



emerald
HEALTH THERAPEUTICS

EMERALD HEALTH THERAPEUTICS, INC.

**Condensed Interim Consolidated
Financial Statements**

(Unaudited)

For the three months ended March 31, 2022 and
2021

(Expressed in Canadian Dollars)

NOTICE OF NON-REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

In accordance with subsection 4.3(3)(a) of Part 4 of National Instrument 51-102 *Continuous Disclosure Obligations*, the Company hereby informs all readers that the accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management and board of directors.

The attached condensed interim consolidated financial statements for the three months ended March 31, 2022 have not been reviewed by the Company's auditors.

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

	March 31	December 31
	2022	2021
ASSETS		
Current		
Cash and cash equivalents	\$ 16,152	\$ 18,512
Accounts receivable (Note 3)	1,471	1,634
Biological assets (Note 4)	76	-
Inventory (Note 5)	839	849
Prepaid expenses	1,944	1,160
Total current assets	20,482	22,155
Property, Plant and equipment (Note 6)	16,633	16,643
Plant under construction (Note 6)	947	860
Deposits on materials and equipment (Note 6)	119	71
Intangible assets (Note 7)	418	401
Promissory note receivable (Note 13)	386	406
Right-of-use assets (Note 14)	36	102
Long-term investment (Note 12)	247	254
Total non-current assets	18,786	18,737
TOTAL ASSETS	\$ 39,268	\$ 40,892
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 19 (d))	\$ 5,318	\$ 3,536
Due to related parties (Note 8)	26	27
Lease liability (Note 14)	3,591	3,639
Total current liabilities	8,935	7,202
CEBA loan (Note 2(f))	-	40
TOTAL LIABILITIES	\$ 8,935	\$ 7,242
SHAREHOLDERS' EQUITY		
Share capital (Note 9)	252,651	252,651
Warrants (Note 11)	823	823
Contributed surplus	28,115	28,115
Accumulated other comprehensive income	(239)	(239)
Accumulated deficit	(251,017)	(247,700)
TOTAL SHAREHOLDERS' EQUITY	30,333	33,650
Non-controlling interest (Note 2)	-	-
TOTAL LIABILITIES AND EQUITY	\$ 39,268	\$ 40,892

Nature and continuance of operations (Note 1)

Events after the reporting period (Note 21)

On behalf of the Board of Directors:

/s/Jim Heppell
Director

/s/ Punit Dhillon
Director

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

EMERALD HEALTH THERAPEUTICS, INC.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

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

	Three months ended March 31 2022	Three months ended March 31 2021
Revenue		
Revenue from sale of goods (Note 15)	\$ 3,040	\$ 2,653
Excise taxes	1,224	398
Net revenue	1,816	2,255
Cost of sales		
Cost of goods sold	1,579	1,133
Production costs	1,093	1,435
Inventory write-down (Note 5)	320	231
Realized fair value amounts on inventory sold (Note 5)	-	555
Unrealized gain on changes in fair value of biological assets (Note 4)	(100)	(95)
Gross margin	(1,076)	(1,004)
Expenses		
General and administrative (Note 16)	1,564	2,227
Sales and marketing	427	427
Research and development	212	272
Depreciation and amortization (Note 6, 7 and 14)	4	453
Share-based payments (Note 10)	-	143
	2,207	3,522
Loss from operations	(3,283)	(4,526)
Interest and other income	880	1,084
Finance costs and other expenses (Note 8, 16)	(874)	-
Gain on settlement of deferred payment (Note 8)	-	293
Gain on sale of long term investment (Note 13)	-	249
Exchange loss (Note 13, 21)	(35)	-
Loss on disposal	(5)	-
Loss before income taxes	(3,317)	(2,900)
NET LOSS	(3,317)	(2,900)
Net loss and comprehensive loss attributable to:		
Emerald Health Therapeutics, Inc.	(3,317)	(2,894)
Non-controlling interest	-	(6)
	(3,317)	(2,900)
Basic and diluted net loss per common share	(0.02)	(0.01)
Weighted average number of common shares outstanding		
Basic and diluted	213,472,095	210,003,868

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

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

	Share Capital		Warrants		Contributed Surplus	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Shareholders' Equity	Non-Controlling Interest	Total Equity
	# of Shares	Amount	# of Warrants	Amount						
Balance, January 1, 2022	213,472,095	\$ 252,651	31,255,085	\$ 823	\$ 28,115	\$ (239)	\$ (247,700)	\$ 33,650	\$ -	\$ 33,650
Net loss and comprehensive loss	-	-	-	-	-	-	(3,317)	(3,317)	-	(3,317)
Balance, March 31, 2022	213,472,095	\$ 252,651	31,255,085	\$ 823	\$ 28,115	\$ (239)	\$ (251,017)	\$ 30,333	\$ -	\$ 30,333
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 issued on stock option exercises (Note 10)	191,875	80	-	-	(30)	-	-	50	-	50
Shares issued on restricted share unit vesting (Note 10)	359,848	106	-	-	(106)	-	-	-	-	-
Shares issued on warrant exercises	6,250,000	2,208	(6,250,000)	(895)	-	-	-	1,313	-	1,313
Share issuance costs	-	(1)	-	-	-	-	-	(1)	-	(1)
Share-based payments	-	-	-	-	143	-	-	143	-	143
Net loss and comprehensive loss	-	-	-	-	-	-	(2,894)	(2,894)	(6)	(2,900)
Balance, March 31, 2021	213,162,595	\$ 252,156	35,666,849	\$ 823	\$ 29,133	\$ -	\$ (210,042)	\$ 72,070	\$ (1,359)	\$ 70,711

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

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

	Three months ended March 31 2022	Three months ended March 31 2021
Operating activities		
Net loss	\$ (3,317)	\$ (2,900)
Items not involving cash		
Depreciation	(4)	854
Impairment of assets	-	-
Inventory write-down	(320)	231
Share-based payments	-	143
Loss on disposal of assets	(5)	-
Gain on changes in fair value of biological assets	(100)	(95)
Gain on sale of long-term investment	-	(249)
Gain on termination of lease	-	(17)
Gain on settlement of deferred payment	-	(293)
Changes in non-cash operating working capital		
Accounts receivable	183	438
Prepaid expenses	(825)	15
Inventory and biological assets	354	(4)
Accounts payable and accrued liabilities	1,782	(4,001)
Due to related parties	(1)	(765)
Net cash flows used in operating activities	(2,253)	(6,643)
Investing activities		
Acquisition of asset	(87)	(5)
Deposits on material and equipment	-	(66)
Sale of plant and equipment	15	5
Sale of joint venture interests	-	20,522
Sale of long-term investment	-	383
Purchase of plant and equipment	-	(1,069)
Purchase of intangible assets	(17)	(31)
ROU asset	66	-
Repayment of deferred payment	-	(9,000)
Net cash flows (used in) provided by investing activities	(23)	10,739
Financing activities		
Payment of lease liabilities	(44)	(80)
Repayment of long-term debt	(40)	-
Share issuance costs	-	(2)
Stock option exercises	-	50
Interest paid	-	(78)
Warrant exercises	-	1,313
Net cash flows (used in) provided by financing activities	(84)	1,203
Increase (decrease) in cash and cash equivalents	(2,360)	5,299
Cash and cash equivalents, beginning of year	18,512	25,998
Cash and cash equivalents, end of period	\$ 16,152	\$ 31,297

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

EMERALD HEALTH THERAPEUTICS, INC.
NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2022 and 2021

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

1. Nature and Continuance of Operations

Emerald Health Therapeutics, Inc. (the "Company"), was incorporated pursuant to the Business Corporations Act (British Columbia) on July 31, 2007. The common shares of the Company are listed on the Canadian Stock Exchange ("CSE") under the trading symbol "EMH."

The Company'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 November 29, 2021, the Company announced that it intended to exit the recreational and medical cannabis business and pivot to a pharmaceutical development focus. Since January 1, 2022, the Company has focused on winding down its prior operations in a manner intended to reduce operating costs.

At its Victoria, BC operation, the Company ceased all production and packaging operations on February 28, 2022, and May 31, 2022. The lease on a portion of the Company's Victoria facilities expired on February 28, 2022, and the lease for the remaining facilities expired on May 31, 2022; however, the Company continues to rent both facilities on a month-to-month basis in order to maintain its License. The Company expects its Victoria facilities to be fully wound down by June 1, 2022. The Company has continued to pursue the sale of the operation as a going concern; however, the Company has not yet entered into a binding sales agreement with respect to this asset.

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

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

These condensed interim consolidated financial statements have been prepared by management on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future.

As at March 31, 2022, the Company had total cash and cash equivalents of \$16,152, working capital of \$11,547, and negative cash flow from operating activities of \$2,253 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.

On May 12, 2022 Emerald and Skye Bioscience, Inc. ("Skye") announced that the companies have entered into a definitive agreement, as amended on June 14, 2022, 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. The Arrangement is anticipated to close in the fourth quarter of 2022. (See Note 21 Subsequent Events, Acquisition by Skye Bioscience for additional information).

EMERALD HEALTH THERAPEUTICS, INC.
NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2022 and 2021

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

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

All of the Company's assets were classified as held for sale as at March 31, 2022. Additionally, substantially all of the Company's operations have been deemed to be discontinued operations.

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 2022, 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 10), and the fair value of financial instruments (Note 18).

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 condensed interim consolidated financial statements and include: accounting for leases (Note 14) discontinued operations, and going concern (Note 1).

a) Basis of Presentation and Measurement

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

The consolidated financial statements were approved and authorized for issue by the Board of Directors of the Company on July 8, 2022. These condensed interim consolidated financial statements do not include all disclosures normally provided in annual financial statements and should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2021. Accordingly, accounting policies, estimates, and judgements applied are the same as those applied in the Company's financial statements for the year ended December 31, 2021, unless otherwise indicated. The Company assesses its accounting estimates and judgements every reporting period.

EMERALD HEALTH THERAPEUTICS, INC.
NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2022 and 2021

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

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

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 condensed interim consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany transactions and balances are eliminated on consolidation. Subsidiaries are all entities over which the Company has control. The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The subsidiaries of the Company at March 31, 2022 include the following:

Name of Entity	Ownership Interest	Ownership Interest
	as at March 31 2022	as at December 31 2021
Emerald Health Therapeutics Canada Inc. (EHTC)	100%	100%
Emerald Health Naturals Inc. (Naturals)	100%	100%
Avalite Sciences Inc. (Avalite)	100%	100%
Verdélite Sciences Inc. (Verdélite)	100%	100%
Verdélite Property Holdings Inc.	100%	100%

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

EMERALD HEALTH THERAPEUTICS, INC.
NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2022 and 2021

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

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 three months ended March 31, 2021, the Company determined that it had qualified for this subsidy and received \$713. The Company has recognized the \$713 as other income during the three months ended March 31, 2021. No amount was recognized as other income during the three months ended March 31, 2022.

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 automatically converted to a non-revolving term loan. As at March 31, 2021, the balance on the non-revolving term loan was \$40. During the three months ended March 31, 2022, the Company paid \$30 of the outstanding amount on the term loan. The remaining \$10 was forgiven, resulting in a \$Nil balance as at March 31, 2022.

3. Accounts Receivable

The Company’s accounts receivables are comprised of:

	March 31	December 31
	2022	2021
	\$	\$
Goods and services tax refund receivable	(62)	-
Trade receivables	1,709	1,826
Other receivables	130	134
Expected credit loss	(306)	(326)
	1,471	1,634

During the three months ended March 31, 2022, \$306 expected credit losses were recorded for trade receivables. During the year ended December 31, 2021, expected credit losses of \$326 were recorded for trade receivables.

EMERALD HEALTH THERAPEUTICS, INC.
NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2022 and 2021

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

4. Biological Assets

During the three months ended March 31, 2022, the Company's biological assets produced 226 kilograms of dried cannabis flower (March 31, 2021 – 964 kilograms). As of March 31, 2022, the weighted average stage of growth for the biological assets was 77% (March 31, 2021 – 36%). The average number of days from the point of propagation to harvest was 95 days (March 31, 2021 – 105 days).

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

As at March 31, 2022, the Company has destroyed and written off most of its biological assets due to the Company's decision to cease cannabis related operations. The Company's biological assets consist of cannabis seeds and cannabis plants. Changes in the Company's biological assets are as follows:

	March 31	December 31
	2022	2021
	\$	\$
Carrying amount, beginning of year	-	969
Effect of unrealized changes in fair value of biological assets	100	710
Transferred to inventory upon harvest	(24)	(1,679)
Carrying amount, end of period	76	-

As at March 31, 2022, included in the carrying amount of biological assets is \$Nil in seeds (December 31, 2021 - \$Nil) and \$76 in live plants (December 31, 2021 - \$Nil).

5. Inventory

The Company's inventory is comprised of:

	March 31	December 31
	2022	2021
	\$	\$
Harvested cannabis		
Work-in-process	29	29
Finished goods	217	178
	246	207
Extracted cannabis		
Work-in-process	-	45
Finished goods	543	547
	543	592
Supplies and consumables	50	50
	839	849

During the three months ended March 31, 2022, inventory expensed to cost of goods sold was \$1,579 (March 31, 2021 – \$1,688). The fair value change in biological assets that was included in cost of goods sold during the three months ended March 31, 2022 was \$Nil (March 31, 2021 - \$555).

EMERALD HEALTH THERAPEUTICS, INC.
NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2022 and 2021

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

During the three months ended March 31, 2022, a write-down of \$320 was recognized for dried bulk cannabis and packaged inventory (March 31, 2021 - \$231) related to product deterioration, a packaging defect and limited remaining shelf life.

6. Property, Plant and Equipment

All of the Company's property, plant and equipment is classified as held for sale as of March 31, 2022. During the three months ended March 31, 2022, the Company recognized no depreciation expense for property, plant and equipment, and disposed of one asset with a net book value of \$10. As at March 31, 2022, the fair value of property, plant and equipment is \$16,633 (December 31, 2021 - \$16,643).

7. Intangible Assets

All of the Company's intangible assets are classified as held for sale as of March 31, 2022. During the three months ended March 31, 2022, the Company recognized no amortization expense for intangible assets, and recognized \$17 of additions related to patents. As at March 31, 2022, the fair value of intangible assets is \$418 (December 31, 2021 - \$401).

8. 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 three months ended March 31, 2022, Emerald Health Sciences Inc. ("Sciences") held an aggregate of 39,401,608 Common Shares, representing 18% (December 31, 2021 – 39,401,608 shares, representing 19%) of the issued and outstanding Common Shares and it also held 9,099,706 (December 31, 2021 – 9,099,706) common share purchase warrants of the Company.

The Company had agreed to terminate the amended and restated independent contractor agreement with Sciences originally dated October 5, 2017, as subsequently amended and restated on January 1, 2018 and as further amended on October 1, 2019.

Common Stock Issued to Emerald Health Sciences Inc.

See "Note 21 Subsequent Events, Common Stock Issued to Emerald Health Sciences Inc." for additional information.

With Subsidiaries of Emerald Health Sciences Inc.

On October 3, 2018, the Company announced that it entered into a research agreement with VivaCell Biotechnologies Spain S.L.U. ("VivaCell"), a corporation located in Córdoba, Spain and focused on cannabinoid pharmaceutical research, which will provide its cannabinoid-industry-leading contract research organization ("CRO") services to the Company to elucidate the mechanism of action of proprietary formulations and dosage forms that the Company is developing. EH Spain is a wholly owned subsidiary of Sciences, who was a control person of the Company at the time and was therefore a related party of the Company. To date, the Company has used the CRO services of EH Spain with total costs incurred of €20,000.

EMERALD HEALTH THERAPEUTICS, INC.
NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2022 and 2021

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The Company has no obligation to use further services from EH Spain.

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 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 lease amount was determined by an independent valuation and was approved by the nonconflicted directors of the Company. During the three months ended March 31, 2022, the Company paid to the Landlord \$95 (March 31, 2021 - \$95) in rent. As at March 31, 2022, the Company recognized lease liabilities of \$3,466 (December 31, 2021 - \$3,476) relating to the land in Metro Vancouver with a corresponding right of use asset (see Note 21 Subsequent Events, Amended Lease Agreement – Metro Vancouver Land for additional information).

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:

	For the three months ended March 31 2022	For the three months ended March 31 2021
	\$	\$
Wage and short term benefits	526	456
Share-based compensation (Note 10)	-	233
	526	689

Included in Due to Related Parties on the consolidated statements of financial position at March 31, 2022 is \$26 (December 31, 2021 - \$27) due to related parties with respect to key management personnel and are non-interest bearing.

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

9. Share Capital

Authorized:

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

Issued:

- As at March 31, 2022, 213,472,095 Common Shares (December 31, 2021 – 213,472,095)
- Nil preferred shares (December 31, 2021 – Nil)

During the three months ended March 31, 2022, the outstanding share capital did not increase or decrease.

EMERALD HEALTH THERAPEUTICS, INC.
NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2022 and 2021

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

During the three months ended March 31, 2021, the outstanding share capital increased by 6,801,223 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;
- 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 10).

10. Share-Based Compensation

Stock Options

No stock options were granted or exercised during the three months ended March 31, 2022.

As at March 31, 2022, 5,993,576 options were outstanding (December 31, 2021 – 8,539,326).

The Company recorded share-based compensation expense related to the stock options of \$Nil for the three months ended March 31, 2022 (March 31, 2021 - \$78).

Restricted Share Units ("RSUs")

During the three months ended March 31, 2022, the Company did not issue any RSUs. The Company recorded share-based compensation expense related to the RSUs of \$Nil for the three months ended March 31, 2022 (March 31, 2021 - \$65) to the consolidated statements of loss and comprehensive loss.

11. Warrants

	Number of Warrants	Weighted Average Exercise Price
		\$
Balance at December 31, 2020	41,916,849	0.41
Exercised in February 2021 (a)	(6,250,000)	0.21
Expired in November 2021 (b)	(4,411,764)	0.85
Balance at December 31, 2021	31,255,085	0.40
Balance at March 31, 2022	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 March 31, 2022	31,255,085	0.40

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(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.

(b) 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.

There was no warrant activity during the three months ended March 31, 2022.

12. 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.

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

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

On May 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 March 31, 2022, the value of the investment was \$63, resulting in an unrealized foreign exchange loss of \$1 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 March 31, 2022, the value of the investment was \$184, thus resulting in a loss on fair value re-measurement of \$6. (See Note 21 Subsequent Events - *FlowerPod Amended Agreement for additional information after the reporting date.*)

13. 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

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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 three months ended March 31, 2022, \$Nil of interest income was recorded in interest and other income. As at March 31, 2022, the value of the note was \$386, resulting in an unrealized foreign exchange loss of \$35 was recorded in Finance costs and other expenses. (See Note 21 Subsequent Events - *FlowerPod Amended Agreement for additional information after the reporting date.*)

14. Leases

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

a) Right-of-Use Assets

	Land	Buildings	Equipment	Total
	\$	\$	\$	\$
Costs:				
Balance, applied January 1, 2021	3,634	1,429	161	5,224
Additions	-	31	2	33
Disposals	-	(413)	(114)	(527)
Balance, applied December 31, 2021	3,634	1,047	49	4,730
Additions	-	-	1	1
Balance, March 31, 2022	3,634	1,047	50	4,731
Accumulated Depreciation:				
Balance, applied January 1, 2021	3,634	995	86	4,715
Additions	-	221	26	247
Disposals	-	(232)	(115)	(347)
Impairment	-	-	13	13
Balance, applied December 31, 2021	3,634	984	10	4,628
Additions	-	63	4	67
Balance, March 31, 2022	3,634	1,047	14	4,695
Carrying value:				
March 31, 2022	-	-	36	36
December 31, 2021	-	63	39	102

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b) Lease Liabilities

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

	\$
Lease liabilities recognized at December 31, 2021	3,639
Lease additions	1
Lease renewals	-
Lease disposals	-
Lease payments	(49)
Lease liability on held for sale assets	-
Interest incurred	-
Balance, March 31, 2022	3,591

As at March 31, 2022	\$
Lease obligations	3,591
Less current portion	(3,591)
Non-current portion	-

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

Contractual Undiscounted Cash Flows:	
	\$
Within 1 year	391
1 - <3 years	660
3 - <5 years	640
Over 5 years	6,480
Balance, March 31, 2022	8,171

For the three months ended March 31, 2022, an amount of \$3 (March 31, 2021 - \$50) has been recorded in operating costs for the Company related to variable lease payments, and amounts relating to short term leases, and leases for low value assets.

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15. Revenue

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

	For the three months ended March 31, 2022	For the three months ended March 31, 2021
	\$	\$
Dried Cannabis	2,840	1,629
Concentrates, Extracts and Edibles	200	1,024
Total	3,040	2,653

16. General and Administrative Expenses

	For the three months ended March 31, 2022	For the three months ended March 31, 2021
	\$	\$
Professional, director and consulting fees	262	622
Corporate communications and media	98	38
Wages and benefits	691	764
Office and general	504	797
Travel and accommodations	9	6
Total	1,564	2,227

17. Disposal of interest in Joint Venture

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

18. Discontinued Operations

During the year ended December 31, 2021, the Company initiated a plan to exit the recreational and medical cannabis business and pivot to a pharmaceutical development focus. As a result, all of the Company's assets are classified as held for sale as at March 31, 2022. Additionally, all of the Company's operations have been deemed to be discontinued operations.

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19. 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 March 31, 2022 are summarized in the following table:

	Amortized cost
	\$
Financial Assets	
Cash and cash equivalents	16,152
Accounts receivable, excluding sales taxes receivable	1,471
Promissory note receivable	386
Long-term investments	247
Financial Liabilities	
Accounts payable and accrued liabilities	5,318
Lease liability	3,591

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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 March 31, 2022 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.

(d) Liquidity risk

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

	March 31	December 31
	2022	2021
	\$	\$
Trade payables	1,788	1,043
Accrued liabilities	18	373
Excise tax payable	1,156	534
Payroll liabilities	97	137
Sales tax liabilities	1,313	1,277
Other payables	946	171
Total	5,318	3,535

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In addition to the commitments outlined in Note 14 - Leases, the Company has the following gross contractual obligations as at March 31, 2022, which are expected to be payable in the following respective periods:

	Total	≤ 1 year	Over 1 year - 3 years
	\$	\$	\$
Accounts payable and accrued liabilities	5,318	5,318	-
	5,318	5,318	-

Liquidity risk is the risk that the Company will not be able to meet its obligations associated with financial liabilities. As at March 31, 2022, the Company had working capital of \$11,547 (December 31, 2021 – \$14,952).

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.

20. Capital Management

As at March 31, 2022, the capital structure of the Company consists of \$39,268 (December 31, 2021 - \$40,892) in shareholders' equity and debt.

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

21. Subsequent Events

Amended Lease Agreement – Metro Vancouver Land (Related Party)

On April 14, 2022, the Company concluded an agreement under which the lease obligation with the Landlord of the land in Metro Vancouver, British Columbia (a related party) would be concluded effective December 31, 2022 (or such earlier date on which the Landlord informs the Company that it has located a new tenant for the premises), in exchange for the transfer to the landlord of the non-leased equipment owned by the Company at the site. The Company will continue to make quarterly payments of \$95 thousand through June 2022 and then \$114 thousand quarterly payments from July to Dec 2022, after which it will have no further obligations or liabilities to the Landlord. The Company has the option to terminate the lease earlier upon payment to the Landlord of an amount equal to all remaining rent, and all other costs owed the Landlord, to

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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. 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 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.

FlowerPod Amended Agreement

On April 28, 2022, the Company entered into an amended 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\$500 due on the anniversary of the closing bearing an interest rate of 10% per annum to \$967 (US\$750) on closing and a \$967 (US\$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).

Acquisition by Skye Bioscience, Inc. (Related Party)

On May 12, 2022 Emerald and Skye Bioscience, Inc. announced that the companies have entered into a definitive agreement, as amended on June 14, 2022 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 416M 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 fourth quarter of 2022.

Common Stock Issued to Emerald Health Sciences Inc. (Related Party)

On July 8, 2022, Sciences transferred its 39,401,608 Common Shares to its shareholders as a Return of Capital but continues to hold its common share purchase warrants.