EMERALD HEALTH THERAPEUTICS, INC.

Condensed Interim Consolidated Financial Statements

(Unaudited)

For the three and six months ended June 30, 2022 and 2021

(Expressed in Canadian Dollars)

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CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (unaudited)
(Amounts reflected in thousands of Canadian dollars, except share and per share amounts)

	June 30 2022	December 31 2021
ASSETS		
Current assets		
Cash and cash equivalents	$ **15,518**	$ 18,512
Accounts receivable (Note 3)	**1,144**	1,634
Inventory (Note 5)	**—**	849
Prepaid expenses	**1,442**	1,160
Total current assets	**18,104**	22,155
Property, plant and equipment (Note 6)	**14,793**	16,643
Plant under construction (Note 6)	**—**	860
Deposits on materials and equipment	**—**	71
Intangible assets (Note 7)	**402**	401
Promissory note receivable (Note 13)	**427**	406
Right-of-use assets (Note 14)	**49**	102
Long-term investment (Note 12)	**131**	254
Total non-current assets	**15,802**	**18,737**
TOTAL ASSETS	**$ 33,906**	**$ 40,892**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities (Note 19 (d))	$ **5,306**	$ 3,536
Insurance payable (Note 19 (d))	**485**	—
Due to related parties (Note 8)	**18**	27
Lease liability (Note 14)	**260**	3,639
Total current liabilities	**6,069**	7,202
CEBA loan	**—**	40
TOTAL LIABILITIES	**$ 6,069**	**$ 7,242**
SHAREHOLDERS' EQUITY		
Share capital (Note 9)	**252,651**	252,651
Warrants (Note 11)	**823**	823
Contributed surplus	**27,909**	28,115
Accumulated other comprehensive income	**(217)**	(239)

Accumulated deficit		**(253,329)**	(247,700)
TOTAL SHAREHOLDERS' EQUITY		**27,837**	33,650
TOTAL LIABILITIES AND EQUITY	**$**	**33,906**	**$ 40,892**

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

/s/ Punit Dhillon — Director

/s/ Jim Heppell — Director

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

EMERALD HEALTH THERAPEUTICS, INC.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS (unaudited)

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

	Three months ended June 30 2022	Three months ended June 30 2021	**Six months ended June 30 2022**	Six months ended June 30 2021
Revenue				
Revenue from sale of goods (Note 15)	**$ 1,282**	$ 3,777	**$ 3,769**	$ 6,429
Excise taxes	**(448)**	(733)	**(1,021)**	(1,130)
Net revenue	**834**	3,044	**2,748**	5,299
Cost of sales				
Cost of goods sold	**6**	1,330	**1,047**	2,463
Production costs	**367**	1,342	**1,002**	2,777
Amortization of Health Canada license	—	1	**-**	3
Inventory write-down (Note 5)	**150**	173	**601**	404
Realized fair value amounts on inventory sold (Note 5)	**228**	1,045	**595**	1,600
Unrealized gain on changes in fair value of biological assets (Note 4)	—	(540)	**(100)**	(635)
Gross margin	**83**	(307)	**(397)**	(1,313)
Expenses				
General and administrative (Note 16)	**2,250**	2,256	**4,975**	4,483
Sales and marketing	**36**	567	**475**	994
Research and development	**(9)**	640	**247**	911
Depreciation and amortization (Note 6, 7 and 14)	**1**	448	**21**	901
Share-based payments (Note 10)	**1**	194	**(206)**	337
	2,279	4,105	**5,513**	7,626
Loss from operations	**(2,196)**	(4,412)	**(5,909)**	(8,939)
Interest and other income	**936**	782	**1,869**	1,869
Finance costs and other expenses	**(901)**	(31)	**(1,757)**	(33)
Impairment of assets (Note 4)	—	(10,668)	**(76)**	(10,668)
Gain on modification of lease	**3,234**	—	**3,234**	—
Gain on settlement of deferred payment (Note 8)	—	—	—	293
Gain on sale of long term investment (Note 12)	—	—	—	249
Fair value changes in long-term investment	—	373	—	373
Exchange loss (Note 13, 21)	**(1)**	—	**(8)**	—
Loss on equity interest on FlowerPod	**(89)**	—	**(131)**	—
Loss on disposal of capital assets (Note 6)	**(2,846)**	—	**(2,851)**	—
Loss before income taxes	**(1,863)**	(13,956)	**(5,629)**	(16,856)
Other comprehensive income	**28**	—	**22**	—

NET LOSS AND COMPREHENSIVE LOSS	**(1,835)**	(13,956)	**(5,607)**	(16,856)
Net loss and comprehensive loss attributable to:				
Emerald Health Therapeutics, Inc.	**(1,835)**	(13,956)	**(5,607)**	(16,856)
	(1,835)	**(13,956)**	**(5,607)**	**(16,856)**
Basic and diluted net loss per common share	**0.01**	0.07	**(0.01)**	0.08
Weighted average number of common shares outstanding				
Basic and diluted	**213,472,095**	213,316,889	**213,472,095**	211,670,384

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

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

	Share Capital		Warrants							
	# of Shares	Amount	# of Warrants	Amount	Contributed Surplus	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Shareholders' Equity	Non-Controlling Interest	Total Equity
Balance, January 1, 2022	213,472,095	$ 252,651	31,255,085	$ 823	$ 28,115	$ (239)	$ (247,700)	$ 33,650	$ —	$ 33,650
Share-based payments	—	—	—	—	(206)	—	—	(206)	—	(206)
Net loss and comprehensive loss	—	—	—	—	—	22	(5,629)	(5,607)	—	(5,607)
Balance, June 30, 2022	**213,472,095**	**$ 252,651**	**31,255,085**	**$ 823**	**$ 27,909**	**$ (217)**	**$ (253,329)**	**$ 27,837**	**$ —**	**$ 27,837**
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)	519,848	770	—	—	(770)	—	—	0	—	—
Shares issued on warrant exercises	6,250,000	2,208	(6,250,000)	(895)	—	—	—	1,313	—	1,313
Share issuance costs	—	(115)	—	—	—	—	—	(115)	—	(115)
Share-based payments	—	—	—	—	337	—	—	337	—	337
Net loss and comprehensive loss	—	—	—	—	—	—	(16,856)	(16,856)		(16,856)
Acquisition of subsidiary with NCI	—	—	—	—	—	—	—	0	(32)	(32)
Acquisition of NCI without change of control	—		—	—		—	(1,385)	(1,385)	1,385	—
Balance, June 30, 2021	**213,322,595**	**$ 252,706**	**35,666,849**	**$ 823**	**$ 28,663**	**$ —**	**$ (225,389)**	**$ 56,803**	**$ —**	**$ 56,803**

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

	Six months ended June 30 2022	Six months ended June 30 2021
Operating activities		
Net loss and comprehensive loss	**(5,607)**	$(16,856)
Items not involving cash		
Depreciation	**53**	1,701
Inventory write-down	**601**	404
Share-based payments	**(206)**	337
Impairment of assets	**48**	10,668
Loss on disposal of assets	**2,738**	14
Interest and accretion expense	—	(4)
Gain on changes in fair value of biological assets	**(100)**	(635)
Gain on sale of long-term investment	—	(249)
Gain on changes in fair value of long-term investment	—	(373)
Gain on modification of lease	**(3,234)**	(17)
Gain on settlement of deferred payment	—	(293)
Changes in non-cash operating working capital		
Accounts receivable	**485**	(637)
Bad Debt Recovery	**5**	—
Prepaid expenses	**551**	302
Inventory and biological assets	**272**	946
Accounts payable and accrued liabilities	**1,771**	(4,337)
Due to related parties	**(9)**	(1,026)
Net cash flows used in operating activities	**(2,632)**	(10,055)
Investing activities		
Issuance of notes receivable	—	(447)
Long Term investment	—	(64)
Acquisition of asset	—	(5)
Deposits on material and equipment	—	(66)
Sale of plant and equipment	—	15
Sale of joint venture interests	—	20,522
Sale of long-term investment	—	383
Purchase of plant and equipment	—	(1,136)
Purchase of intangible assets	—	(57)
Repayment of deferred payment	—	(9,000)
Loss on equity interest in FlowerPod	**131**	—
Net cash flows provided by investing activities	**131**	10,145
Financing activities	**(145)**	(236)

Payment of lease liabilities	**—**	(32)
Acquisition of NCI	**(40)**	—
Repayment of long-term debt	**—**	—
Repayment of insurance payable	**(308)**	
Share issuance costs	**—**	(115)
Stock option exercises	**—**	50
Interest paid	**—**	(182)
Warrant exercises	**—**	1,313
Net cash flows (used in) provided by financing activities	**(493)**	798
Increase (decrease) in cash and cash equivalents	**(2,994)**	888
Cash and cash equivalents, beginning of year	**18,512**	25,998
Cash and cash equivalents, end of period	**$15,518**	$26,886
Supplemental Information:		
Financing of insurance premium	$ 792	$ —

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1. Nature and Continuance of Operations

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

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

The Company's principal business was 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. During the six months ended June 30, 2022, the Company continued to focus on winding down its prior operations in a manner intended to reduce operating costs.

On February 28, 2022 and May 31, 2022, the Company ceased all production and packaging operations at the facility located at 4226 Commerce Circle and the facility located at 4223 Commerce Circle, respectively. The lease for the Company's 4226 Commerce Circle facility in Victoria, BC expired on February 28, 2022, and the lease for the 4223 Commerce Circle facility in Victoria, BC expired on May 31, 2022; however, the Company continues to rent both facilities on a month-to-month basis in order to maintain its Health Canada License ("License") to cultivate, process, package and sell cannabis products. By June 1, 2022, the Company's Victoria facilities had fully wound its operations.

On April 14, 2022, the Company entered into a Termination of Lease and Transfer of Assets Agreement with the Landlord of the Richmond Land ("Lease Modification of the Richmond Lease"). As part of the agreement, the Company modified the terms of the original lease and 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 the Company elects to terminate early. For the period between the lease modification date and the termination date of December 31, 2022, the Company will continue to pay the landlord the regular lease payments in accordance with the original lease agreement. (*See Note 14 Leases, Richmond Terminated Lease*)

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). As of the date that these unaudited condensed interim consolidated financial statements were issued, the binding term sheet has not yet closed.

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 and July 15, 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:

1) Approval of the Arrangement by special resolutions of disinterested Skye and Emerald shareholders;
2) Court approval of the Arrangement; and
3) 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.

On June 14, 2022, Skye and EHT entered into an amendment to the Arrangement Agreement to reflect certain changes to the post-closing board of directors of Skye and to waive the closing condition in the Arrangement Agreement requiring Skye to obtain a waiver from Emerald Health Biotechnology Espana S.L. ("EHB SL") for payment of any change of control payments under the Exclusive Sponsored Research Agreement, dated October 11, 2021 between EHB SL and Skye that may arise as a result of the transactions contemplated by the Arrangement Agreement.

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

As at June 30, 2022, the Company had total cash and cash equivalents of $15,518, working capital of $12,035, and negative cash flow from operating activities of $2,632 for the 6 month period. The Company is aware, in making its assessment, of material uncertainties related to events or conditions that cast significant doubt upon the Company's ability to continue as a going concern, such as the need to commence profitable operations.

These unaudited 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 during December 31, 2021 and are still classified as held for sale as at June 30, 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") as issued by the International Accounting Standards Board ("IASB") requires the Company 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 the Company 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 19).

Significant judgements are those judgements that the Company has made in the application of accounting policies that have the most significant effect on the amounts recognized in these unaudited condensed interim consolidated financial statements and include: accounting for leases (Note 14), discontinued operations (Note 18), and going concern (Note 1).

a. *Basis of Presentation and Measurement*

These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34 – *Interim Financial* Reporting using accounting policies consistent with IFRS. Unless otherwise noted, all amounts are presented in thousands of Canadian dollars, except share and per share data. These unaudited condensed interim consolidated financial statements were authorized for issue by the Audit Committee on August 10, 2022.

These unaudited 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.

b. *Recent Accounting Pronouncements*

At the date of authorization of these unaudited condensed interim consolidated financial statements, the IASB and the IFRIC have issued the following amendments which are effective for annual periods beginning on or after January 1, 2023. Many are not applicable or do not have a significant impact to the Company and have been excluded. The Company is currently assessing the impact upon the adoption of the following amendments on its consolidated financial statements:

Amendments to IAS 1 Regarding Accounting Policy Information

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 intended to clarify which accounting policies are disclosed. Entities will be required to disclose material accounting policy information instead of significant accounting policies. Accounting policy information may be material because of its nature, even if the related amounts are immaterial. The amendments also clarify that accounting policy information is material if users would need it to understand other financial information; additionally, if immaterial accounting policy information is disclosed, it should not obscure material accounting policy information. The amendments to IAS 1-*Presentation of Financial Notes* are effective for annual periods beginning on or after January 1, 2023. Earlier application is permitted.

As at June 30, 2022, the Company has not yet adopted the amendments to IAS 1. The Company is currently assessing the impact upon the adoption of these amendments on its consolidated financial statements.

Amendments to IAS 1 Regarding Classification of Liabilities

In January 2020, the IASB issued amendments to IAS 1 which clarify the requirements for classifying liabilities as either current or non-current by: (i) specifying that the conditions which exist at the end of the reporting period determine if a right to defer settlement of a liability exists; (ii) clarifying that settlement of a liability refers to the transfer to the counterparty of cash, equity instruments, other assets or services; (iii) clarifying that classification is unaffected by the Company's expectation about events after the balance sheet date; and (iv) clarifying the classification requirements for debt an entity may settle by converting it into equity.

The amendments clarify existing requirements, rather than make changes to the requirements, and so are not expected to have a significant impact on an entity's financial statements. However, the clarifications may result in reclassification of some liabilities from current to non-current or vice-versa, which could impact an entity's loan covenants. Because of this impact, the IASB has provided a longer effective date to allow entities to prepare for these amendments. In July 2020, the IASB issued an amendment to defer the effective date of the amendments by one year from its originally planned effective date to annual periods beginning on or after January 1, 2023 due to the impact of COVID-19. Early application is permitted.

As at June 30, 2022, the Company has not yet adopted the amendments to IAS 1. The Company is currently assessing the impact upon the adoption of these amendments on its consolidated financial statements.

c. *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.

d. *Basis of Consolidation*

These unaudited 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.

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

The subsidiaries of the Company at June 30, 2022 include the following:

Name of Entity	**Ownership Interest as at June 30 2022**	Ownership Interest 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 %

3. Accounts Receivable

The Company's accounts receivables are comprised of:

	June 30 2022	December 31 2021
	$	**$**
Trade receivables	**1,120**	1,806
Other receivables	**325**	134
Expected credit loss	**(301)**	(306)
	$ 1,144	$ 1,634

4. Biological Assets

During the six months ended June 30, 2022, the Company's biological assets produced 226 kilograms of dried cannabis flower (June 30, 2021 – 1,631 kilograms). As of June 30, 2022, the weighted average stage of growth for the biological assets was 77% (June 30, 2021 – 40%). The average number of days from the point of propagation to harvest was 0 days (June 30, 2021 – 105 days). Growing operations ceased for the organization during the quarter ending June 30, 2022, thus most cannabis produced during 2022 was destroyed during the first quarter of 2022.

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 June 30, 2022, the Company has destroyed and written off all of its 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)

	June 30 2022	December 31 2021
	$	$
Carrying amount, beginning of year	**0**	969
Effect of unrealized changes in fair value of biological assets	**76**	710
Transferred to inventory upon harvest	**(76)**	(1,679)
Carrying amount, end of period	**$ —**	$ —

During the three and six months ended June 30, 2022, the Company wrote off $Nil and $76 (June 30,2021- $Nil and $Nil), respectively, of biological assets due to the fact that these biological assets had not yet sold as of the date that these unaudited condensed interim consolidated financial statements were issued. As at June 30, 2022, included in the carrying amount of biological assets is $Nil in seeds (December 31, 2021 - $Nil) and $Nil in live plants (December 31, 2021 - $Nil).

5. Inventory

The Company's inventory is comprised of:

	June 30 2022	December 31 2021
	$	$
Harvested cannabis:		
Work-in-process	—	29
Finished goods	—	178
	—	207
Extracted cannabis:		
Work-in-process	—	45
Finished goods	—	547
	—	592
Supplies and consumables	—	50
	$ —	$ 849

During the three and six months ended June 30, 2022, inventory expensed to cost of goods sold was $178 and $1,078 (June 30, 2021 – $2,265 and $3,862), respectively. The fair value change in biological assets that was included in cost of goods sold during the three and six months ended June 30, 2022 was $Nil and $100 (June 30, 2021 - $540 and $635), respectively.

During the three and six months ended June 30, 2022, a write-down of $150 and $601, respectively, was recognized for dried bulk cannabis and packaged inventory (June 30, 2021 - $173 and $404) related to product deterioration, a packaging defect and limited remaining shelf life.

As at June 30, 2022, the Company has destroyed and written off all of its remaining inventory due to the Company's decision to cease cannabis related operations.

(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, 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
Additions	—	—	—	119	—	—	119
Disposals				(104)			(104)
Disposals related to Richmond lease termination	—	(2,204)	—	(516)	—	(121)	(2,841)
Balance, June 30 2022	**476**	**31,131**	**816**	**6,478**	**374**	**1,093**	**40,368**

	Land	Buildings	Leasehold Improvement	Production, Lab and Growing Equipment	Computers	Other Equipment	Total
	$	$	$	$	$	$	$
Accumulated depreciation and impairments:							
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
Impairment Adjustment	—	—	(29)	119	—	1	91
Disposals				(93)			(93)
Disposals related to Richmond lease termination	—	(665)	—	(272)	—	(37)	(974)
Balance, June 30 2022	**119**	**19,048**	**775**	**4,543**	**335**	**755**	**25,575**

			Leasehold	Production, Lab and Growing		Other	

	Land	Buildings	Improvement	Equipment	Computers	Equipment	Total
	$	$	$	$	$	$	$
Net book value:							
June 30, 2022	**357**	**12,083**	**41**	**1,935**	**39**	**338**	**14,793**
December 31, 2021	357	13,622	12	2,190	39	423	16,643

Depreciation relating to computers, buildings, lab equipment, etc. is capitalized into inventory and is expensed to cost of sales upon sale of goods. For the three and six months ended June 30, 2022, $11 and $23, respectively (June 30, 2021 - $325 and $652) of depreciation was recognized in cost of sales.

As at June 30, 2022, the Company surrendered assets as part of the Richmond Termination Lease. The Company disposed of property, plant and equipment and plant under construction of $1,866 and $860. During the three and six months ended June 30, 2022, the Company recognized a total loss on the disposal of capital assets and plant under construction related to the Richmond Termination Lease of $2,727. (See *Note 14 Leases, Richmond Terminated Lease* for more information.)

All of the Company's property, plant and equipment is classified as held for sale as of June 30, 2022. During the three and six months ended June 30, 2022, the Company recognized no depreciation expense for property, plant and equipment, and disposed of one asset with a net book value of $11. As at June 30, 2022, the fair value of property, plant and equipment is $14,793 (December 31, 2021 - $16,643). During the six months ending June 30, 2022, the Company identified no indicators of further impairment.

Deposits

As at June 30, 2022, the Company had prepaid approximately $48 for packaging equipment in connection with an existing arrangement (December 31, 2021 - $71), which total about $119 and was received at the facility. Since all of the Company's assets are being held for sale, the Company disposed of the asset as at June 30, 2022.

7. Intangible Assets

The Company's intangible assets continuity is as follows:

		Patents	Extraction Assets	Health Canada License	Computer Software	Total
Cost:		$	$	$	$	$
	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
Balance, June 30, 2022		**970**	**557**	**89,174**	**1,247**	**91,948**

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

		Patents	Extraction Assets	Health Canada License	Computer Software	Total
Accumulated amortization and impairments:		$	$	$	$	$
	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
	Impairment Adjustment				(1)	(1)
Balance, June 30, 2022		**747**	**557**	**89,050**	**1,192**	**91,546**

		Patents	Extraction Assets	Health Canada Licence	Computer Software	Total
Net book value:		$	$	$	$	$
	June 30, 2022	**223**	**—**	**124**	**55**	**402**
	December 31, 2022	223	—	124	54	401

All of the Company's intangible assets are classified as held for sale as of June 30, 2022. During the three and six months ended June 30, 2022, the Company recognized no amortization expense for intangible assets. As at June 30, 2022, the fair value of intangible assets is $402 (December 31, 2021 - $401) based on impairment of intangible assets recognized in the prior year and assessment of impairment indicators during the three and six months ended June 30, 2022. During the six months ending June 30, 2022, the Company recognized no indicators of further impairment.

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.

Emerald Health Sciences Inc.

As of the six months ended June 30, 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.

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

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.

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 lease amount was determined by an independent valuation and was approved by the nonconflicted directors of the Company. During the three and six months ended June 30, 2022, the Company paid to the Landlord $95 and $95 (June 30, 2021 - $95), respectively, in rent. As at June 30, 2022, the Company recognized lease liabilities of $260 (December 31, 2021 - $3,476) relating to the land in Metro Vancouver with a corresponding right of use asset.

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 June 30 2022	For the three months ended June 30 2021	**For the six months ended June 30 2022**	For the six months ended June 30 2021
	$		**$**	$
Wage and short term benefits	**110**	935	**636**	905
Share-based compensation (Note 11)	**5**	42	**13**	799
	$ 115	$ 977	**$ 649**	$ 1,704

Included in Due to Related Parties on the consolidated statements of financial position at June 30, 2022 is $18 (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

As at June 30, 2022, the Company has authorized an unlimited number of Common Shares (no par value) and an unlimited number of preferred shares (no par value), which are issuable in series. As at June 30, 2022, the Company has issued 213,472,095 Common Shares (December 31, 2021 – 213,472,095), and Nil preferred shares (December 31, 2021 – Nil).

During the three and six months ended June 30, 2022, the outstanding share capital did not increase or decrease.

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

- on 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 11);
- 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);
- on April 1, 2021, 160,000 restricted stock units vested, resulting in the issuance of 160,000 Common Shares for no cash proceeds; and
- a total of 191,875 stock options were exercised ranging in exercise price from $0.21 to $0.29 for gross proceeds of $50.

10. Share-Based Compensation

Stock Options

No stock options were granted or exercised during the three and six months ended June 30, 2022. During the three and six months ended June 30, 2022, about 1,127,000 and 3,738,500, respectively, of stock options were forfeited which had a weighted average exercise price of $1.86.

As at June 30, 2022, there were 4,564,720 options outstanding (December 31, 2021 – 8,539,326). As at June 30, 2022, 475,625 are vested.

The Company recorded share-based compensation expense related to the stock options of $600 hundred and $(206) thousand, respectively, for the three and six months ended June 30, 2022 (June 30, 2021 - $189 and $267).

Restricted Share Units (“RSUs”)

During the three and six months ended June 30, 2022, the Company did not issue any RSUs, and none were outstanding. The Company recorded share-based compensation expense related to the RSUs of $Nil for the three and six months ended June 30, 2022 (June 30, 2021 - $5 and $70) to the consolidated statements of loss and comprehensive loss.

11. Warrants

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

	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	0.4
Balance at June 30, 2022	**31,255,085**	**0.4**
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 June 30, 2022	**31,255,085**	**0.4**

(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 and six months ended June 30, 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.

The Company reviews the carrying value of its investment in Prima at each reporting period for indicators of impairment. During the three and six months ended June 30, 2022, the Company noted no indicators of impairment for the Prima investment (June 30, 2021$Nil and $Nil). As at June 30, 2022, the value of the investment was $63, resulting from an unrealized foreign exchange loss during the three and six months ending June 30, 2022, of $2 and $1 respectfully.

FlowerPod, LLC (“FlowerPod)

On May 5, 2021, the Company exercised the 13,545 FlowerPod Warrants received as part of the Promissory Note transaction (Note 13) 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. The Company has elected to account for the changes in the fair value of investments through Other Comprehensive Income in accordance with IFRS 9-*Financial Instruments*.

The Company reviews the carrying value of its investment in FlowerPod at each reporting period for indicators of impairment. During the three and six months ended June 30, 2022, the Company noted no indicators of impairment for the FlowerPod investment. The Company recognized a loss of $89 and $131, respectively, related to its share of FlowerPod net loss for the three and six months ended June 30, 2022. Additionally, for the three and six months ending June 30, 2022, the Company recognized foreign currency translation gains of $14 and $8, respectively. As at June 30, 2022, the recognized value of the investment was $68.

13. Promissory Note

On May 5, 2021, Flowerpod issued a promissory note to the Company (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 three and six months ended June 30, 2022, interest income was recorded in interest and other income in the amounts of $6 and $12, respectively. Additionally, an unrealized foreign exchange loss of $8 and $14 which was recorded in other comprehensive income during the three and six months ended June 30, 2022 . During the three and six months ended June 30, 2022, the Company noted no indicators of impairment.

14. Leases

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

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	—	—	—	—
Balance, June 30, 2022		**3,634**	**1,047**	**49**	**4,730**

		Land	Buildings	Equipment	Total
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	—	47	6	53
Balance, June 30, 2022		**3,634**	**1,031**	**16**	**4,681**
Carrying value:					
	June 30, 2022	**—**	**16**	**33**	**49**
	December 31, 2021	—	63	39	102

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

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	—
Lease renewals	—
Lease terminations	(3,234)
Lease payments	(145)
Lease liability on held for sale assets	—
Interest incurred	—
Balance, June 30, 2022	**260**

Lease Modification of the Richmond Lease

On April 14, 2022, the Company entered into a Termination of Lease and Transfer of Assets Agreement with the Landlord of the Richmond Land ("Lease Modification of the Richmond Lease"). As part of the agreement, the Company modified the terms of the original lease and 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 the Company elects to terminate early. For the period between the lease modification date and the termination date of December 31, 2022, the Company will continue to pay the landlord the regular lease payments in accordance with the original lease agreement, and all other costs owed the Landlord, to December 31, 2022.

The Company assessed the lease under the lease modification rules under IFRS 16- *Leases* and concluded that the new lease should not be accounted for as a separate lease because the new lease does not increase the scope of the lease by adding the right to use one or more underlying assets and the consideration for the lease does not increase with the standalone price for the increase in scope and any adjustments to that stand-alone price reflect the circumstances of the particular contract.

As at June 30, 2022, the Company recorded a gain on lease termination of $3,234 related to the Lease Modification of the Richmond Lease. During the three and six months ended June 30, 2022, the Company recognized a gain of $3,234 and $3,234, respectively, related to the Lease Modification of the Richmond Lease. Since the Company's assets were classified as held for sale during the year ended December 31, 2021, the right of use asset related to the Lease Modification of the Richmond Lease was fully impaired. (Please see Note 6 Property, Plant and Equipment for the disposal of the capital assets and plant under construction related to the Lease Modification of the Richmond Lease.)

15. Revenue

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

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

	For the three months ended June 30,2022	For the three months ended June 30,2021	**For the six months ended June 30,2022**	For the six months ended June 30,2021
	$	$	**$**	$
Dried Cannabis	**1,102**	2,656	**3,245**	4,284
Concentrates, Extracts and Edibles	**180**	1,116	**524**	2,140
Other	—	5	—	**5**
Total	**1,282**	**3,777**	**3,769**	**6,429**

16. General and Administrative Expenses

	For the three months ended June 30, 2022	For the three months ended June 30, 2021	**For the six months ended June 30, 2022**	For the six months ended June 30, 2021
	$	$	**$**	$
Professional, director and consulting fees	**1,269**	525	**2,001**	1,147
Corporate communications and media	**41**	13	**139**	51
Wages and benefits	**174**	980	**1,183**	1,744
Office and general	**(8)**	31	**21**	47
D&O insurance	**273**	268	**490**	535
Rent, repairs, and construction	**430**	317	**981**	745
Utilities	**71**	122	**159**	214
Total	**2,250**	2,256	**4,975**	4,483

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 December 31, 2021 and continue to be classified as held for sale as at June 30, 2022. Additionally, all of the Company's operations have been deemed to be discontinued operations.

Severances

On February 22, 2022, the Company's Board of Directors approved severances of $949 as part of the Company's wind-down process. During the three and six months ended June 30, 2022, the Company had paid $402 and $800, respectively, in severances. All severances were paid as of June 30, 2022.

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), promissory note receivable, long-term investments, accounts payable and accrued liabilities, insurance payable, and lease liability, approximate the fair value because of the short-term nature of these instruments. These are carried at amortized cost.

The carrying values of the financial instruments at June 30, 2022 are summarized in the following table:

		Amortized cost
		$
Financial Assets		
Cash and cash equivalents		15,518
Accounts receivable, excluding sales taxes receivable		1,144
Long-term investments	**$**	**131**
Financial Liabilities		
Accounts payable and accrued liabilities		5,306
Insurance payable		485
Lease liability	**$**	**260**

(a) Currency risk

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

(b) Credit risk

Credit risk is the risk of an unexpected loss to the Company if a customer or third-party to a financial instrument fails to meet its contractual obligations. The Company's maximum exposure to credit risk as at June 30, 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:

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

	June 30 2022	December 31 2021
	$	$
Trade payables	**1,820**	1,044
Accrued liabilities	**1,457**	373
Excise tax payable	**1,048**	534
Payroll liabilities	**31**	137
Sales tax liabilities	**943**	1,277
Other payables	**7**	171
Total $	**5,306**	$ 3,536

In addition to the commitments outlined in Note 14 - Leases, the Company has the following gross contractual obligations as at June 30, 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	5,306	5,306	—
Insurance payable	485	485	—
	$ 5,791	$ 5,791	$ —

Liquidity risk is the risk that the Company will not be able to meet its obligations associated with financial liabilities. As at June 30, 2022, the Company had working capital of $12,035 (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. The Company 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 June 30, 20222, the capital structure of the Company consists of $33,906 (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. Commitments and Contingencies

Class Action Lawsuit

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

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

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

22. Subsequent Events

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.

Acquisition by Skye Bioscience, Inc. (Related Party) - Second Amendment

On July 15, 2022, Skye and EHT entered into the second amendment to the Arrangement Agreement to extend the outside date of the closing of the acquisition to November 15th in the event that the parties encounter regulatory delays.