum. Emerald continues to retain the two-year interest-bearing promissory note issued by FlowerPod on May 6, 2021, in the amount of US$0.35 million.

On May 10, 2021, Moe Jiwan was appointed as the Chief Operating Officer of the Company.

On August 6, 2021, the Company announced that Avtar Dhillon had resigned from his roles as director and Executive Chair of the Company and its subsidiaries and Jim Heppell was appointed Chair of the Board of Directors of the Company.

On September 10, 2021, the Company announced that Jenn Hepburn, the Company's Chief Financial Officer was stepping down effective October 15, 2021.

On November 3, 2021, the Company and HYTN signed a definitive agreement under which the Company would co-launch, sell and distribute HYTN’s proprietary new sparkling cannabis beverages, across Canada.

On December 15, 2021 the Company announced that it had terminated its sales agreement with HYTN Cannabis Inc.

Effective November 12, 2021, Deloitte resigned as the Company's auditor on its own initiative. Effective November 15, 2021, MNP LLP was appointed as auditor to fill such vacancy. There have been no "reportable events", as defined in National Instrument 51-102, in connection with the audits for the Company's two most recently completed fiscal years or in the subsequent period to November 15, 2021.

On November 29, 2021, the Company announced that it is exiting the recreational and medical cannabis business and pivoting to a pharmaceutical development focus. The Company intends to seek purchasers for its recreational and medical cannabis assets to further strengthen its capital position and is in the process of instituting significant cost cuts, including the termination of the bulk of its workforce, to decrease its monthly net burn. The Company intends to maximize its cash position and seek business opportunities in pharmaceutical development where the Company's Board of Directors has significant experience. The Company also announced that it had retained Vantage Point Advisors (“VPA”) to assist it in identifying potential acquisition/merger candidates involved in pharmaceutical development and to carry out due diligence on selected candidates.

Riaz Bandali resigned his roles as President & CEO of the Company effective December 31, 2021.

Development of Business after the Reporting Period

Arrangement Agreement

On May 11, 2022, the Company entered into an arrangement agreement (the "Arrangement Agreement") with Skye Bioscience Inc. ("Skye"), with respect to a transaction to be completed by way of a Plan of Arrangement (the "Arrangement") whereby Skye would acquire all of the issued and outstanding shares of the Company in a share-for-share-transaction. Skye is a San Diego-based pharmaceutical company developing proprietary, synthetic cannabinoid derivatives to treat glaucoma and other diseases with significant unmet needs and is listed on the OTCQB. Under the Arrangement, Skye will issue the Company's shareholders 1.95 shares of Skye's common stock (the "Exchange Ratio") in exchange for each Company share. Based on the number of outstanding shares as of the date of the Arrangement Agreement, it is expected that Skye would issue approximately 416M Skye shares to the Company's shareholders. As a result of the Arrangement, current Skye stockholders would own approximately 54% of the common stock of Skye and former shareholders of the Company would own approximately 46% of Skye's common stock. All stock options and warrants of the Company will be exchanged for replacement options and warrants of Skye on identical terms, as adjusted in accordance with the Exchange Ratio.

Each of the Board of Directors of the Company and Skye have unanimously approved the Arrangement and recommend that their respective shareholders vote in favour of the Arrangement. Evans & Evans, Inc. has provided an opinion to the Board of Directors of the Company stating that as of the date of the opinion and based upon and subject to the assumptions, limitations, and qualifications set forth therein, the Exchange Ratio to be received by the holders of the Company's common shares pursuant to the Arrangement is fair from a financial point of view to such holders.

The proposed Arrangement is subject to approval by each company's common shareholders and by the Supreme Court of British Columbia. Completion of the Arrangement is subject to other customary terms and conditions and to listing of Skye's common shares on the CSE. The Company expects to hold a shareholder meeting to approve the Arrangement in August 2022 and the Arrangement is anticipated to close in the third quarter of 2022.

Discontinuation and Realization of Prior Operations

Since January 1, 2022, the Company has focused on winding down its prior operations in a manner intended to reduce operating costs.

At its Victoria, BC operation, the Company ceased all production and packaging operations on February 28, 2022, and May 31, 2022. The lease on a portion of the Company's Victoria facilities expired on February 28, 2022, and the lease for the remaining facilities expired on May 31, 2022; however, the Company continues to rent both facilities on a month to month basis in order to maintain its License. The Company fully wound down all operations at the Victoria facilities on June 1st, 2022. The Company has continued to pursue the sale of the Licenses, Brands and processing equipment.

At its St. Eustache, QC operation, growing and processing of cannabis continued until June 30, 2022. In the First quarter of 2022, the Company retained agents to assist in the sale of the cannabis production operation as a continuing operation. This process remains ongoing, the Company has to date not entered into any purchase agreement with respect to this facility.

Throughout the discontinuation process, the Company has retained its cannabis sales agreements with the various provinces and continued to sell newly produced and inventoried cannabis dried flower and oils at a reduced volume until June 30, 2022.

On April 14, 2022, the Company entered into an agreement with the landlord for its Metro Vancouver greenhouse facility under which the lease obligation related to the facility, which extends to 2047, would be terminated effective December 31, 2022, in exchange for transfer to the landlord of the non-leased equipment owned by the Company at the site facility. See "Transactions with Related Parties" for more details.

On April 28, 2022, the company entered into an amending agreement with FlowerPod LLC, amending the December 28, 2021, binding term sheet payment schedule to US$0.75 million on closing and a US$0.75 million Promissory note bearing 10% interest per annum. The Company continues to retain the two-year interest-bearing promissory note issued by FlowerPod on May 6, 2021, in the amount of US$0.35 million.

Disclosure of Outstanding Share Data

The Company’s authorized share capital consists of an unlimited number of Common Shares and an unlimited number of preferred shares, of which 213,472,095 Common Shares and nil preferred shares were issued and outstanding as of December 31, 2021, and 213,472,095 Common Shares were outstanding as of June 30, 2022.

There were 8,539,326 stock options outstanding as of December 31, 2021. As of June 30, 2022, there were 3,482,773 stock options outstanding.

There were 31,255,085 warrants outstanding as of December 31, 2021 and 31,255,085 as of June 30, 2022.

Selected Annual Information

The financial information presented for the years below was derived from financial statements prepared in accordance with IFRS and is expressed in Canadian dollars.

	For the year ended December 31,		
Reported in (000's)	**2021 ($)**	**2020 ($)**	**2019 ($)**
Total revenue	11,896	14,261	22,338
Net loss attributable to the Company	(39,406)	(42,952)	(111,141)
Net loss per share (basic and diluted)	(0.184)	(0.222)	(0.750)
Total assets	40,892	98,274	156,621
Total non-current financial liabilities	40	3,504	27,767

Summary of Quarterly Results

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

	2021			
(000's)	**December 31 ($)**	**September 30 ($)**	**June 30 ($)**	**March 31 ($)**
Revenue	2,867	2,599	3,777	2,653
Share-based payments	(721)	204	194	143
Interest and other income	858	354	782	1,084
Share of loss from Pure Sunfarms Corp.	Nil	Nil	Nil	Nil
Gain (loss) on changes in the fair value of the Company's biological assets	(446)	521	540	95
Net Loss	(13,406)	(9,144)	(13,956)	(2,900)
Net Loss per share (basic and diluted)	(0.058)	(0.043)	(0.065)	(0.014)

	2020			
(000's)	**December 31 ($)**	**September 30 ($)**	**June 30 ($)**	**March 31 ($)**
Revenue	3,511	4,311	3,106	3,333
Share-based payments	432	755	844	986
Interest and other income	428	29	809	13

Share of (loss) income from Pure Sunfarms Corp.	(1,367)	(520)	(187)	5,205
Gain (loss) on changes in the fair value of the Company's biological assets	7,229	(2,339)	871	644
Net Loss	(8,060)	(11,658)	(18,943)	(4,879)
Net Loss per share (basic and diluted)	(0.039)	(0.057)	(0.098)	(0.027)

Results of Operations

Quarter ended December 31, 2021 compared to the quarter ended December 31, 2020

The net loss for the quarter ended December 31, 2021, was $13.41 million (loss of $0.058 per share), compared to the net loss of $8.06 million (loss of $0.039 per share) for the same quarter in the prior year. Diluted loss per share is the same as basic loss per share as the outstanding options and warrants have an anti-dilutive effect on the loss per share.

Factors contributing to the net loss for the three-month period ended December 31, 2021 include the following:

Revenue

Revenue for the quarter ended December 31, 2021, was $2.87 million compared to $3.51 million for the same period in the prior year. Recreational sales decreased as a result of lower sales volumes in the quarter ended December 31, 2021, as compared to the same period in 2020, along with the average selling price per gram. Medical sales decreased as a result of the decrease in medical patients. For the quarter ended December 31, 2021, revenue was comprised of approximately 75% dried product, and 25% concentrates, extracts and edibles, compared to approximately 68% dried product, 31% concentrates, extracts and edibles and 1% other in the quarter ended December 31, 2020.

	For the three months ended December 31, 2021	**For the three months ended December 31, 2020**
Average selling price of adult-use dried flower per gram & gram equivalents	$3.27	$3.73
Kilograms sold of adult-use dried flower & kilogram equivalents	726	726
Average selling price of medical dried flower per gram & gram equivalents	$6.70	$7.46
Kilograms sold of medical dried flower & kilogram equivalents	22	36
Total kilograms produced of dried flower	705	980

Cost of Sales

Cost of goods sold currently consists of four main categories: (i) cost of goods sold expensed from inventory, (ii) production costs, (iii) change in the fair value of biological assets and (iv) amortization of the Health Canada licenses.

Cost of goods sold represents the deemed cost of inventory that arose from the fair value measurement of biological assets, subsequent post-harvest costs capitalized to inventory, purchased dried cannabis, costs to produce cannabis oils capitalized to inventory (including the deemed cost of dried inventory that arose from the fair value measurement of biological assets that were used to produce cannabis oils), and packaging costs. Cost of goods sold expensed from inventory for the quarter ended December 31, 2021 and December 31, 2020 was $1.99 million and $3.94 million, respectively. The decrease in cost of goods sold in the current period was due to lower volumes of product sold and lower value of biological asset per gram expensed as compared to the prior period. The total kilograms of dried flower produced decreased during the three months ended December 31, 2021, due to the closure of the Metro Vancouver facility.

Production costs include all direct and indirect production related costs, including security, compliance, quality control and quality assurance costs, as well as overhead relating to the cultivation activities. All post-harvest inventory production costs in excess of standard cost are not capitalized and recorded as cost of goods sold. Production costs included $0.34 million of costs during the three months ended December 31, 2021 (December 31, 2020 - $5.27 million).

During the three months ended December 31, 2021, the Company recognized $0.70 million (December 31, 2020 - $0.49 million) in excise taxes from recreational sales. The excise tax attributable to medical sales of $0.01 million (December 31, 2020 - $0.02 million), was absorbed by the Company as a cost and not passed on to the end patients.

The change in biological assets for the quarter ended December 31, 2021 resulted in a loss of $0.45 million compared to a gain of $7.23 million in the same quarter of the prior year. The loss in the prior period was due to a change in estimates used for fair value less costs to sell ("FVLCS") used as an input in the valuation of biological assets during that period, as well as a cull of plants in the comparative period. The current period increase is a result of normal operations and stage of plant growth at the Verdélite facility during the three months ended December 31, 2021.

The Company measures biological assets consisting of 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, except for a portion which are restricted with respect to distribution due to the conditions under which they were acquired that are measured at cost. The significant assumptions used in determining the fair value of cannabis plants are as follows: plant attrition rate for various stages of development; yield per plant; wholesale selling price less costs to sell; percentage of total expected costs incurred to date; and costs incurred for each stage of plant growth.

Gains recognized in the fair value of biological assets are recorded in a manner that decreases the cost of sales. Changes in the fair value of biological assets can be significant during periods of large expansion in the cultivation area. In determining the fair value of cannabis plants, assumptions are used regarding the variability in the average age and number of cannabis plants available at each period end.

Inventory write-down – During the quarter ended December 31, 2021, a write-down of $4.12 million was recognized for dried cannabis, packaged inventory and bulk cannabis oils (December 31, 2020 - $5.27 million) related to product deterioration, a packaging defect and limited remaining shelf life.

Other expenses

General and Administrative – During the quarter ended December 31, 2021, the Company incurred general and administrative expenses of $2.26 million versus $2.04 million for the quarter ended December 31, 2020. In the quarter ended December 31, 2021, general and administrative costs included; salaries and benefits of $1.09 million (three months ended December 31, 2020 - $1.17 million), consulting and professional services fees of $0.45 million (three months ended December 31, 2020 - $0.17 million), investor relations fees of $0.07 million (three months ended December 31, 2020 - $0.27 million), office and insurance of $0.61 million (three months ended December 31, 2020 - $0.43 million) and travel and accommodation of $0.04 million (three months ended December 31, 2020 - Nil).

Sales and marketing – In the quarter ended December 31, 2021, the Company incurred sales and marketing expenses of $0.80 million versus $0.33 million in the comparable 2020 prior period. These costs are related to general sales and marketing expenses and wages. The current period increase reflects the Company's launch of its new product lines in the form of its sublingual tablets and Fuse™ beverages.

Research and development – In the quarter ended December 31, 2021, the Company incurred research and development expenses of $0.37 million (three months ended December 31, 2020 - $0.60 million). These costs related to consulting fees and wages associated with the development of new cannabis products. Research and development expenditures were related to not only product development but also to the enhancement of cultivation and extraction efficiencies as well as research into strain genetics. Costs decreased during the current period due to the Company's announcement that it is exiting the recreational and medical cannabis business and pivoting to a pharmaceutical development focus.

Share-based compensation – In the quarter ended December 31, 2021, the Company incurred share-based compensation expenses of $(0.72) million versus $0.43 million in the comparable 2020 prior period. The amounts are compensation expenses related to employees, directors and consultants, incentive stock options and restricted share units ("RSU") which are measured at fair value at the date of grant and expensed over the vesting period. During the current quarter, the Company granted 225,000 stock options and Nil RSUs to employees and consultants, compared to 3,797,500 stock options and 140,000 RSUs granted during the same period in 2020.

Share of income from former joint venture – In the quarter ended December 31, 2021, the Company recognized $nil as its share of income due to the sale of the entirety of its 41.28% interest in Pure Sunfarms Corp. in 2020. In the comparable period the Company recognized a $1.36 million loss.

Impairment – During the quarter ended December 31, 2021, the Company initiated a plan to close operations at the production facility located in Saint-Eustache, Québec and entered into discussions to sell the facility and related licenses. The fair value of this facility was determined based on a third-party valuation of the tangible property, resulting in an impairment loss of $4,270. Split between the land, building, the production, lab, and growing equipment, computer equipment, the other equipment, intangible, and ROU equipment which were impaired by $119, $3,497, $546, $2, $88, $5, and $13, respectively.

The amortization of the Health Canada license represents the amortization of an acquired license that is recorded at cost less accumulated amortization. Amortization will be expensed as a cost of sales and the unamortized balance will remain on the Company's balance sheet as an intangible asset. Amortization of the license is recognized on a straight-line basis over the useful life, irrespective of either production or sale of cannabis from that facility.

Year ended December 31, 2021 compared to the year ended December 31, 2020

The net loss for the year ended December 31, 2021, was $39.41 million (loss of $0.18 per share), compared to the net loss of $43.54 million (loss of $0.22 per share) for the same period in the prior year. The net loss for the period was impacted by a $15.03 million impairment on the Metro Vancouver facility. Diluted loss per share is the same as basic loss per share as the outstanding options and warrants have an anti-dilutive effect on the loss per share.

Factors contributing to the net loss for the year include the following:

	For the year ended December 31,	
	2021($)	2020($)
Revenue	11.90	14.26
Share-based payments	(0)	3.02
Interest and other income	3.07	1.28
Net Loss	39.41	43.54
Net Loss per share (basic and diluted)	0.18	0.23

Revenue

Revenue for the year to date was $11.90 million compared to $14.26 million for the same period in the prior year. The revenue for the year ended December 31, 2021 was impacted by a further decline in average selling price per gram of dried cannabis and dried cannabis equivalent in the adult-use channel, which decreased from $3.75 in the same period in 2020 to $3.46 in the current period. The Company shipped 8% less kilograms of dried flower and flower equivalent compared to the same period of the prior year. For the year ended December 31, 2021, revenue was comprised of approximately 77% dried product, and 23% oils, compared to approximately 68% dried product, 31% oils and 1% other in the year ended December 31, 2020. During the year ended December 31, 2021, the Company's revenues were from the adult recreational market, the medical market, as well as bulk dry cannabis flower sales of $0.49 million.

	For the year ended December 31, 2021	**For the year ended December 31, 2020**
Average selling price of adult-use dried flower per gram & gram equivalents	$3.46	$3.75
Kilograms sold of adult-use dried flower & kilogram equivalents	2,521	2,730
Average selling price of medical dried flower per gram & gram equivalents	$6.95	$7.83
Kilograms sold of medical dried flower & kilogram equivalents	101	175
Total kilograms produced of dried flower	2,410	8.960

Cost of Sales

Cost of goods sold currently consists of four main categories: (i) cost of goods sold expensed from inventory, (ii) production costs, (iii) change in the fair value of biological assets, and (iv) amortization of the Health Canada licenses.

Cost of goods sold represents the deemed cost of inventory that arose from the fair value measurement of biological assets, subsequent post-harvest costs capitalized to inventory, purchased dried cannabis, costs to produce cannabis oils capitalized to inventory (including the deemed cost of dried inventory that arose from the fair value measurement of biological assets that were used to produce cannabis oils), and packaging costs. Cost of goods sold expensed to inventory for the year ended December 31, 2021 and December 31, 2020 was $7.56 million and $10.32 million, respectively. The decrease in cost of goods sold in the current period was due to lower volumes of product sold and lower value of biological asset per gram expensed as compared to the prior period.

Production costs include all direct and indirect production related costs, including security, compliance, quality control and quality assurance costs, as well as overhead relating to the cultivation activities. All post-harvest inventory production costs in excess of standard cost are not capitalized and recorded as cost of goods sold. Production costs included $4.49 million of costs during the year ended December 31, 2021 (December 31, 2020 - $8.86 million).

During the year ended December 31, 2021, the Company also recognized $2.28 million (December 31, 2020 - $2.44 million) in excise taxes from recreational sales. The excise tax attributable to medical sales of $0.05 million (December 31, 2020 - $0.08 million) was absorbed by the Company as a cost and not passed on to the end patient.

The change in biological assets for the year ended December 31, 2021 resulted in a gain of $0.71 million compared to a gain of $6.40 million in the same period of the prior year. The loss in the prior period was due to a change in estimates used for fair value less costs to sell FVLCS used as an input in the valuation of biological assets during that period, as well as a cull of plants in the comparative period. The current period increase is a result of normal operations and stage of plant growth at the Verdélite facility.

The amortization of the Health Canada license represents the amortization of an acquired license that is recorded at cost less accumulated amortization. Amortization will be expensed as a cost of sales and the unamortized balance will remain on the Company's balance sheet as an intangible asset. Amortization of the license is recognized on a straight-line basis irrespective of either production or sale of cannabis from that facility.

The Company measures biological assets consisting of 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, except for a portion which are restricted with respect to distribution due to the conditions under which they were acquired that are measured at cost. The significant assumptions used in determining the fair value of cannabis plants are as follows: plant attrition rate for various stages of development; yield per plant; selling price less costs to sell; percentage of total expected costs incurred to date; and costs incurred for each stage of plant growth.

Gains recognized in the fair value of biological assets are recorded in a manner that decreases the cost of sales. Changes in the fair value of biological assets can be significant during periods of large expansion in the cultivation area. In determining the fair value of cannabis plants, assumptions are used regarding the variability in the average age and number of cannabis plants available at each period end.

Inventory write-down – During the year ended December 31, 2021, a write-down of $4.79 million was recognized for packaged inventory and extracted cannabis oils (December 31, 2020 - $8.14 million) related to product deterioration, limited remaining shelf life and fair market value.

Other expenses

General and Administrative – During the year ended December 31, 2021, the Company incurred general and administrative expenses of $9.10 million versus $9.43 million for the year ended December 31, 2020. The current period saw decreased expenses in wages and benefits, corporate communications and media, consulting and professional service fees, and travel and accommodations expense, and increased costs of office and insurance due to a retro-active adjustment to insurance and the wind down of the operations at the Metro Vancouver facility which remaining expenses were relocated from production costs to general and administrative expense. For the year ended December 31, 2021, general and administrative costs included; salaries and benefits of $3.69 million (2020 - $4.17 million), consulting and professional services fees of $2.45 million (2020 - $2.80 million), corporate communication and media expense of $0.14 million (2020 - $0.47 million), office and insurance of $2.75 million (2020 - $1.92 million) and travel and accommodation of $0.07 million (2020 - $0.07 million).

Sales and marketing – For the year ended December 31, 2021, the Company incurred sales and marketing expenses of $2.37 million versus $1.56 million in the comparable 2020 prior period. These costs are related to general sales and marketing and wages. The current period increase reflects the Company's use of sales agencies in the launch of its new product lines.

Research and development – For the year ended December 31, 2021, the Company incurred research and development expenses of $1.73 million versus $1.57 million in the comparable 2020 prior period. These costs related to consulting fees and wages associated with the development of new cannabis products. The increase in research and development costs are due to an increase in activities surrounding new product development in the health and wellness segment.

Share-based compensation – For the year ended December 31, 2021, the Company incurred share-based compensation expenses of $(0.18) million versus $3.02 million in the comparable 2020 prior period. The amounts are compensation expenses related to employee, director and consultant incentive stock options and restricted share units which are measured at fair value at the date of grant and expensed over the vesting period. During the year ended December 31, 2021, the Company granted 300,000 stock options and Nil restricted share units to employees and consultants, compared to 9,877,500 stock options and 550,000 restricted share units during the same period in 2020.

Share of income from joint venture – In the year ended December 31, 2021, the Company recognized $nil as its share of the income due to the sale of the entirety of its 41.28% interest in Pure Sunfarms Corp. In the comparable period the Company recognized $3.13 million.

Impairment – During the year ended December 31, 2021, the Company determined there was a further fair value loss on the reclassification of its Metro Vancouver facility to held for sale based on market conditions and additional third-party sales broker information. This resulted in recording an impairment of $15.02 million: $9.76 million against the building, $4.55 million against PUC and $0.71 million of equipment. The remaining asset value of $3.09 million relating to the Metro Vancouver facility and reclassified to held for sale includes $1.54 million of buildings, $0.41 million of production and growing equipment, $0.86 million of PUC and $0.28 million of long-term deposits.

The amortization of the Health Canada license represents the amortization of an acquired license that is recorded at cost less accumulated amortization. Amortization will be expensed as a cost of sales and the unamortized balance will remain on the Company's balance sheet as an intangible asset. Amortization of the license is recognized on a straight-line basis over their useful life, irrespective of either production or sale of cannabis from that facility.

Interest and other income – In response to COVID-19, the Government of Canada announced the Canada Emergency Wage Subsidy ("CEWS") program in April 2020. CEWS provides a wage subsidy on eligible remuneration to eligible employers based on certain criteria and during the year ended December 31, 2020, the Company determined that it had qualified for this subsidy. The Company applied for and received $1.92 million of non-repayable subsidies under CEWS during the year ended December 31, 2021 (December 31, 2020 - $0.76 million).

Liquidity and Capital Resources

The Company continually monitors and manages its cash flow to assess the liquidity necessary to fund operations and capital projects. The Company manages its capital resources and adjusts them to take into account changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital resources, the Company may, where necessary, control the amount of working capital, pursue financing or manage the timing of its capital expenditures. As at December 31, 2021, the Company had working capital of $18.59 million (current assets of $22.15 million less current liabilities of $3.56 million). Non-GAAP measures do not have any standardized meaning prescribed under IFRS, and therefore they may not be comparable to similar measures employed by other companies. The data is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS See "Non-GAAP Measures" below.

The consolidated financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities

As of December 31, 2021, the Company had $18.51 million in cash and cash equivalents.

Emerald continues to retain the two-year interest-bearing promissory note issued by FlowerPod on May 6, 2021, in the amount of US$0.35 million.

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

(000's)	December 31, 2021 ($)	December 31, 2020 ($)
Trade payables	1,043	6,296
Accrued liabilities	673	903
Excise tax payable	534	2,239
Payroll liabilities	137	1,046
Sales tax liabilities	978	529
Other payables	171	6

The Company also has the following undiscounted gross contractual obligations as at December 31, 2021, which are expected to be payable in the following respective periods:

(000's)	Total $	≤ 1 year $	Over 1 year $
Leases	3,639	0	3,639
CEBA Loan	40	-	40

Operating, Investing and Financing Activities

The chart below highlights the Company's cash flows:

(000's)	For the year ended December 31, 2021 ($)	For the year ended December 31, 2020 ($)
Net cash provided by (used in):		
Operating activities	($17,109)	($10,502)
Investing activities	$10,617	$54,391
Financing activities	$(996)	$(20,416)
Increase (decrease) in cash	($7,488)	$23,473

Year ended December 31, 2021 compared to December 31, 2020

Cash used in operating activities for the year ended December 31, 2021 was $17.11 million, compared to cash used of $10.5 million in the prior year. The current year amount reflects the decrease in general and administrative, sales and marketing and research and development expenditures, and decreases in cash outflows for payments of current liabilities from the year ended December 31, 2020.

- Financial Risk Management

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

Measurement Uncertainty and Impairment Assessments

During the year ended December 31, 2021, the Company initiated a plan to close operations of its facility located in Metro Vancouver, British Columbia, as announced subsequent to the year end, which is an indicator of impairment. 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).

During the year ended December 30, 2021, the Company determined there was a further fair value loss on the reclassification to held for sale assets based on market conditions and additional third-party appraisal information.

Management continues to review each of its assets for indicators of impairment.

Transactions with Related Parties

The Company has entered into transactions with a number of related parties as further described below. In addition, on April 29, 2022 the Company entered into an arrangement agreement with Skye Bioscience Inc. ("Skye"), which is a related party of the Company due to the fact that Emerald Health Sciences Inc. is also a control person of Skye, as further described below under "Proposed Transactions".

With Emerald Health Sciences Inc.

As at December 31, 2021, Emerald Health Sciences Inc. ("Sciences") held an aggregate of 39,401,608 Common Shares, representing 19% (December 31, 2020 – 39,401,608 shares, representing 19%) of the issued and outstanding Common Shares and it also held 4,687,942 (December 31, 2020 – 9,099,706) common share purchase warrants of the Company.

As of December 31, 2021, the Company owed $nil (December 31, 2020 - $1,327) to Sciences for past services provided. As of December 31, 2021, Sciences owed the Company $nil (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 Subsidiaries of Emerald Health Sciences Inc.

On October 3, 2018, the Company announced that it entered into a research agreement with VivaCell Biotechnologies Spain S.L.U. ("EH Spain"), a corporation located in Córdoba, Spain and focused on cannabinoid pharmaceutical research, which will provide its cannabinoid-industry-leading contract research organization (CRO) services to the Company to elucidate the mechanism of action of proprietary formulations and dosage forms that the Company is developing. EH Spain is a wholly-owned subsidiary of Sciences, who was a control person of the Company at the time, and was therefore a related party of the Company. To date, the Company has used the CRO services of EH Spain with total costs incurred of €20,000. The Company has no obligation to use further services from EH Spain.

With the Company's former joint venture

As of December 31, 2021, Pure Sunfarms owes the Company $170 (December 31, 2020 - $170) for expenditures made on behalf of the joint venture. As of December 31, 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. Amounts are non-interest bearing.

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

During the year ended December 31, 2017, the Company entered into a 30-year lease with a company (the "Landlord") that is 50% owned by Avtar Dhillon, MD, the former Executive Chairman and CEO 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 year ended December 31, 2021, the Company paid to the Landlord $381 (December 31, 2020 - $365) in rent. As at December 31, 2021, the Company recognized lease liabilities of $3,476 (December 31, 2020 - $3,516) relating to the land in Metro Vancouver. As of August 6, 2021, the Landlord ceased to be a related party upon the resignation of Avtar Dhillon as Executive Chairman of the Company.

On April 14, 2022, the Company concluded an agreement under which the lease obligation would be concluded effective December 31, 2022 (or such earlier date on which the Landlord informs the Company that it has located a new tenant for the premises), in exchange for the transfer to the landlord of the non-leased equipment owned by the Company at the site. The Company will continue to make monthly payments of $38,240 through 2022, after which it will have no further payments due to the Landlord. The Company may terminate the lease earlier upon payment to the landlord of an amount equal to all remaining rent to December 31, 2022, and all other sums payable by EHT to the landlord under the lease.

With an Entity with Common Directors

On May 11, 2021, the Company acquired the remaining 49% equity ownership in Naturals that was held by the Bankruptcy Trustee of Emerald Health Bioceuticals ("Bioceuticals") for $32 (US$25). The Company then owned 100% ownership in Naturals, which was reflected by the movement of $1,385 from Non-Controlling Shareholders' Interest to the Company's equity.

On May 3, 2022 Naturals was amalgamated with the Company pursuant to a vertical short form amalgamation under the Business Corporations Act (British Columbia). As a result of such amalgamation Naturals ceased to exist.

Proposed Transactions

On May 11, 2022 the Company entered into an arrangement agreement with Skye Bioscience Inc. where the CEO is a Director of the Company, pursuant to which Skye may acquire all of the issued and outstanding shares of the Company in exchange for shares of common stock of Skye as further described above under "Development of Business after the Reporting Period".

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

Critical Accounting Policies and Estimates

The critical accounting policies and estimates are included in each of the notes of the Company's audited consolidated financial statements for the year ended December 31, 2021 and 2020. These are the accounting policies and estimates that are critical to the understanding of the business operations and results of operations.

Changes in Accounting Standards not yet Effective

Refer to Note 2 of the Company's audited consolidated financial statements for the years ended December 31, 2021 and 2020 for additional information on new standards, amendments to standards and interpretations, which are not effective yet, and have not been applied in preparing these consolidated financial statements but may affect the Company when applied in the future.

Off-Balance Sheet Arrangements

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

Risks and Uncertainties

The Company's actual results may differ materially from those expected or implied by the forward-looking statements and forward-looking information contained in this management discussion and analysis due to the proposed nature of the Company's business and its present stage of development. A non-exhaustive list of risk factors associated with the Company follow below.

The following is a non-exhaustive list of certain additional risk factors associated with the Company.

Completion of the Arrangement

Consummation of the Arrangement is subject to the satisfaction of a number of conditions, certain of which are outside the Company's control, including, without limitation, obtaining the requisite approvals of the shareholders of the Company and Skye and the receipt of the final order approving the Arrangement granted by the British Columbia Supreme Court. There can be no certainty, nor can the Company provide any assurance, that these conditions will be satisfied or, if satisfied when they will be satisfied. Certain conditions may be waived at the Company's discretion, however, certain other conditions are not subject to waiver. Both the Company and Skye have the right to terminate the Arrangement Agreement in certain circumstances. Accordingly, there is no certainty, nor can either party provide any assurance, that the Arrangement Agreement will not be terminated by the other party before completion of the Arrangement.

In the event that the Arrangement Agreement is terminated as a result of either party entering into a superior proposal and in certain other limited circumstances, the other party may be entitled to receive a termination fee in the amount of $0.5 million. However, the termination fee is not payable in all circumstances and therefore the situation may arise that the Arrangement Agreement is terminated by Skye and the Company does not receive the termination fee or other consideration. In addition, notwithstanding that such fee may be payable in the event of such a termination by Skye, Skye may be unable to pay such fee or may dispute whether it is required to do so.

If the Arrangement is not completed for any reason, the market price of the Company's shares may decline to the extent that the current market price reflects a market assumption that the Arrangement will be completed, and the Company's business may suffer. In addition, the Company will remain liable for significant consulting, accounting and legal costs relating to the Arrangement and will not realize anticipated synergies, growth opportunities and other benefits of the Arrangement in the event that the Arrangement is not completed. If the Arrangement is delayed, the achievement of synergies and the realization of growth opportunities could be delayed and may not be available to the same extent.

Public Health Crises

The Company's business, operations and financial condition could be materially adversely affected by the outbreak of epidemics, pandemics, or other health crises, such as the current COVID-19 pandemic. As of the date of this MD&A, the global reactions to the spread of COVID-19 have led to, among other things, significant restrictions on travel, quarantines, business closures and a general economic turmoil. The Company's facilities have not been subject to closure due to COVID-19; however, there can be no certainty that this will remain the case.

The risks to the Company of such public health crises also include risks to employee health and safety and a slowdown or temporary suspension of operations in geographic locations impacted by an outbreak. The Company has taken what it believes to be appropriate safety precautions at its facilities to safeguard the health of its employees including remote work plans and additional protective measures site on-site, and there have been no outbreaks to date at any of the Company's facilities. Widespread uncertainty, government restrictions on personal mobility and the other impacts of the COVID-19 crisis on the Company's employees, together with the potential to contract COVID-19 and/or be subject to quarantine may have an impact on the ability or willingness of the Company's employees to attend their workplace.

Such public health crises can also result in disruptions and volatility in financial markets and global supply chains as well as declining trade and market sentiment and reduced mobility of people, all of which could impact the market and pricing of cannabis products, interest rates, credit ratings, credit risk and inflation. In addition, the Company's business may be impacted by supply chain disruptions caused by the COVID-19 crisis. While these effects are expected to be temporary, the duration of the disruptions to business and the related financial impact cannot be estimated with any degree of certainty at this time.

Although restrictions on businesses in most Canadian jurisdictions have been largely repealed, the continued spread of COVID-19 and the emergence of new variants of the virus have led to the implementation of new restrictions. There can be no guarantee that these restrictions will be successful or that additional future outbreaks will not lead to increased restrictions. In addition, while vaccination programs for COVID-19 have experienced wide take-up in Canada, such programs may not be as efficacious as expected due to a variety of factors including the unwillingness of significant numbers of people to become vaccinated, or the emergence of new strains which are resistant to vaccines. At this point, the extent to which COVID-19 may impact the Company is uncertain; however, it is possible that COVID-19 could have a material adverse effect on the Company's business, results of operations and financial condition.

Disposition of Assets

As part of the Company's strategy to pivot its business focus, it is seeking opportunities to dispose of certain of its assets. In pursuit of such opportunities, the Company may fail to negotiate acceptable arrangements related to such dispositions. Such dispositions may also lead to substantial losses recognized by the Company, particularly as values in the cannabis sector have fallen in recent years with many distressed assets currently on the market. In addition, any such transaction will require the dedication of substantial management effort, time and resources which may divert management's focus and resources from other strategic opportunities and from operational matters during this process. Dispositions of certain assets may also lead to the loss of key employees and the disruption of ongoing business and employee relationships that may adversely affect the Company.

Operations in the USA

The Company does not currently have any direct operations, business, or sales in the United States. However, the Company has entered into a license agreement with FlowerPod, under which it agreed to exclusively license certain patented technology to FlowerPod for the development and sale of cannabis related products for use in all US states and other key geographical areas where adult use and/or medical cannabis is locally legal. In addition, the Company has also entered into a letter of intent with The Uplifters' Prima, PBC ("Prima"), based in Santa Monica, California, contemplating joint initiatives to co-develop new cannabinoid-based wellness products for sale in the United States, Canada, and internationally. On May 25, 2021, the Company completed a $50 investment in Prima's Seed-1 Preferred Stock financing round. The Company is not aware of any material non-compliance with applicable laws related to initiatives undertaken by FlowerPod or Prima. At this time, the Company does not have any significant balance sheet or operating statement exposure with respect to such ancillary operations. The Company does not expect there to be any impact on its ability to access capital as a result of such ancillary operations in the United States. No additional legal opinions have been obtained by the Company regarding compliance with regulatory frameworks in the United States or potential exposure to and implications arising from federal laws in the United States.

Cannabis is a restricted drug under federal law in the United States and its sale and possession is generally prohibited. Enforcement of relevant laws in an adverse manner would be a significant risk to the Company and could have a material adverse effect on the Company. Future operations in the United States or transactions or relationships with cannabis related businesses in the United States, depending on the nature and extent of such operations, transactions, or relationships, may also impact the Company's ability to raise funds in the public and private markets. Regulatory authorities may also impose certain restrictions on the Company's ability to operate in the United States. The Company will consult with appropriate legal counsel to ensure it considers all relevant factors before engaging in any operations in the United States or any transactions with entities in the United States.

Current and Future Litigation

On June 16, 2020, a Plaintiff filed a Statement of Claim on behalf of a proposed class in the Court of Queen's Bench of Alberta in Alberta, Canada, against several Canadian cannabis manufacturers and/or distributors (the "Defendants"). The Company is named as a Defendant in the proceedings. In the action it is alleged that the Defendants, including the Company, marketed medicinal and recreational cannabis products with advertised THC or CBD content levels different than those products actually contained. The action only specifically mentions one particular product manufactured and sold by the Company – Sync 25, a CBD oil which is alleged to have had at the time of testing an advertised THC level of 1 mg/mL, but an alleged actual THC potency of 0.46 mg/mL. The Plaintiffs claim damages against the Defendants as a group of $500 million, plus punitive damages of $5 million, an accounting of revenues, and interest and costs. The Plaintiffs have not yet demanded that the Company defend the action. No certification application has yet been filed.

The Company believes that the allegations made against it in the action are flawed. The plaintiffs' testing methodologies have not yet been disclosed. The difference in THC content between the alleged labelled amount and the alleged tested amount in this particular product is not material. No loss or damages have been proven. No consumer was likely to have been harmed as a result of the labelling difference.

The Company disputes the allegations and has been and will continue to vigorously defend against the claims. The proceedings are still at an early stage. Estimating an amount or range of possible losses resulting from litigation proceedings is inherently difficult, particularly where key factual and legal issues have not been resolved. For these reasons, the ultimate timing or outcome cannot be predicted, or possible losses or a range of possible losses cannot be reasonably estimated.

The Company may become party to other litigation (including arbitration or mediation) from time to time, which could adversely affect its business. In addition, the directors or officers of the Company may become involved in litigation unrelated to the Company which may have an impact on the Company due to the time and attention required to attend to such litigation or may affect the reputation of the Company. Should any litigation in which the Company becomes involved be determined against the Company or should the Company enter into a settlement, the amount of the award or settlement could adversely affect the Company's resources and its ability to continue operating and the market price for the Common Shares. Monitoring and defending litigation, whether or not meritorious, can be time-consuming and may result in significant expenses, including legal fees and other costs. Even if the Company is involved in litigation and is successful, litigation can redirect significant Company resources and attention away from the business of the Company and may have a material adverse effect on the Company's business, reputation, financial condition, financial performance, and financial prospects.

Securities class action litigation often has been brought against cannabis companies following periods of volatility in the market price of their securities. The Company may in the future be the target of similar litigation. Securities litigation could result in substantial costs and damages and divert management's attention and resources.

Non-GAAP Measures

The Company has included "Working capital”, which is a non-GAAP financial measure that does not have a standard meaning and may not be comparable to a similar measure disclosed by other issuers. Working capital, as referenced herein, is defined as (current assets less current liabilities), which is a non-GAAP measure, in this MD&A, Working capital is used to supplement the Company's consolidated financial statements, which are presented in accordance with IFRS. The terms IFRS and generally accepted accounting principles (“GAAP”) are used interchangeably throughout this MD&A.

The Company believes that these measures, together with measures determined in accordance with IFRS, provide investors with an improved ability to evaluate the underlying performance of the Company. Non-GAAP measures do not have any standardized meaning prescribed under IFRS, and therefore they may not be comparable to similar measures employed by other companies. The data is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.

Forward-Looking Statements

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

Examples of forward-looking statements in this MD&A include, but are not limited to, statements in respect of the Company's business objectives; the Company's operations in Québec; the approval of patent applications that have been submitted by the Company; the Company's intention to dispose of its cannabis assets; expectations regarding whether the Arrangement will be consummated, including whether conditions to the consummation of the Arrangement will be satisfied, or the anticipated timing for the closing of the Arrangement; expectations regarding whether the Company will sell its patented technology; the Company's ability to control its working capital, obtain financing or manage capital expenditures; the Company's intent to transition into the pharmaceutical development field; operations of the Company's subsidiaries; potential transactions and development strategies, including those of its subsidiaries; the impact of the ongoing COVID-19 crisis; strategic alternatives related to the Company's assets; the focus of the Company's efforts; strategic partnerships entered into by the Company; and the effect that each risk factor will have on the Company.

Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The reader of these statements is cautioned that any such statements are not guarantees of future performance and actual results or developments may differ materially from those projected in the forward-looking statements. These forward-looking statements involve risks and uncertainties relating to, among others: the impact of the ongoing COVID-19 crisis; continued availability of capital financing and general economic, market or business conditions; regulatory risks relating to the Company's compliance with the Cannabis Regulations; the Company's ability to execute its business plans; changes in laws, regulations and guidelines; changes in government; changes in government policy; the limited operating history of the Company; the Company's reliance on key persons; failure of counterparties to perform contractual obligations; difficulties in securing additional financing; demand for labour; actual operating and financial performance of facilities, equipment and processes relative to specifications and expectations; results of litigation; the Company's ability to develop and commercialize pharmaceutical products; reputational risks; risks related to key persons; failure to obtain regulatory approval for pharmaceutical products; changes in the Company's overall business strategy; and the Company's assumptions stated herein being correct. See "Risks and Uncertainties" in this MD&A and other factors described in the Company's AIF under the heading "Risk Factors".

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