EMERALD HEALTH THERAPEUTICS, INC.

Consolidated Financial Statements

As at and for the years ended December 31, 2021
and 2020

(Expressed in Canadian Dollars)

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Management's Responsibility

To the Shareholders of Emerald Health Therapeutics, Inc.:

Management is responsible for the preparation and presentation of the consolidated financial statements and accompanying note disclosures in accordance with International Financial Reporting Standards. This responsibility includes selection of appropriate accounting policies and principles as well as decisions related to significant estimates and areas of judgement.

In discharging its responsibility to support the integrity and fairness of the consolidated financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded, and financial records are properly maintained to provide reliable information.

The Board of Directors of the Company is responsible for overseeing management's performance of its responsibilities for financial reporting and internal control. The Audit Committee of the Company, which is composed of non-executive directors, meets with management as well as the external auditors to ensure that management is properly fulfilling its financial reporting responsibilities to the Board of Directors who approve the financial statements. The external auditors have unrestricted access to the Audit Committee to discuss the scope of their audits and the adequacy of the system of internal controls.

The consolidated financial statements have been audited by MNP. Their report outlines the scope of their examination and opinion on the consolidated financial statements.

June 30, 2022

/s/ *Mohammed Jiwan*	/s/ *Jim Heppell*
Chief Operating Officer	Chairman

EMERALD HEALTH THERAPEUTICS, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

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

		December 31 2021		December 31 2020
ASSETS				
Current				
Cash and cash equivalents	$	**18,512**	$	25,998
Accounts receivable (Note 3)		**1,634**		1,992
Receivable from Joint Venture Sale (Note 19)		-		20,286
Biological assets (Note 4)		-		969
Inventory (Note 5)		**849**		4,611
Prepaid expenses		**1,160**		1,135
Due from related parties (Note 9)		-		50
Total current assets		**22,155**		55,041
Plant and equipment (Note 6)		**16,643**		34,531
Plant under construction (Note 6)		**860**		5,411
Deposits on materials and equipment (Note 6)		**71**		214
Refundable deposits		-		575
Intangible assets (Note 7)		**401**		1,859
Promissory note receivable (Note 14)		**406**		-
Right-of-use assets (Note 16)		**102**		509
Long-term investment (Note 13)		**254**		134
Total non-current assets		**18,737**		43,233
TOTAL ASSETS	$	**40,892**	$	98,274
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities (Note 21 (d))	$	**3,536**	$	11,019
Deferred payment (Note 8)		-		9,375
Due to related parties (Note 9)		**27**		1,619
Lease liability (Note 16)		**3,639**		651
Total current liabilities		**7,202**		22,664
Lease liability (Note 16)		-		3,464
CEBA loan (Note 2(f))		**40**		40
TOTAL LIABILITIES	$	**7,242**	$	26,168
SHAREHOLDERS' EQUITY				
Share capital (Note 10)		**252,651**		249,763
Warrants (Note 12)		**823**		1,718
Contributed surplus		**28,115**		29,126
Accumulated other comprehensive income		**(239)**		-
Accumulated deficit		**(247,700)**		(207,148)
TOTAL SHAREHOLDERS' EQUITY		**33,650**		73,459
Non-controlling interest (Note 2 and 9)		-		(1,353)
TOTAL LIABILITIES AND EQUITY	$	**40,892**	$	98,274

Nature and continuance of operations (Note 1)
Commitments and contingencies (Note 23)
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On behalf of the Board of Directors:

/s/Jim Heppell
Director

/s/Punit Dhillon
Director

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

EMERALD HEALTH THERAPEUTICS, INC.
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(Amounts reflected in thousands of Canadian dollars, except share and per share amounts)

		Year ended December 31 2021		Year ended December 31 2020
Revenue				
Revenue from sale of goods (Note 17)	$	11,896	$	14,261
Excise taxes		2,217		2,521
Net revenue		9,679		11,740
Cost of sales				
Cost of goods sold		4,701		6,075
Production costs		4,488		8,863
Amortization of Health Canada license (Note 7)		6		488
Inventory write-down (Note 5)		4,793		8,143
Realized fair value amounts on inventory sold (Note 5)		2,859		4,245
Unrealized loss (gain) on changes in fair value of biological assets (Note 4)		(710)		(6,404)
Gross margin		(6,458)		(9,670)
Expenses				
General and administrative (Note 18)		9,102		9,426
Sales and marketing		2,371		1,557
Research and development		1,727		1,569
Depreciation and amortization (Note 6, 7 and 16)		1,253		1,757
Share-based payments (Note 11)		(179)		3,017
Impairment of assets (Note 6, 7, 16)		20,981		27,557
		35,255		44,883
Loss from operations		41,713		54,553
Share of income from joint venture (Note 19)		-		(3,131)
Interest income		(298)		(407)
Other income (Note 2(f), 8, and 13)		(2,774)		(872)
Finance costs and other expenses (Note 8, 16)		700		4,973
Gain on disposal of joint venture (Note 19)		-		(13,423)
Gain on settlement of deferred payment (Note 8)		(293)		-
Loss (gain) on sale of long term investment (Note 13)		(249)		44
Loss on disposal of equipment		368		237
Loss on settlement of convertible debt (Note 20)		-		823
Loss on dilution of joint venture ownership (Note 19)		-		850
Fair value changes in financial assets (Note 13, 22)		-		(304)
Loss before income taxes		39,167		43,343
Deferred income tax expense (recovery) (Note 15)		-		169
Income tax expense (Note 15)		-		27
NET LOSS		39,167		43,539
Other Comprehensive loss				
Fair value changes in financial assets classified as FVTOCI		239		-
Total Comprehensive Loss		39,406		43,539
Net loss and comprehensive loss attributable to:				
Emerald Health Therapeutics, Inc.		39,406		42,952
Non-controlling interest (Note 7(i))		-		587
		39,406		43,539
Basic and diluted net loss per common share				
Net loss per common share		0.19		0.22
Weighted average number of common shares outstanding				
Basic and diluted		212,564,672		193,205,390

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

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

	Share Capital		Warrants								
	# of Shares	Amount	# of Warrants	Amount	Contributed Surplus	Convertible Debt Reserves	Accumulated Other Comprehensive Income	Accumulated Deficit	Total Shareholders' Equity	Non-Controlling Interest	Total Equity
Balance, January 1, 2021	206,360,872	$ 249,763	41,916,849	$ 1,718	$ 29,126	$ -	$ -	$ (207,148)	$ 73,459	$ (1,353)	$ 72,106
Shares returned on transportation adjustment (Note 10)	(500)	-	-	-	-	-	-	-	-	-	-
Shares issued on stock option exercises (Note 10)	191,875	80	-	-	(30)	-	-	-	50	-	50
Shares issued on restricted share unit vesting (Note 10)	669,848	802	-	-	(802)	-	-	-	-	-	-
Shares issued on warrant exercises (Note 10)	6,250,000	2,208	(6,250,000)	(895)	-	-	-	-	1,313	-	1,313
Share issuance costs	-	(202)	-	-	-	-	-	-	(202)	-	(202)
Share-based payments (Note 11)	-	-	-	-	(179)	-	-	-	(179)	-	(179)
Warrants expired (Note 12)	-	-	(4,411,764)	-	-	-	-	-	-	-	-
Net loss and comprehensive loss	-	-	-	-	-	-	(239)	(39,167)	(39,406)	-	(39,406)
Acquisition of subsidiary with NCI (Note 9)	-	-	-	-	-	-	-	-	-	(32)	(32)
Acquisition of NCI without change of control (Note 9)	-	-	-	-	-	-	-	(1,385)	(1,385)	1,385	-
Balance, December 31, 2021	**213,472,095**	**$ 252,651**	**31,255,085**	**$ 823**	**$ 28,115**	**$ -**	**$ (239)**	**$ (247,700)**	**$ 33,650**	**$ -**	**$ 33,650**
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	21,696,178	4,935	-	-	-	-	-	-	4,935	-	4,935
Shares issued on at-the-market offering	2,445,600	500	-	-	-	-	-	-	500	-	500
Share issued on settlement of related party transaction	9,713,666	2,914	-	-	(97)	-	-	-	2,817	-	2,817
Share issued on settlement of convertible debt interest	4,894,055	1,009	-	-	-	-	-	-	1,009	-	1,009
Warrants issued on prospectus offering	-	-	21,696,178	164	-	-	-	-	164	-	164
Shares issued on restricted share unit vesting	375,000	1,710	-	-	(1,710)	-	-	-	-	-	-
Shares issued on warrant exercises	6,250,000	1,958	(6,250,000)	(895)	-	-	-	-	1,063	-	1,063
Share issuance costs	-	(414)	-	-	-	-	-	-	(414)	-	(414)
Share-based payments	-	-	-	-	3,017	-	-	-	3,017	-	3,017
Settlement of Convertible Debt	-	-	-	-	(230)	(383)	-	-	(613)	-	(613)
Net loss and comprehensive loss	-	-	-	-	-	-	-	(42,952)	(42,952)	(587)	(43,539)
Balance, December 31, 2020	**206,360,872**	**$ 249,763**	**41,916,849**	**$ 1,718**	**$ 29,126**	**$ -**	**$ -**	**$ (207,148)**	**$ 73,459**	**$ (1,353)**	**$ 72,106**

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

EMERALD HEALTH THERAPEUTICS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

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

Years ended:	December 31 2021	December 31 2020
Operating activities		
Net loss	$ (39,167)	$ (43,539)
Items not involving cash		
Depreciation and amortization	2,854	4,820
Inventory write-down	4,793	8,143
Share-based payments	-	3,017
Share of income from joint venture	-	(3,131)
Expected credit loss	326	-
Interest and accretion expense	256	4,321
Deferred income tax recovery	-	169
Impairment of assets	20,981	27,557
Loss on dilution of joint venture ownership	-	850
Loss on disposal of assets	368	237
Loss on settlement of convertible debt	-	823
Loss (gain) on sale of long-term investment	(249)	44
Loss (gain) on changes in fair value of biological assets	710	(6,404)
Gain on changes in fair value of financial assets	(377)	(304)
Gain on disposal of JV	-	(13,423)
Gain on termination of lease	(17)	(17)
Gain on settlement of deferred payment	(293)	-
Changes in non-cash operating working capital		
Accounts receivable	(386)	571
Prepaid expenses	551	(809)
Inventory and biological assets	(772)	3,599
Accounts payable and accrued liabilities	(6,420)	3,614
Due to related parties	(265)	(791)
Net cash flows used in operating activities	(17,107)	(10,653)
Investing activities		
Investment in joint venture (Note 19)	-	(710)
Acquisition of asset (Note 6)	-	(1,025)
Deposits on material and equipment	(68)	(93)
Refundable deposits	-	(17)
Issuance of notes receivable	(388)	-
Long-term investment	(64)	-
Sale of plant and equipment	165	54
Sale of joint venture interests (Note 19)	20,522	59,415
Sale of long-term investment	383	206
Purchase of plant and equipment	(841)	(2,917)
Purchase of intangible assets	(92)	(522)
Net cash flows provided by investing activities	19,617	54,391
Financing activities		
Due from related parties	-	151
Repayment of deferred payment	(9,000)	-
Payment of lease liabilities	(612)	(982)
Repayment of related party	(1,277)	-
Acquisition of NCI	32	-
Proceeds from prospectus offering	-	5,100
Proceeds from at-the-market offering	-	500
Proceeds from CEBA loan (Note 2(e))	-	40
Share issuance costs	(202)	(414)
Repayment of convertible debenture financing (Note 20)	-	(25,000)
Stock option exercises	50	-
Interest paid	(300)	(913)
Warrant exercises	1,313	1,063
Net cash flows used in by financing activities	(9,996)	(20,455)
Increase (decrease) in cash and cash equivalents	(7,486)	23,473
Cash and cash equivalents, beginning of year	25,998	2,525
Cash and cash equivalents, end of year	$ 18,512	$ 25,998

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

1. Nature and Continuance of Operations

Emerald Health Therapeutics, Inc. ("Emerald" or 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"). On May 12, 2022 Emerald and Skye Bioscience, Inc. ("Skye") announced that the companies have entered into a definitive agreement whereby Skye would acquire all of the issued and outstanding shares of Emerald in a share-for-share transaction. For more information, please see Note 23.

These 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 December 31, 2021, the Company had total cash and cash equivalents of $18,512, working capital of $14,953, and negative cash flow from operating activities of $17,108 for the year. 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. In assessing whether the going concern assumption was appropriate, management took into account all relevant information available about the future. To address its financing requirements, the Company will seek options through debt and equity financings and asset sales. The Company will also seek to improve its cash flows by prioritizing certain projects with a greater expected return and reducing operating costs. The Company is actively managing current cash flows until such time as the Company is profitable.

These 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

Significant accounting policies, which affect the consolidated financial statements as a whole, as well as key accounting estimates and areas of significant judgement are highlighted in this section. This note also describes new accounting standards, which have been adopted during 2021, and new accounting pronouncements, which are not yet effective but are expected to impact the Company's consolidated financial statements in the future.

International Financial Reporting Standards ("IFRS") requires management to make judgements, estimates and assumptions that affect the carrying values of certain assets and liabilities and the reported amounts of income and expenses during the period. Actual results may differ from these judgements, estimates and assumptions. Significant estimates are evaluations and assumptions about the future and other sources of estimation uncertainty that management has made that could result in a material adjustment to the carrying amounts of assets and liabilities. Significant estimates used in the preparation of these consolidated financial statements include, but are not limited to, the following: expected credit losses on receivable balances (Note 3), valuation of biological assets (Note 4) and inventory (Note 5), estimated useful lives and impairment of property, plant and equipment, (Note 6), estimated useful lives and valuation of intangible assets, and impairment intangible assets (Note 7), share-based compensation (Note 11), and the fair value of financial instruments (Note 21).

Significant judgements are those judgements that management has made in the application of accounting policies that have the most significant effect on the amounts recognized in these consolidated financial statements and include: assessment of intangible assets for indicators of impairment (Note 7), accounting for leases (Note 16), and going concern (Note 1).

a) *Basis of Presentation and Measurement*

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

Certain comparative figures have been reclassified to conform with the consolidated financial statement presentation adopted for the current period ended December 31, 2021.

The consolidated financial statements were approved and authorized for issue by the Board of Directors of the Company on June 30, 2022.

b) *COVID-19 Estimation Uncertainty*

In March 2020, the World Health Organization declared the outbreak of COVID-19 a global pandemic. The COVID-19 pandemic has impacted revenue in the Canadian consumer market, particularly in Ontario, as governments imposed retail access restrictions to curbside pickup at points during the pandemic, and have changed their purchasing patterns to reflect the slow-down in the market. The production and sale of medical and consumer cannabis have been recognized as essential services across Canada. All of the Company’s facilities continue to be operational and the Company continues to work closely with local and national government authorities to ensure that the Company is following the required protocols and guidelines related to COVID-19 within each region.

Due to the rapid developments and uncertainty surrounding COVID-19, it is not possible to predict the impact that COVID-19 will have on the Company’s business, financial position and operating results in the future. In addition, it is possible that estimates in the Company’s financial statements will change in the near term as a result of COVID-19 and the effect of any such changes could be material, which could result in, among other things, impairment of long-lived assets including intangibles. The Company is closely monitoring the impact of the pandemic on all aspects of its business.

c) *Basis of Consolidation*

These 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 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.

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

The subsidiaries of the Company at December 31, 2021 include the following:

Name of Entity	**Ownership Interest as at December 31 2021**	Ownership Interest 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 19 for discussion relating to the sale.

On May 11, 2021, the Company acquired the remaining 49% interest in Naturals (see Note 9).

d) *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 with maturities of three months or less.

e) *Accounts receivable*

Accounts receivable are financial assets recognized initially at fair value and subsequently measured at amortized cost, less any provisions for impairment. Financial assets measured at amortized cost are assessed for impairment at the end of each reporting period. Impairment provisions are estimated using the expected credit loss impairment model where any expected future credit losses are provided for, irrespective of whether a loss event has occurred at the reporting date.
Estimates of expected credit losses take into account the Company's collection history, deterioration of collection rates during the average credit period, as well as observable changes in and forecasts of future economic conditions that affect default risk. Where applicable, the carrying amount of a trade receivable is reduced for any expected credit losses through the use of an allowance for doubtful accounts ("AFDA") provision. Changes in the AFDA provision are recognized in the statement of loss and comprehensive loss. When the Company determines that no recovery of the amount owing is possible, the amount is deemed irrecoverable, and the financial asset is written off.

f) *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 year ended December 31, 2021, the Company determined that it had qualified for this subsidy and received $1, 833 (2020: $845). The Company has recognized the $1,833 as other income during the year.

(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.

g) *Biological Assets*

The Company defines biological assets as cannabis plants up to the point of harvest which becomes the basis for the cost of inventories. Biological assets are measured at fair value less cost to sell at the end of each reporting period in accordance with IAS 41 – Agriculture, using the income approach. Gains or losses from changes in fair value less costs to sell are included in cost of sales in the period incurred. The income approach calculates the present value of expected future cash flows from the Company's biological assets using the following key Level 3 assumptions and inputs:

Inputs and assumptions	Description
Average market price per gram	Represents the average wholesale market price per gram of dried bulk cannabis based on quality (Tetrahydrocannabinol % and terpene profile).
Average attrition rate	Represents the weighted average number of plants culled at each stage of production.
Average yield per plant	Represents the average number of grams of dried cannabis inventory expected to be harvested from each cannabis plant based on historical yields.
Average cost per plant	Represents costs incurred to grow plants at different stages of the production cycle.
Stage of completion in the production process	Calculated by taking the weighted average number of days in produciton over a total average grow cycle of approximately 14 to 16 weeks based on location and strain.
Production costs are expensed as incurred, and include all direct and indirect costs relating to biological transformation. Costs include direct costs of production, such as labour, growing materials, as well as indirect costs such as indirect labour, quality control costs, depreciation on production equipment, and overhead expenses including rent and utilities.	

The Company used the average retail 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.

h) Inventory

Inventories of dried cannabis consist of harvested cannabis and purchased cannabis and are valued at the lower of cost and net realizable value. Inventories of harvested cannabis are transferred from biological assets at their fair value at harvest, which becomes deemed cost. Any subsequent post-harvest costs are capitalized to inventory to the extent that cost is less than net realizable value ("NRV"). NRV is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Cost is determined using the average cost basis. Cannabis oils, extracts, and edibles are derived from dried cannabis and are measured at the lower of cost and NRV. Supplies and consumables are valued at cost.

Post harvest production costs include all direct and indirect production related costs, including security, compliance, quality control and quality assurance costs, as well as related overhead.

Inventories are written down when the cost of inventories exceed their net realizable value and are estimated to be unrecoverable due to obsolescence, damage, or declining market prices.

i) Property, plant and equipment

Property, plant and equipment is measured at cost, net of accumulated depreciation and any impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self- constructed assets includes the cost of materials, direct labor, other costs directly attributable to make the asset available for its intended use. During their construction, property, plant and equipment are classified as plant under construction ("PUC") and are not subject to depreciation. When the asset is available for use, it is transferred from PUC to the relevant category of property, plant and equipment and depreciation commences.

Where particular parts of an asset are significant, discrete and have distinct useful lives, the Company allocates the associated costs between the various components, which are then separately depreciated over the estimated useful lives of each respective component. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

- Computers - 3 years
- Production, lab and growing equipment - 5 - 10 years
- Other equipment - 5 -10 years
- Buildings 15 - 25 years
- Leasehold improvements – lesser of useful life or term of lease

Residual values, useful lives and depreciation methods are reviewed annually and changes are accounted for prospectively.

Gains and losses on asset disposals are determined by deducting the carrying value from the sale proceeds and are recognized in profit or loss.

<u>Impairment of property, plant and equipment</u>

The Company assesses impairment of property, plant and equipment when an impairment indicator arises (e.g. change in use or discontinued use, obsolescence or physical damage). When the asset does not generate cash inflows that are largely independent of those from other assets or group of assets, the asset is tested at the cash generating unit ("CGU") level. In assessing impairment, the Company compares the carrying amount of the asset or CGU to the recoverable amount, which is determined as the higher of the asset or CGU's fair value less costs of disposal ("FVLCD") and its value-in-use ("VIU"). VIU is assessed based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects applicable market and economic conditions, the time value of money and the risks specific to the asset. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. An impairment loss is recognized whenever the carrying amount of the asset or CGU exceeds its recoverable amount and is recorded in the consolidated statements of loss and comprehensive loss.

j) *Intangible Assets*

Intangible assets are recorded at cost less accumulated amortization and any impairment losses. Intangible assets acquired in a business combination are measured at fair value at the acquisition date. Amortization of definite life intangibles is calculated on a straight-line basis over their estimated useful lives, which do not exceed the contractual period, if any, over the following terms:

- Computer software – 2 to 3 years straight line
- Health Canada licences – Useful life of the facility or contractual lease term (25 years)

The estimated useful lives, residual values and amortization methods are reviewed annually and any changes in estimates are accounted for prospectively. Intangible assets with an indefinite life or not yet available for use are not subject to amortization. Research costs are expensed as incurred. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development to use or sell the asset. Other development expenditures are recognized as research and development expenses on the consolidated statement of loss and comprehensive loss as incurred.

<u>Impairment of intangible assets</u>

Finite life intangible assets are assessed at the end of each reporting period for whether there is any indication of impairment. They are tested whenever there is an indication of impairment.

If indicators of impairment exist, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the period. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs. Impairment losses recognized in respect of a CGU are first allocated to the carrying value of goodwill and any excess is allocated to the carrying value of assets in the CGU.

Management considers both external and internal sources of information in determining if there are any indications that the Company's intangible assets are impaired. Management considers the market, economic, and legal environment in which the Company operates that are not within its control and affects the recoverable amount of its assets. Management considers the manner in which the assets are being used or are expected to be used, and indication of economic performance of the assets. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount, and the carrying amount that would have been recorded had no impairment loss been recognized previously.

k) *Investment in Joint Venture*

A joint venture is a contractual arrangement whereby the Company and other parties undertake an economic activity that is subject to joint control (i.e. when the strategic, financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control).

IFRS 11, *Joint Arrangements*, and IAS 28, *Investments in Associates and Joint Ventures* establish the criteria for accounting for joint ventures. Investments in joint ventures are accounted for using the equity method. The equity method involves recording the initial investment at cost and subsequently adjusting the carrying value of the investment for the proportionate share of the profit or loss, other comprehensive income or loss and any other changes in the joint venture's net assets such as dividends. At each balance sheet date, the Company considers whether there is objective evidence of impairment in the joint venture. If there is such evidence, the Company will determine the amount of impairment to record, if any, in relation to the joint venture.

The consolidated financial statements include the Company's share of the investee's income, expenses and equity movements. Where the Company transacts with its joint ventures or associates, unrealized profits or losses are eliminated to the extent of the Company's interest in the joint venture or associate.

l) *Deferred payments*

Deferred payments are classified as other financial liabilities and are measured at fair value at initial recognition and subsequently at amortized cost.

m) *Leases*

The Company's lease accounting policy in accordance with *IFRS 16, Leases* ("IFRS 16") is provided below.

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The right-of-use asset is initially measured at cost and subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. In addition, the right-of-use asset is subject to impairment assessment and adjusted for certain remeasurements of its associated lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Company's incremental borrowing rate or rate implicit in the lease. The lease liability is subsequently measured at amortized cost using the effective interest method. The incremental borrowing rate determined for the Company for the leases is within a range of 6% - 8%. The lease liability is subsequently measured at amortized cost using the effective interest method.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in net earnings if the carrying amount of the right-of-use asset is nil.

A lease modification is accounted for as a separate lease if there is an increase in the scope of a lease and a corresponding increase in consideration, such as adding the right to use one or more underlying assets in a contract. Otherwise, a lease modification is considered a remeasurement of the lease liability, as discussed above. Lease payments that depend on performance measures or usage of the underlying asset are considered variable lease payments, which are expensed as incurred.

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases (lease term of 12 months or less) and leases for which the underlying asset is of low value. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

The Company’s lease liabilities are measured at the present value of the lease payments discounted using the applicable incremental borrowing rate or rate implicit in the lease. Determining the discount rate (incremental borrowing rate) requires significant judgment and may have a significant quantitative impact on lease liability valuations. Many of the Company’s lease liabilities contain one or several lease extension clauses, and could reasonably be extended beyond the lease extensions outlined in the contract. Determining the length of the lease to be used in the present value calculation of the lease obligation requires significant judgement and may have significant impact on lease liability valuations.

n) *Financial instruments*

Financial assets and financial liabilities, including derivatives, are recognized on the annual combined and consolidated statements of financial position when the Company becomes a party to the financial instrument or derivative contract.

Classification

The Company classifies its financial assets and financial liabilities in the following measurement categories: i) those to be measured subsequently at fair value through profit or loss (“FVTPL”); ii) those to be measured subsequently at fair value through other comprehensive income (“FVOCI”); and iii) those to be measured at amortized cost. The classification of financial assets depends on the business model for managing the financial assets and the contractual terms of the cash flows. Financial liabilities are classified as those to be measured at amortized cost unless they are designated as those to be measured subsequently at FVTPL (irrevocable election at the time of recognition). For assets and liabilities measured at fair value, gains and losses are either recorded in profit or loss or other comprehensive income.

The Company reclassifies financial assets only when its business model for managing those assets changes. Financial liabilities are not reclassified.
Amortized cost

This category includes financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the sole payments of principal and interest ("SPPI") criterion. Financial assets classified in this category are measured at amortized cost using the effective interest method.

Fair value through profit or loss

This category includes derivative instruments as well as quoted equity instruments which the Company has not irrevocably elected, at initial recognition or transition, to classify at FVTPL. This category would also include debt instruments of which the cash flow characteristics fail the solely payments of principal and interest (“SPPI”) criterion or are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell. Financial assets in this category are recorded at fair value with changes recognized in profit or loss.

Financial assets at fair value through other comprehensive income

Equity instruments that are not held-for-trading can be irrevocably designated to have their change in fair value recognized through other comprehensive income instead of through profit or loss. This election can be made on individual instruments and is not required to be made for the entire class of instruments. Attributable transaction costs are included in the carrying value of the instruments. Financial assets at fair value through other comprehensive loss are initially measured at fair value and changes therein are recognized in other comprehensive loss.

Measurement

All financial instruments are required to be measured at fair value on initial recognition, plus, in the case of a financial asset or financial liability not at FVTPL, transaction costs that are directly attributable to the acquisition or issuance of the financial asset or financial liability. Transaction costs of financial assets and financial liabilities carried at FVTPL are expensed in profit or loss. Financial assets and financial liabilities with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payments of principal and interest.

Financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of the subsequent accounting periods. All other financial assets including equity investments are measured at their fair values at the end of subsequent accounting periods, with any changes taken through profit and loss or other comprehensive income (irrevocable election at the time of recognition). For financial liabilities measured subsequently at FVTPL, changes in fair value due to credit risk are recorded in profit and loss.

o) Share capital and share-based payments

The Company grants options to directors, officers, employees and service providers under the Company's Omnibus Incentive Plan. The fair value of share options granted to employees is recognized as an expense over the vesting period with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee, including directors of the Company. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest. In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at fair value of the share-based payment.

No expense is recognized for awards that do not ultimately vest except for equity settled transactions for which vesting is conditional upon a market or non-vesting condition.

Share options with a graded vesting schedule are accounted for as separate grants with different vesting periods and fair values. The fair value is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the share purchase options were granted. The Black-Scholes option pricing model relies on a number of estimated inputs, such as the expected life of the option, the volatility of the underlying share price, and the risk-free rate of return. Changes in the underlying estimated inputs may result in materially different results.

Where the terms of an equity settled award are modified, the minimum expense recognized is the expense as if the terms had not been modified. An additional expense is recognized for any modification which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

When an equity award is cancelled, it is treated as if it vests on the date of the cancellation and any expense not recognized for the award is recognized immediately.

Restricted share units are equity-settled share-based payments and are measured at their intrinsic fair value on the date of grant based on the closing price of the Company's shares on the date prior to the grant. Restricted share units are recognized as share-based compensation expense over the vesting period with a corresponding credit to contributed surplus. The amount recognized for services received as consideration for restricted share units granted is based on the number of equity instruments that eventually vest. Upon the release of restricted share units, the related contributed surplus is transferred to share capital.

The Board of Directors has the discretion to determine to whom options and restricted share units will be granted, the number and exercise price of such options and units and the terms and time frames in which the options will vest and be exercisable. The exercise price of the options must be no less than the closing market price of the Common Shares on the day preceding the grant. The maximum number of common shares issuable upon the exercise or redemption and settlement of all awards granted shall not exceed 10% of the issued and outstanding shares at the time of granting of such award less the number of shares reserved for issuance under all other security based compensation arrangements of the Company. The following types of awards can be issued: stock options, share appreciation rights, restricted share units and other performance awards.

p) Warrants

The Company uses the residual value approach in respect of unit offerings whereby the amount assigned to the warrant is the excess of the unit price over the trading price of the Company's shares at the date of issuance, if any, to a maximum fair value of the warrant determined by using the Black-Scholes Option- Pricing Model. Warrants classified as equity instruments are not subsequently re-measured.

q) Revenue Recognition

The Company generates revenue primarily from the sale of cannabis, cannabis related products and provision of services. Cannabis related products includes cannabis oils, extracts, and edibles. The Company uses the following five-step contract-based analysis of transactions to determine if, when and how much revenue can be recognized:

1. Identify the contract with a customer;
2. Identify the performance obligation(s) in the contract;
3. Determine the transaction price;
4. Allocate the transaction price to the performance obligation(s) in the contract; and
5. Recognize revenue when or as the Company satisfies the performance obligation(s).

Revenue from the sale of cannabis is generally recognized when control over the goods has been transferred to the customer. Payment for medical sales is typically due prior to shipment. Payment for wholesale transactions is due within a specified time period as permitted by the underlying agreement and the Company's credit policy upon the transfer of goods to the customer. The Company generally satisfies its performance obligation and transfers control to the customer upon delivery and acceptance by the customer. Revenue is recorded at the estimated amount of consideration to which the Company expects to be entitled.

Effective October 17, 2018, Canada Revenue Agency ("CRA") began levying an excise tax on the sale of medical and consumer cannabis products. The Company becomes liable for these excise duties when cannabis products are delivered to the customer. The excise taxes payable is the higher of (i) a flat-rate duty which is imposed when a cannabis product is packaged, and (ii) an ad valorem duty that is imposed when a cannabis product is delivered to the customer. Effective May 1, 2019, excise tax calculated on edible cannabis products, cannabis extracts and cannabis topicals will prospectively be calculated as a flat rate based on the quantity of total tetrahydrocannabinol (THC) contained in the final product. There were no changes in the legislation in calculating excise taxes for fresh cannabis, dried cannabis, seeds and plants. Where the excise tax has been billed to customers, the Company has reflected the excise tax as part of revenue in accordance with IFRS 15*, Revenue from Contracts with Customer* ("IFRS 15"). Net revenue from sale of goods, as presented on the consolidated statements of comprehensive loss, represents revenue from the sale of goods less applicable excise taxes. Given that the excise tax payable/paid to CRA cannot be reclaimed and is not always billed to customers, the Company recognizes that the excise tax is an operating cost that affects gross margin to the extent that it is not recovered from its customers.

r) Income Taxes

Tax expense recognized in profit or loss comprises the sum of current and deferred taxes not recognized in other comprehensive loss or equity.

Current tax assets and liabilities

Current tax assets and/or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting periods that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted at the end of the reporting period. Current tax assets arise when the amount paid for taxes exceeds the amount due for the current and prior periods.

Deferred tax assets and liabilities

Deferred taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective periods of realization, provided they are enacted or substantively enacted at the end of the reporting period. Deferred tax liabilities are always provided for in full.

Deferred tax assets are recognized to the extent that it is probable that they will be able to be utilized against future taxable income. Deferred tax assets and liabilities are offset only when the Company has a right and intention to offset current tax assets and liabilities from the same taxation authority.

Changes in deferred tax assets or liabilities are recognized as a component of tax income or expense in profit or loss, except where they relate to items that are recognized in other comprehensive loss or equity, in which case the related deferred tax is also recognized in other comprehensive loss or equity, respectively.

Significant estimates are required in determining the Company’s provision for income taxes and uncertain tax positions. Some of these estimates are based on interpretations of existing tax laws or regulations. Various internal and external factors may have favorable or unfavorable effects on the Company’s future effective tax rate. These factors include, but are not limited to, changes in tax laws, regulations and/or rates, changing interpretations of existing tax laws or regulations, changes in estimates of prior years’ items, results of tax audits by tax authorities, future levels of research and development spending, and changes in overall levels of pre-tax earnings. The realization of the Company’s deferred tax assets is primarily dependent on whether the Company is able to generate sufficient capital gains and taxable income prior to expiration of any loss carry forward balance. The recognition of a deferred tax asset requires significant judgment with regard to management’s assessment of the long-range forecast of future taxable income and the evaluation of tax planning initiatives. Adjustments to the deferred tax assets recognized are made to earnings in the period when such assessments are made.

The Company records tax benefits for all years subject to examination based upon management's evaluation of the facts, circumstances and information available at the reporting date. There is inherent uncertainty in quantifying income tax positions. The Company has recorded tax benefits for those tax positions where it is more likely than not that a tax benefit will result upon ultimate settlement with a tax authority that has all relevant information. For those income tax positions where it is not more likely than not that a tax benefit will result, no tax benefit has been recognized in the consolidated financial statements.

s) *Provisions*

The Company recognizes provisions if there is a present obligation as a result of a past event, it is probable that the Company will be required to settle that obligation and the obligation can be reliably estimated. The amount recognized as a provision reflects management's best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation.

t) *Loss per share*

Basic loss per share is computed by dividing total net loss attributable to the Company for the year by the weighted average number of common shares of the Company (the "Common Shares") outstanding during the year. The Company uses the treasury stock method for calculating diluted loss per share. When the Company is in a loss position, all potential share issuances on the exercise of options or warrants is anti-dilutive. In the event of a loss position, diluted loss per share is the same as basic loss per share.

u) *Segment reporting*

Operating segments are components of the Company that engage in business activities which generate revenues and incur expenses (including intercompany revenues and expenses related to transactions conducted with other components of the Company). The operations of an operating segment are distinct and the operating results are regularly reviewed by the chief operating decision maker ("CODM"), the Company's CEO, for the purposes of resource allocation decisions and assessing its performance.

Reportable segments are Operating segments whose revenues or profit/loss or total assets exceed ten percent or more of those of the combined entity. 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 in one Cannabis segment. All revenues and non-current assets are generated in and located in Canada.

v) *Foreign currency translation*

Transactions in currencies other than the Canadian dollar are recorded at exchange rates prevailing on the dates of the transactions. At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are translated at the period end exchange rate. Revenues and expenses are translated at the exchange rates approximating those in effect on the date of the transactions. Exchange gains and losses arising on translation are included in net loss. The functional currency of all entities is the Canadian dollar.

w) New accounting pronouncements

The following IFRS standards have been recently issued by the IASB. Pronouncements that are irrelevant or not expected to have a significant impact have been excluded.

(i) Changes in 2021: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16: Interest Rate Benchmark Reform – Phase 2

The amendments relate to: i) changes to contractual cash flows—an entity will not have to derecognize or adjust the carrying amount of financial instruments for changes required by the reform, but will instead update the effective interest rate to reflect the change to the alternative benchmark rate; ii) hedge accounting—an entity will not have to discontinue its hedge accounting solely because it makes changes required by the reform, if the hedge meets other hedge accounting criteria; and iii) disclosures—an entity will be required to disclose information about new risks arising from the reform and how it manages the transition to alternative benchmark rates. The amendments are effective for annual periods beginning on or after January 1, 2021, with earlier application permitted. The Company noted that there has been no impact as a result of the amendments noted above.

(ii) Changes in 2022: Amendments to IAS 1: Classification of Liabilities as Current or Non-current

The amendment clarifies the requirements relating to determining if a liability should be presented as current or non-current in the statement of financial position. Under the new requirement, the assessment of whether a liability is presented as current or non-current is based on the contractual arrangements in place as at the reporting date and does not impact the amount or timing of recognition. The amendment applies retrospectively for annual reporting periods beginning on or after January 1, 2023. The Company is currently evaluating the potential impact of these amendments on the Company's consolidated financial statements.

(iii) Covid-19-Related Rent Concessions beyond June 20, 2021, Amendments to IFRS 16

On May 28, 2020, the IASB issued Covid-19-Related Rent Concessions – amendment to IFRS 16, *Leases.* The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of Covid-19. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 rent concessions the same way it would account for the change under IFRS 16 if the change were not a lease modification.

The amendment was intended to apply until June 30, 2021, but as the impact of the Covid-19 pandemic is continuing, on March 31, 2021, the IASB extended the period of application of the practical expedient to June 30, 2022. The amendment applies to annual reporting periods beginning on or after April 1, 2021.

The Company has not received any Covid-19-Related Rent Concessions, but plans to apply the practical expedient if it becomes available within the allowed period of application.

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

3. Accounts Receivable

The Company's accounts receivables are comprised of:

	December 31 2021	December 31 2020
	$	$
Trade receivables	**1,826**	1,891
Other receivables	**134**	101
Expected credit loss	**(326)**	-
	1,634	1,992

During the year ended December 31, 2021, expected credit losses of $326 were recorded for trade receivables. During the year ended December 31, 2020, no expected credit loss allowance was recorded for trade receivables.

The aging of trade receivables is as follows:

Aging of Trade Receivables	**As at December 31 2021**	As at December 31 2020
	$	$
Less than 30 days past billing date	1,412	1,545
31 - 60 days past billing date	80	70
61 - 90 days past billing date	14	18
Over 90 days past billing date	320	258
	1,826	1,891

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

4. Biological Assets

Inputs and assumptions	Description
Average market price per gram	Represents the average wholesale market price per gram of dried bulk cannabis based on quality (Tetrahydrocannabinol % and terpene profile).
Average attrition rate	Represents the weighted average number of plants culled at each stage of production.
Average yield per plant	Represents the average number of grams of dried cannabis inventory expected to be harvested from each cannabis plant based on historical yields.
Average cost per plant	Represents costs incurred to grow plants at different stages of the production cycle.
Stage of completion in the production process	Calculated by taking the weighted average number of days in produciton over a total average grow cycle of approximately 14 to 16 weeks based on location and strain.
Production costs are expensed as incurred, and include all direct and indirect costs relating to biological transformation. Costs include direct costs of production, such as labour, growing materials, as well as indirect costs such as indirect labour, quality control costs, depreciation on production equipment, and overhead expenses including rent and utilities.	

The following table highlights the sensitivities and impact of changes in significant assumptions on the fair value of biological assets. As noted above in Note 2, the Company previously used the average retail price per gram of dried cannabis net of costs to sell for the period for all strains of cannabis sold at the finished good stage. The Company has revised its model to use the average wholesale market price per gram of dried bulk cannabis, based on quality (Tetrahydrocannabinol % and terpene profile).

	Range of inputs			Impact on fair value	
Significant inputs & assumptions	**December 31 2021**	December 31 2020	**Sensitivity** (000's)	**December 31 2021**	December 31 2020
Average market price per gram less cost to sell	**$ 1.08**	$ 1.00	Increase/decrease of $1 per gram	**$ 269**	$ 887
Weighted average yield (gram per plant)	**131.59**	114.01	Increase/decrease by 10 grams per plant	**$ 27**	$ 97

During the year ended December 31, 2021, the Company's biological assets produced 3,635 kilograms of dried cannabis flower (December 31, 2020 – 8,960 kilograms).

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 1,832 total cannabis seeds and cannabis plants (2020 – 6,391). As at December 31, 2021, the Company has destroyed and written off all biological assets due to the Company's decision to cease cannabis related operations. Changes in the Company's biological assets are as follows:

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

	December 31 2021	December 31 2020
	$	$
Carrying amount, beginning of year	**969**	4,159
Effect of unrealized changes in fair value of biological assets	**710**	6,405
Transferred to inventory upon harvest	**(1,679)**	(9,595)
Carrying amount, end of year	-	969

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

5. Inventory

The Company's inventory is comprised of:

	December 31 2021	December 31 2020
	$	$
Harvested cannabis		
Work-in-process	**29**	2,348
Finished goods	**178**	225
	207	2,573
Extracted cannabis		
Work-in-process	**45**	1,171
Finished goods	**547**	267
	592	1,438
Supplies and consumables	**50**	600
	849	4,611

During the year ended December 31, 2021, inventory expensed to cost of goods sold was $7,560 (December 31, 2020 – $10,320). The fair value change in biological assets that was included in cost of goods sold during the year ended December 31, 2021 was $2,859 (December 31, 2020 - $4,245).

During the year ended December 31, 2021, a write-down of $4,793 was recognized for dried bulk cannabis and packaged inventory (December 31, 2020 - $8,143) related to product deterioration, a packaging defect and limited remaining shelf life.

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

6. 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
	$	$	$	$	$	$	$
Costs:							
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	-	579	2	213	39	8	841
Disposals	-	-	(1,660)	(262)	(12)	(272)	(2,206)
Balance, December 31, 2021	**476**	**33,335**	**816**	**6,979**	**374**	**1,214**	**43,194**

	Land	Buildings	Leasehold Improvement	Production, Lab and Growing Equipment	Computers	Other Equipment	Total
	$	$	$	$	$	$	$
Accumulated depreciation and impairments:							
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	-	725	315	947	74	217	2,278
Disposals	-	-	(643)	(141)	(9)	(160)	(953)
Impairment	119	13,260	38	1,578	4	199	15,198
Balance, December 31, 2021	**119**	**19,713**	**804**	**4,789**	**335**	**791**	**26,551**

	Land	Buildings	Leasehold Improvement	Production, Lab and Growing Equipment	Computers	Other Equipment	Total
	$	$	$	$	$	$	$
Net book value:							
December 31, 2021	**357**	**13,622**	**12**	**2,190**	**39**	**423**	**16,643**
December 31, 2020	476	27,028	1,380	4,623	81	943	34,531

Cash received from the sale of Property, Plant and Equipment during the year ended December 31, 2021 was $165 (2021 - $nil).

Depreciation relating to manufacturing equipment and production facilities is capitalized into biological assets and inventory and is expensed to cost of sales upon the sale of goods. For the year ended December 31, 2021, $1,601 (December 31, 2020 - $2,499) of depreciation was recognized in cost of sales.

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

Total depreciation and amortization is broken down as follows:

For the period ended December 31, 2021	Total Depreciation
Property, plant and equipment (Note 6)	2,278
Intangible assets (Note 7)	329
Right-of-use assets (Note 16)	247
	2,854

Plant under construction

As at December 31, 2020, $5,411 of expenditures had been capitalized to PUC relating to Phase 2 of the facility. During the year, $4,551 of the capitalized PUC was impaired at December 31, 2021, leaving a remaining balance of $860.

Impairments

The Company reviews the carrying value of its property and equipment at each reporting period for indicators of impairment. During the year ended December 31, 2021, management noted indicators of impairment at the asset specific level which are discussed below.

Emerald Health Naturals Inc.

During the year ended December 31, 2021, the Company recorded an impairment loss on Naturals assets of $10, split between the leasehold improvements, computer equipment and other equipment, which were impaired by $1, $1 and $8, respectively.

Richmond

During the year ended December 31, 2020, the Company initiated a preliminary plan to close operations facility located in Metro Vancouver, British Columbia and recorded an impairment loss of $8,105, split between the building asset, PUC and the ROU Land asset (Note 16), which were impaired by $1,373, $3,522 and $3,210, respectively.

During the year ended December 31, 2021, the Company had entered into discussions to sell the facility, but by the end of December 31, 2021 management had decided to no longer search for potential buyers of the assets. Subsequent to year end, management had initiated discussions with the current landlord to exchange the assets for the termination of the lease. As such, the assets were independently revalued, resulting in an impairment loss of $15,024, split between the building, the production, lab, and growing equipment, the other equipment and PUC, which were impaired by $9,763, $620, $90, and $4,551 respectively.

Verdélite ("VDL")

During the year ended December 31, 2021, the Company initiated a plan to close operations at the production facility located in Saint-Eustache, Québec and had entered into discussions to sell the facility and related licenses. The fair value of this facility was determined based on a third-party offer 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.

Avalite

During the year ended December 31, 2021, the Company initiated a plan to close operations at the research facility located in Langley, British Columbia and had entered into discussions to sell the facility and related assets. The fair value of this facility was determined based on a third-party valuation of the tangible assets. The Company determined that there was no impairment given that fair value less costs of disposal exceeded the carrying value of the related assets.

The fair value of the Richmond, VDL and Avalite assets was determined based on third-party appraisals using a FVLCD approach including market and cost approaches. Consideration was given to information from historical data and industry standards which constitute unobservable inputs (level 3). Key inputs comprised market rent of approximately $16.75-$18.00 per square feet and a capitalization rate of 4%-6%. A 1% change in any of the key inputs would not result in a significant change in the impairment recognized.

Victoria

During the year ended December 31, 2021, the Company initiated a plan to close operations at the facility located in Victoria, British Columbia and had entered into discussions to sell the facility and related assets. Fair value was based on an offer received. As a result, the Company recognized an impairment loss of $463, split between the leasehold improvements, the production lab equipment, computer equipment and other equipment which were impaired by $37 and $412, $1 and, $13, respectively for the year ended December 31, 2021.

During the year ended December 31, 2021, the Company initiated a plan to close operations at the research facility located in Langley, British Columbia and had entered into discussions to sell the facility and related assets. The Company listed the Langley property for sale and determined its fair value based on a sales offer received. No impairment was recognized given that the FVLCD was greater than the carrying value of the related assets.

Total impairments are broken down as follows:

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

For the period ended December 31, 2021	**Total Impairments**
Property, plant and equipment (Note 6)	15,198
Plant under construction (Note 6)	4,551
Intangible assets (Note 7)	1,219
Right-of-use assets (Note 16)	13
	20,981

For the period ended December 31, 2020	**Total Impairments**
Goodwill	167
Property, plant and equipment (Note 6)	3,728
Plant under construction (Note 6)	3,522
Intangible assets (Note 7)	16,930
Right-of-use assets (Note 16)	3,210
	27,557

Deposits

During the year ended December 31, 2021, the Company prepaid for one packaging equipment $71 (December 31, 2020 - $214).

7. Intangible Assets

The Company's intangible assets continuity is as follows:

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

	Patents	Extraction Assets	Health Canada Licence	Computer Software	Total
Cost:	$	$	$	$	$
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	92	-	-	-	92
Disposal	-	-	-	(11)	(11)
Balance, December 31, 2021	**970**	**557**	**89,174**	**1,247**	**91,948**

	Patents	Extraction Assets	Health Canada Licence	Computer Software	Total
Accumulated amortization and impairments:	$	$	$	$	$
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	-	-	6	323	329
Disposal	-	-	-	(9)	(9)
Impairment	657	557	-	5	1,219
Balance, December 31, 2021	**747**	**557**	**89,050**	**1,193**	**91,547**

	Patents	Extraction Assets	Health Canada Licence	Computer Software	Total
Net book value:	$	$	$	$	$
December 31, 2021	**223**	**-**	**124**	**54**	**401**
December 31, 2020	788	557	130	384	1,859

Impairments

The Company reviews the carrying value of its intangibles at each reporting period for indicators of impairment. During the year ended December 31, 2021, management noted indicators of impairment at the asset specific level.

Asset Specific Impairments

On February 5, 2019, the Company announced that it had entered into a binding license agreement with Idena S.p.A. (“Indena”), pursuant to which Indena granted the Company a perpetual exclusive license for the use in Canada of Idena’s CBD-extraction technology, and agreed to contract manufacturing services to the Company for CBD extraction.

During the year ended December 31, 2021, management decided not to move forward with the project. The extraction assets were thus determined to no longer be of use to the Company, and the full $557 was impaired.

During the year ended December 31, 2021, management is no longer pursuing multiple projects for which costs have been accumulated related to patent application and filing costs. Of the projects, management intends to sell the Cannabis Pod and Cannabis Puck patents to FlowerPod, LLC *("*Flowerpod") (Note 13). As such, all of the patents other than those to be sold to Flowerpod were determined to no longer be of use to the Company, and therefore the balance of $657 was impaired.

8. Deferred Payment of Verdélite Purchase

The deferred payment is the remaining amount owed to the vendors of Verdélite (the "Vendors") as a result of the business combination that occurred on May 2, 2018. The remaining $22,300 was originally payable in cash to the Vendors on May 1, 2019.

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. A gain of $293 was recognized on settlement.

9. Related Party Transactions

The Company considers a person or entity as a related party if they are a member of key management personnel including their close relatives, an associate or joint venture, those having significant influence over the Company, as well as entities that are under common control or controlled by related parties. Transactions are recorded at amounts agreed upon by the related parties.

With Emerald Health Sciences Inc.
As of the year ended 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 9,099,706 (December 31, 2020 – 9,099,706) common share purchase warrants of the Company.

Sciences charged the Company $Nil during the year ended December 31, 2021 for invoices paid on behalf of the Company (December 31, 2020 - $17). As at December 31, 2021, the Company owed $Nil (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 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.

On July 15, 2020, the Company announced that it had terminated certain related party agreements pertaining to consulting services and a loan facility. Sciences and the Company entered into an independent contractor agreement on May 1, 2015, as amended from time to time (the "Consulting Agreement"), and a loan agreement on August 25, 2015, as amended from time to time (the "Loan Agreement"). Sciences and the Company agreed to terminate the Consulting Agreement and Loan Agreement.

On May 27, 2020, the Company announced that it had terminated certain related party agreements pertaining to its cannabis cultivation operation in Metro Vancouver. Previously existing rights and continuing usage of the land and its cultivation operation in Metro Vancouver are unaffected by these terminations. Both the sublease agreement and cultivation agreement with Sciences were previously announced on October 4, 2019. The Company and Sciences agreed not to pursue the transactions contemplated by such agreements and agreed to terminate both the sublease agreement and the cultivation agreement in May 2020. The Company did not make any payments to, or receive any payments from, Sciences under either the sublease agreement or the cultivation agreement. The Company's previously existing rights related to the 12-acre parcel that was subject to the sublease agreement and the cultivation agreement are unaffected by these terminations

With the Company's former joint venture

As of December 31, 2021, Pure Sun Farms Corp. owed the Company $170 (December 31, 2020 - $170) for expenditures made on behalf of the joint venture and the Company owed to Sun Farms $5 (December 31, 2020 - $5). During the year ended December 31, 2021, both the receivable and payable amount were written off to finance costs and other expenses on the Consolidated Statements of Loss Comprehensive Loss.

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 controlled by Avtar Dhillon, the former Executive Chairman of the Company with respect to land in Metro Vancouver, British Columbia on which the Company is constructing its new production facility. The terms of the lease reflected current market conditions. 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 had lease liabilities of $3,476 (December 31, 2020 - $3,516) relating to the land in Metro Vancouver with a corresponding right of use asset.

With a Company Whose Chief Executive Officer ("CEO") is Also a Director of the Company

The Company holds 1,666,667 common share purchase warrants of Avricore Health Inc. ("Avricore", formerly VANC Pharmaceuticals Inc.). During the year ended December 31, 2020, the Director of the Company resigned as CEO of Avricore.

With a Company Whose President is Also a CEO of the Subsidiary

Naturals owes to Gab Innovations Inc. ("GAB") $Nil (December 31, 2020 - $36) for expenditures made on behalf of Naturals. During the year ended December 31, 2020, the CEO of the subsidiary was terminated as part of the decrease in activity at Naturals.

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

With an Entity with Common Directors

On May 11, 2021, the Company acquired the remaining 49% equity ownership in Naturals that was held by Emerald Health Bioceuticals ("Bioceuticals") 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 ("NCI") to the Company's equity.

	December 31, 2021
	$
Acquisition of 49% ownership interest	(32)
Net assets attributable to NCI	(1,353)
Decrease in equity attributable to the Company	(1,385)

Management's intention was 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, included in included in Inventory write-down and impairment of assets, respectively.

Remuneration of directors and key management of the Company

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

	December 31 2021	December 31 2020
	$	$
Wage and short term benefits	**1,919**	1,540
Share-based compensation (Note 10)	**159**	2,105
	2,078	3,645

Included in Due to Related Parties on the consolidated statements of financial position at December 31, 2021 is $27 (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.

10. Share Capital

Authorized

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

Issued

- 213,472,095 Common Shares (December 31, 2020 – 206,360,872)

During the year ended December 31, 2021, the outstanding share capital increased by 7,111,223 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 (Note 12);
- On February 6, 2021, 359,848 restricted stock units vested, resulting in the issuance of 359,848 Common Shares for no cash proceeds;
- On March 15, 2021, 500 shares issued under the ATM Facility were cancelled to correct a transposition error on initial issuance.
- On April 1, 2021, 160,000 restricted stock units vested, resulting in the issuance of 160,000 Common Shares for no cash proceeds;
- A total of 191,875 stock options were exercised ranging in exercise price from $0.21 to $0.29 for gross proceeds of $50 (Note 11); and
- On August 3, 2021, 150,000 restricted stock units vested, resulting in the issuance of 150,000 Common Shares for no cash proceeds
- During the year ended December 31, 2020, the outstanding share capital increased by 45,374,499 Common Shares due to the following transactions:
- The Company filed a prospectus supplement in connection with an at-the-market equity program ("ATM Program") that it established with GMP Securities L.P. (the "Agent") in the three months ended March 31, 2019. During the year ended December 31, 2020 the Company did not issue any Common Shares in connections with the ATM Program. This ATM Program was cancelled in August 2020 with the establishment of a new ATM Program;
- On August 13, 2020, the Company announced that it had established an at-the-market equity program ("new ATM Program") that allows the Company to issue common shares from treasury having an aggregate gross sales price of up to $3,250 to the public from time to time at the Company's discretion, at the prevailing market price when issued. The new ATM Program is effective until the earlier of April 13, 2021 and completion of the sale of the maximum amount of shares thereunder and will be activated from time to time at the Company's discretion if and when required based on the Company's working capital requirements and capital expenditures and relative cost of other funding options. During the year, 2,445,600 common shares were issued under the new ATM Program for gross proceeds of $500;
- Issued 9,713,666 Common Shares with a value of $2,914 to settle an outstanding loan amount and trade payables with Sciences;
- Issued 4,894,055 Common Shares with a value of $1,009 to settle outstanding interest on the convertible debentures;
- During February 2020, the Company closed a private placement resulting in the issuance of 10,344,827 units at a price of $0.29 per unit, for gross proceeds of $3,000. Each unit consisted of one Common Share and one common share purchase warrant. Each warrant entitles the holder to acquire one common share of the Company at a price of $0.385 per share for a period of five years. The warrants were valued using the residual value method at $164;

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

- During the year ended December 31, 2020, 375,000 restricted stock units vested (175,000 in April and 200,000 in December) triggering the issuance of 375,000 Common Shares, for no cash proceeds;
- On April 9, 2020, the 6,250,000 September Warrants were amended to an exercise price of $0.17 per Common Share and immediately exercised by the holders resulting in proceeds of $1,063 to the Company; and During June 2020, the Company closed a private placement resulting in the issuance of 11,351,351 units at a price of $0.185 per unit, for gross proceeds of $2,100. Each unit consisted of one Common Share and one common share purchase warrant. Each warrant entitles the holder to acquire one common share of the Company at a price of $0.27 per share for a period of three years. In the event that the closing sale price of the common shares on the TSXV, or such other principal exchange on which the common shares are trading, is greater than $0,40 per common share for a period of 10 consecutive trading days at any time after the closing of the placement, the Company may accelerate the expiry date of the warrants. The warrants were valued using the residual value method at $Nil.

11. Share-Based Compensation

(a) Stock Options

The following table summarizes the stock options that remain outstanding as at December 31, 2021:

	Stock Options	Weighted Average Exercise Price
	#	$
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	525,000	0.17
Forfeited	(8,059,739)	1.68
Exercised	(191,875)	0.26
Expired	(945,972)	0.72
Balance at December 31, 2021	**8,539,326**	**1.69**

During the year ended December 31, 2021, the Company granted 525,000 stock options to employees and consultants. The stock options granted had exercise prices between $0.10 and $0.23 and have expiry dates 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 $0.11. During the year ended December 31, 2021, 191,875 stock options were exercised with an average weighted trading share price of $0.39.

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

The fair values of the options granted during the years ended December 31, 2021 and 2020 were determined on the date of the grant using the Black-Scholes option pricing model with the following assumptions:

	December 31 2021	December 31 2020
Risk free interest rate	**0.48% - 1.03%**	0.25% - 1.65%
Share price	**\$0.10 - \$0.23**	\$0.17 - \$0.32
Expected life of options (years)	**2.94**	2.59
Expected annualized volatility	**98.27% - 100.86%**	93.07% - 104.54%
Expected dividend yield	**Nil**	Nil
Weighted average Black-Scholes value of each option	**\$ 0.11**	\$ 0.14

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.

Stock options outstanding and exercisable at December 31, 2021 are summarized as follows:

	Outstanding			Exercisable	
Range of exercise prices	**Quantity**	**Remaining contractual life (years)**	**Weighted average exercise price**	**Quantity**	**Weighted average exercise price**
\$			\$		\$
0.10 - 0.20	725,000	3.80	0.14	556,250	0.16
0.21 - 0.28	2,196,875	3.70	0.21	1,625,375	0.21
0.29 - 2.99	2,636,826	2.71	0.71	1,959,451	0.83
3.00 - 4.15	2,385,625	2.07	3.85	2,191,250	3.82
4.16 - 5.69	595,000	1.10	4.66	595,000	4.66
	8,539,326	**2.64**	**1.59**	**6,927,326**	**1.91**

The Company recorded share-based compensation expense related to the stock options of \$(252) for the year ended December 31, 2021 (December 31, 2020 - \$2,421). The expense has been charged to the consolidated statements of loss and comprehensive loss.

(b) Restricted Share Units ("RSUs")

	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
Balance at December 31, 2020	**704,848**	**1.24**
Exercised	(669,848)	1.20
Cancelled	(35,000)	1.34
Balance at December 31, 2021	-	-

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

During the year ended December 31, 2021, the Company did not issue any RSUs. The Company recorded share-based compensation expense related to the RSUs of $73 for the year ended December 31, 2021 (December 31, 2020 - $596) to the consolidated statements of loss and comprehensive loss. 669,848 restricted stock units vested (359,848 in February, 160,000 in April and 150,000 in August) triggering the issuance of 669,848 Common Shares, for no cash proceeds.

12. 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
Expired in November 2021	(4,411,764)	0.85
Balance at December 31, 2021	**31,255,085**	**0.40**
Expiry:		
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
Balance at December 31, 2021	**31,255,085**	**0.40**

(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.
During November 2021, the 4,411,764 Warrants with a weighted average price of $0.85 expired, resulting in an adjustment to contributed surplus of Nil.

13. Long-term Investments

Avricore

On November 27, 2017, the Company purchased 1,666,667 units of Avricore 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 entitled 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.

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

	Fair value December 31 2020	Warrants exercised	Change in fair value	**Fair value December 31 2021**
	$			**$**
Avricore - warrants (1)	134	(134)	-	-
Total	134	134	-	-

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

During the period from October 5 to October 13, 2020, the Company sold its shares in Avricore. 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 net gain was $249 and is recorded on the Consolidated Statements of Loss and Comprehensive Loss.

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

On May 17, 2021, the Company made a strategic investment of $61 (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 3 inputs. As at December 31, 2021, the value of the investment was $64, resulting in an unrealized foreign exchange gain of $3 being recorded.

FlowerPod, LLC ("FlowerPod)

On May 5, 2021, the Company exercised the 13,545 FlowerPod Warrants received as part of the Promissory Note transaction (Note 14) at a price of $0.01 per share, which represents an 18.71% ownership interest. FlowerPod is a privately held entity and the fair value of the common shares was determined using the funding round subscription price of $32 (US$26) per share (level 3), resulting in a fair value of $432 (US$352), and a gain of $380 on the investment. Management has elected to account for the changes in the fair value of investments through Other Comprehensive Income in accordance with IFRS 9.

As at December 31, 2021, the fair value of the investment was adjusted to its value of $190 to reflect the decrease in market value of the shares based on market changes of comparable public companies, thus resulting in a loss on fair value re-measurement of $242.

Condensed financial information of FlowerPod is as follows:

	As at and for the year ended: December 31, 2021
Current assets	**1,009,659**
Non-current assets	**185,456**
Current liabilities	**84,262**
Non-current liabilities	**361,507**
Revenues	**-**
Net losses	**(726,654)**

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

14. Promissory Note

On May 5, 2021, the Company issued a promissory note to FlowerPod (the "Note") of $430 (US$350) that is receivable from FlowerPod 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 $377 ($US307). The residual value of $52 ($US42) 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, for the year ended December 31, 2021, $15 of interest income was recorded in interest and other income. As at December 31, 2021, the value of the note was $406, resulting in an unrealized foreign exchange gain of $29 was recorded in Finance costs and other expenses.

15. Income Taxes

The reconciliation of the combined Canadian federal and provincial statutory income tax rate of 26.5% (2020 – 26.5%) to the effective tax rate is as follows:

	2021	2020
Loss before income taxes	**$ (39,406)**	**$ (42,952)**
Net income tax (recovery) expense	**(10,456)**	(11,597)
Non-deductible expenses	**(218)**	820
Non-taxable equity pick-up from JV	**-**	(845)
Non-taxable portion of capital gain on JV investment	**-**	3,686
Adjustments in respect of prior periods	**(40,800)**	-
Change in tax benefits not recognized	**51,474**	8,132
Income tax (recovery)	**-**	196

The Company's income tax (recovery) is allocated as follows:

Current tax (recovery) expense	**-**	27
Deferred tax (recovery) expense	**-**	169
	-	196

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

The following table summarizes the components of deferred tax:

	2021	**2020**
Loss before income taxes	**$ (39,406)**	$ (42,952)
Net income tax (recovery) expense	**(10,456)**	(11,597)
Non-deductible expenses	**(218)**	820
Non-taxable equity pick-up from JV	**-**	(845)
Non-taxable portion of capital gain on JV investment	**-**	3,686
Adjustments in respect of prior periods	**(40,800)**	-
Change in tax benefits not recognized	**51,474**	8,132
Income tax (recovery)	**$ -**	$ 196
Current tax (recovery) expense	**-**	27
Deferred tax (recovery) expense	**-**	169
	-	196
Deferred Tax Assets		
Operating tax losses carried forward	**$ 67**	$ 4,516
Subtotal of Assets	**$ 67**	$ 4,516
Deferred Tax Liabilities		
Property, plant and equipment	**$ -**	$ (196)
Right-of-use assets	**(28)**	-
Biological assets and inventory	**-**	(4,320)
Intangible assets	**(34)**	-
CEBA loan	**(5)**	-
Subtotal of Liabilities	**$ (67)**	$ (4,516)
Net deferred tax asset (liability)	**$ -**	$ -

Deferred tax assets and liabilities have been offset where they relate to income taxes levied by the same taxation authority and the Company has the legal right and intent to offset.

Deferred taxes as provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

Property, plant and equipment	**$ 22,148**	$ -
Plant under construction	**4,515**	-
Capital lease obligation	**3,639**	-
Long-term investment	**256**	(52)
Share issuance costs	**1,335**	1,393
Reserves	**306**	-
Operating tax losses carried forward	**143,286**	90,699
Tax credits & other	**1,248**	1,291
	$ 176,733	$ 93,331

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

The Canadian operating tax loss carry forwards expire as noted in the table below. Tax credits consist of Scientific Research and experimental development qualified expenditures of $1,245 which may be carried forward indefinitely and deduct against Canadian Business income. The remaining deductible temporary differences may be carried forward indefinitely. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the group can utilize the benefits therefrom.

The Company's Canadian operating tax losses expire as follows:

2031	**$ 118**
2032	**111**
2033	**236**
2034	**630**
2035	**3,408**
2036	**2,375**
2037	**7,178**
2038	**29,347**
2039	**55,292**
2040	**24,343**
2041	**20,247**
	$ 143,285

16. 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
	$	$	$	$
Costs:				
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	-	31	2	33
Disposals	-	(413)	(114)	(527)
Balance, December 31, 2021	**3,634**	**1,047**	**49**	**4,730**
Accumulated Depreciation:				
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	-	221	26	247
Disposals	-	(232)	(115)	(347)
Impairment	-	-	13	13
Balance, December 31, 2021	**3,634**	**984**	**10**	**4,628**
Carrying value:				
December 31, 2021	**-**	**63**	**39**	**102**
December 31, 2020	-	434	75	509

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

As noted above in Note 6, the ROU Land asset is part of the Metro Vancouver facility and was impaired by $3,210 during the year ended December 31, 2020.

The ROU land asset was not adjusted as there is no recoverable amount for the Company related to the land. There was no change to the related liability on the lease.

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	32
Lease disposals	(200)
Lease payments	(612)
Interest incurred	304
Balance, December 31, 2021	**3,639**

As at December 31, 2021	$
Lease obligations	3,639
Less current portion	(3,639)
Non-current portion	**-**

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

Contractual Undiscounted Cash Flows:	
	$
Within 1 year	426
1 - <3 years	706
3 - <5 years	642
Over 5 years	6,560
Balance, December 31, 2021	**8,334**

For the year ended December 31, 2021 an amount of $132 (December 31, 2020 - $263) has been recorded in operating costs for the Company related to amounts relating to short term leases, and leases for low value assets.

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

17. Revenue

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

	December 31 2021	December 31 2020
	$	$
Dried Cannabis	**8,882**	9,706
Extracts and Edibles	**2,965**	4,411
Other	**49**	144
Total	**11,896**	14,261

18. General and Administrative Expenses

	December 31 2021	December 31 2020
	$	$
Professional, director and consulting fees	**2,452**	2,799
Corporate communications and media	**142**	466
Wages and benefits	**3,684**	4,166
Office and general	**2,750**	1,921
Travel and accommodations	**74**	74
Total	**9,102**	9,426

Wages and benefits included in cost of goods sold amount to $4,206 (2020 – 5,083).

19. Disposal of interest in Joint Venture

Accounting Policy:

A joint venture is a contractual arrangement whereby the Company and other parties undertake an economic activity that is subject to joint control (i.e. when the strategic, financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control).

IFRS 11, *Joint Arrangements*, and IAS 28, *Investments in Associates and Joint Ventures* establish the criteria for accounting for joint ventures. Investments in joint ventures are accounted for using the equity method. The equity method involves recording the initial investment at cost and subsequently adjusting the carrying value of the investment for the proportionate share of the profit or loss, other comprehensive income or loss and any other changes in the joint venture's net assets such as dividends. At each balance sheet date, the Company considers whether there is objective evidence of impairment in the joint venture. If there is such evidence, the Company will determine the amount of impairment to record, if any, in relation to the joint venture.

The consolidated financial statements include the Company's share of the investee's income, expenses and equity movements. Where the Company transacts with its joint ventures or associates, unrealized profits or losses are eliminated to the extent of the Company's interest in the joint venture or associate.

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

In 2017, the Company and Village Farms International, Inc. ("Village Farms") formed Pure Sunfarms Corp. ("Pure Sunfarms"), a privately held company incorporated pursuant to the Business Corporations Act (British Columbia). The purpose of Pure Sunfarms is to pursue largescale, low cost cannabis production in Canada. Village Farms and the Company each began with a 50% ownership interest in Pure Sunfarms in the form of common shares. The Company concluded that the agreement constituted a joint arrangement where joint control is shared with Village Farms and therefore has accounted for Pure Sunfarms using the equity method. On November 2, 2021, the Company completed the sale of its 41.28% interest in its Joint Venture, Pure Sunfarms for consideration of $79,900.

In January of 2020 the Company contributed $710, representing the final installment of the initial investment in the Joint Venture.

The carrying value of the investment in Pure Sunfarms as at the date of sale of November 2, 2020:

Balance, December 31, 2019	64,603
Loss on deemed dilution	(850)
Share of income	3,131
Balance, November 2, 2020	66,884

Summarized financial information for Pure Sunfarms is set out below:

	November 2, 2020
Statement of financial position	**$**
Cash and cash equivalents	**14,396**
Current assets	**80,530**
Non-current assets	**155,014**
Current liabilities	**43,242**
Non-current liabilities	**49,956**
Statement of comprehensive loss	
Revenue (net of excise taxes)	**59,510**
Depreciation and amortization	**3,103**
Interest expense	**1,066**
Income tax expense	**809**
Income from continued operations	**3,959**
Total comprehensive income	**3,959**
Adjusted net income	
Total comprehensive income	**3,959**
Elimination of transactions with the Company	**2,523**
Fair value adjustment	**190**
Adjusted net income	**6,672**
Emerald's share of income from joint venture	**3,131**

During the year ended December 31, 2019, two separate disputes arose between the Company and Village Farms in regard to operations at Pure Sunfarms. On March 6, 2020, the Company completed a Settlement Agreement (the "Settlement Agreement") with its Joint Venture partner. Pursuant to the Settlement Agreement, the Supply Agreements (collectively, the "Supply Agreements") entered into between the Company and Pure Sunfarms dated December 21, 2018 (the "2018 Supply Agreement") were both terminated effective as of December 31, 2019, and the Company was released from all previous, current, and future obligations, liabilities and payments thereunder.

On March 6, 2020, also as part of the Settlement Agreement, the Company issued a promissory note to Pure Sunfarms in the amount of $952 which bore interest at a rate of 6.2% per annum and was to mature on the earlier of (a) December 31, 2020; (b) the Company ceasing to be a shareholder of Pure Sunfarms; or (c) the acquisition by any party of a majority of the outstanding shares of the Company. The principal amount is the amount owed by the Company to Pure Sunfarms as remittance for bulk sales under the 2018 Supply Agreement.

The Company's share of income was diluted to 42.60% as part of the Settlement Agreement. The Company recognized a loss on dilution of ownership of $2,049. In April 2020, the Company's share of income was further diluted to 41.28% upon Village Farms investment in the Joint Venture of an additional $8,000. A gain was recognized on dilution of $1,199. The net dilution loss was $850, which is recorded under loss on dilution of joint venture ownership on the Consolidated Statements of Loss and Comprehensive Loss.

Pursuant to the share purchase agreement, completed on November 2, 2020, the Company sold its 36,958,500 common shares to Village Farms, representing all of the remaining shares of Pure Sunfarms not previously held by Village Farms, for an aggregate purchase price of $79,900 (the "Purchase Price"). The Company received $60,000 of the Purchase Price in cash at closing and acquired a secured promissory note to the Company in the principal amount of $19,900 (the "Note"). The Note will mature in six months from the date hereof, is secured against a certain number of common shares of Pure Sunfarms held by the Joint Venture partner and bears interest at a rate of 12% per annum. In addition, the Company's obligations under a promissory note in the principal amount of $952, plus $39 in interest, that the Company had issued to PSF on March 6, 2020, were settled without any payment.

As a result of the sale transaction on November 2, 2020, the Company recorded a gain of $13,423, which was net of $585 in related legal and consulting fees.

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.

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

20. Convertible Debenture

Accounting Policy:

Convertible debentures are compound financial instruments which are accounted for separately dependent on the nature of their components: a financial liability and an equity instrument. The identification of such components embedded within a convertible debenture requires significant judgment given that it is based on the interpretation of the substance of the contractual arrangement. Where the conversion option has a fixed conversion rate, the financial liability, which represents the obligation to pay coupon interest on the convertible debentures in the future, is initially measured at its fair value and subsequently measured at amortized cost. The residual amount is accounted for as an equity instrument at issuance. Where the conversion option has a variable conversion rate, the conversion option is recognized as a derivative liability measured at fair value through profit and loss.

In calculating the fair value allocation between the liability component and equity component of the Company's secured convertible debentures, the Company was required to make estimates and use judgement in determining an appropriate discount rate on the debenture to arrive at fair value. The determination of the fair value of the liability is also based on a number of assumptions, including contractual future cash flows, discount rates and the presence of any derivative financial instruments.

Transaction costs are apportioned to the debt liability and equity components in proportion to the allocation of proceeds.

Balance at December 31, 2019	21,823
Accretion	1,654
Principal repayment	(23,477)
Balance at December 31, 2020	-

On September 10, 2019, the Company issued 2,500 secured convertible debenture units (the "Convertible Debenture Units") of the Company at a price of $10 per Convertible Debenture Unit (the "Issue Price") for gross proceeds of $25,000 (the "Offering") to a single Canadian institutional accredited investor (the "Investor").The Convertible Debenture Units were secured, bore interest of 5.0% per annum, accrued and payable semi-annually with a maturity date of 24 months from the issuance date (the "Maturity Date"). Each Unit had attached 5,000 common share purchase warrants of the Company.

The Convertible Debentures had a conversion price of $2.00 per Common Share (the "Conversion Price"), subject to a forced conversion if the volume weighted average trading price ("VWAP") of the Company's common shares was greater than $3.50 for 10 consecutive trading days.

The 12,500,000 warrants were initially issued at an exercise price of $2.00 per common share of the Company for a period of 24 months from the date of issue. On April 9, 2020, The Company amended the exercise price of the September Warrants such that: 6,250,000 September Warrants had an exercise price of $0.17 per Common Share (the "$0.17 Warrants"), subject to a forced conversion if the VWAP was greater than $0.2125 for 10 consecutive trading days; and 6,250,000 Warrants were adjusted to have an exercise price of $0.21 per Common Share (the "$0.21 Warrants"), subject to a forced conversion if the VWAP was greater than $0.2625 for 10 consecutive trading days. The holders of the $0.17 warrants immediately exercised all such warrants for proceeds of $1,063 to the Company (Note 14).

At issuance, the fair value of the liability component of the Convertible Debentures was estimated to be $21,925. They were valued using an interest rate for a similar debt for which no conversion features existed, which was estimated to be 12%. The debt component is to be accreted to face value over the term to maturity as a non-cash interest charge. The Debenture Warrants were valued at $2,427 using the Black-Scholes valuation model. The residual value was allocated to the equity component of the conversion feature and had a value of $648.

The fair value of the warrants was calculated using the Black-Scholes option-pricing model with the following assumptions: expected life of 2 years, risk free interest rate of 1.60%, expected annualized volatility of 94.06% and Nil expected dividend yield. The fair value was determined to be $0.89. The share price used for fair value as at issuance date was $1.85.

Issuance costs of $783 were allocated proportionately with $687 as a debit against the liability component and $96 as a debit against the equity component of the conversion feature. These issuance costs created a temporary difference between the carrying value of the liability component and the tax base of the liability for tax purposes. The deferred tax impact of the allocation of a portion of the Convertible Debenture to equity resulted in a deferred tax recovery during the year ended December 31, 2019 of $805 and a corresponding deferred tax expense in equity of $636 and $169 for the Debenture Warrants and the equity component of the Convertible Debenture, respectively. The effect of deferred tax is recognised in equity because IAS 12 – Income Taxes, requires that the recognition of deferred tax must follow the underlying transaction it relates to, and the temporary difference relates to the amount attributed to the equity conversion option and Debenture Warrants.

During the year ended December 31, 2020, interest expense of $1,110 (December 31, 2019 - $384) and accretion expense of $1,654 (December 31, 2019 - $584) was recorded. During the year ended December 31, 2020, $384 of interest that had accrued during the year ended December 31, 2019, was settled with the issuance of 1,322,627 common shares of the Company. Also, interest expense of $625 which had accrued to June 30, 2020, was settled with the issuance of 3,571,428 common shares of the Company.

On November 24, 2020, the Company fully repaid all amounts owing under the Convertible Debenture Units, and as a result, terminated the Convertible Debenture Units and the Company's obligations thereunder. The Convertible Debenture Units were due to mature on September 9, 2021, with no right for the Company to prepay amounts owing. However, the Investor consented to the early repayment of all amounts owing under the Convertible Debenture Units in exchange for a consent fee of $82. A total of $25,568 in cash was paid by the Company to the Investor, representing $25,000 in principal repayment and $486 in accrued interest and the consent fee. A loss on early settlement was recorded in the amount of $741, calculated as the difference between the carrying value of the debenture and the fair value at the date of settlement.

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

21. Financial Instruments

Financial instruments recorded at fair value are classified using a hierarchy that categorizes into three levels the inputs to valuation techniques used to measure fair value. The three levels of hierarchy are:

Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 - Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly; and

Level 3 - Inputs for the asset or liability that are not based on observable market data.

The individual fair values attributed to the different components of a financing transaction, notably marketable securities, derivative financial instruments, convertible debentures and loans, are determined using valuation techniques. The Company uses judgment to select the methods used to make certain assumptions and derive estimates. Significant judgment is also used when attributing fair values to each component of a transaction upon initial recognition, measuring fair values for certain instruments on a recurring basis and disclosing the fair values of financial instruments subsequently carried at amortized cost. These valuation estimates could be significantly different because of the use of judgment and the inherent uncertainty in estimating the fair value of instruments that are not quoted or observable in an active market.

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, 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 December 31, 2021 are summarized in the following table:

	Amortized cost	FVTOCI
	$	$
Financial Assets		
Cash and cash equivalents	18,512	-
Accounts receivable, excluding sales taxes receivable	1,634	-
Promissory note receivable	406	-
Long-term investments	-	254
Financial Liabilities		
Accounts payable and accrued liabilities	3,536	-
Lease liability	3,639	-
CEBA loan	40	-

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

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

	Fair Value Measurement			
	Level 1	Level 2	Level 3	Total
As at December 31, 2021	$	$	$	$
Financial Assets				
Long-term investments (Note 14)	-	-	254	254
As at December 31, 2020				
Financial Assets				
Long-term investments	-	134	-	134

The changes in financial assets valued using level 3 inputs are summarized in the table below, with the fair value changes recorded in other comprehensive income. The Company has elected to record remeasurements through FVTOCI so as to avoid financial instrument remeasurement changes flowing through Profit and Loss.

	Investment in FlowerPod	Investment in Prima
Opening Balance - December 31, 2020	$ -	$ -
Purchases	432	61
Gains (losses) on Fair Value Re-measurement	(242)	3
Closing Balance - December 31, 2021	$ 190	$ 64

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 December 31, 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.

(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.

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

(d) Liquidity risk

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

	December 31 2021	December 31 2020
	$	$
Trade payables	**1,043**	6,296
Accrued liabilities	**373**	903
Excise tax payable	**534**	2,239
Payroll liabilities	**137**	1,046
Sales tax liabilities	**1,277**	529
Other payables	**171**	6
Total	**3,536**	11,019

In addition to the commitments outlined in Note 16 - Leases, the Company has the following gross contractual obligations as at December 31, 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	3,536	3,536	-
CEBA loan	40	-	40
	3,576	3,536	40

Liquidity risk is the risk that the Company will not be able to meet its obligations associated with financial liabilities. As at December 31, 2021, the Company had working capital of $14,952 (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 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.

In an effort to manage liquidity prudently while the Company moves toward profitability and positive cash flows, the Company has taken the following steps:

- During the year ended December 31, 2021, the Company initiated plans to dispose of multiple facilities across Canada (Note 6), which will provide the Company with cash flows from the associated sales and continue to reduce the operating expenses of the Company in line with the re-structuring plan decision from 2020.
- During the year ended December 31, 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.

- During the year ended December 31, 2021, the Company raised $50 on the exercise of 191,875 stock options.

- In February of 2021, the Company raised $1,313 on the exercise of 6,250,00 warrants.

- During February of 2021, the Company sold its marketable shares held in Avricore for $716.

- In January of 2021, the Company settled all outstanding amounts owing to the Vendors of Verdélite for $9,000. This substantially cleared the Company's statement of financial position of debt and reduced the future interest payments on the deferred payment.

These initiatives have provided the Company with increased liquidity and flexibility to meet its financial commitments and continue operations.

22. Capital Management

As at December 31, 2021, the capital structure of the Company consists of $40,892 (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.

23. Commitments and contingencies

Class Action

During the year, the Company was named in a Class Action relating to certain difference in THC content in its cannabis products. 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.

24. Subsequent Events

FlowerPod Amending Agreement

On April 28, 2022, the Company entered into an amending agreement with FlowerPod LLC for the sale of certain patents held by the Company, amending the December 28, 2021, binding term sheet payment schedule from a payment on closing of US$1M and a promissory note of US$0.500 due on the anniversary of the closing bearing an interest rate of 10% per annum to $0.967 (US$0.750) on closing and a $0.967

(US$0.750) promissory note due on the anniversary of the closing 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 $451 (US$350).

Lease Termination – Richmond

On April 14, 2022, the Company entered into a Termination of Lease and Transfer of Assets Agreement with the Landlord of the Richmond Land (the "agreement"). As part of the agreement, EHTC will surrender to the Landlord all of the property, plant and equipment located on the leased land. The termination and transfer will occur on December 31, 2022, unless EHTC elects to terminate early. For the period of time between the termination agreement date and the termination date of December 31, 2022, EHTC will continue to pay the landlord the regular lease payments in accordance with the original lease agreement.

Acquisition by Skye Bioscience, Inc. ("Skye")

On May 12, 2022 Emerald and Skye announced that the companies have entered into a definitive agreement 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 Emerald in a share-for-share transaction. The proposed Arrangement is subject to approval by each company's common stockholders and by the Supreme Court of British Columbia, Canada. As a result of the Arrangement, current Skye stockholders would own approximately 54% of the common stock of Skye and former shareholders of Emerald would own approximately 46% of Skye's common stock.

Under the Arrangement, Skye will issue Emerald shareholders 1.95 shares of Skye's common stock (the "Exchange Ratio") in exchange for each Emerald share. Based on the number of outstanding shares as of May 12, 2022, it is expected that Skye would issue approximately 416 million Skye shares to Emerald shareholders. All stock options and warrants of Emerald will be exchanged for replacement options and warrants of Skye on identical terms, as adjusted in accordance with the Exchange Ratio. The completion of the Arrangement is subject to customary terms and conditions, including the following:

a) Approval of the Arrangement by special resolutions of disinterested Skye and Emerald shareholders;
b) Court approval of the Arrangement; and
c) Receipt of all required regulatory approvals, including acceptance by the Canadian Securities Exchange (the "CSE") of Skye's listing on the CSE.

The Arrangement is anticipated to close in the third quarter of 2022.