



## **EMERALD HEALTH THERAPEUTICS, INC.**

### **Condensed Interim Consolidated Financial Statements**

For the three and nine months ended September 30, 2017 and 2016

*(Unaudited)*

*(Expressed in Canadian Dollars)*

**EMERALD HEALTH THERAPEUTICS, INC.**  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**(Unaudited)**  
**(Expressed in Canadian dollars)**

	September 30, 2017	December 31, 2016
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 22,822,264	\$ 3,217,205
Accounts receivable (Note 5)	225,564	28,701
Biological assets (Note 6)	184,887	162,986
Inventory (Note 7)	801,253	160,048
Prepaid expenses	178,766	32,783
Due from related parties (Note 11)	132,538	-
<b>Total current assets</b>	<b>24,345,272</b>	<b>3,601,723</b>
Plant and equipment (Note 8)	756,551	529,188
Plant under construction (Note 8)	1,000,211	-
Deposits on equipment (Note 8)	19,147	-
Refundable deposits (Note 11)	196,391	-
Intangible assets (Note 9)	24,258	45,418
Investment in joint venture (Note 10)	19,951,622	-
<b>Total non-current assets</b>	<b>21,948,180</b>	<b>574,606</b>
<b>TOTAL ASSETS</b>	<b>\$ 46,293,452</b>	<b>\$ 4,176,329</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 449,437	\$ 376,339
Payable to joint venture (Note 10)	8,000,000	-
Due to related parties (Note 11)	148,965	97,696
<b>Total current liabilities</b>	<b>8,598,402</b>	<b>474,035</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 12)	42,826,677	9,756,732
Warrants (Note 13)	4,679,773	-
Contributed surplus	4,100,392	3,043,099
Accumulated deficit	(13,911,792)	(9,097,537)
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>37,695,050</b>	<b>3,702,294</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 46,293,452</b>	<b>\$ 4,176,329</b>

Nature and continuance of operations (Note 1)  
 Commitments (Note 15)  
 Events after the reporting period (Note 17)

On behalf of the Board of Directors:

/s/ Punit Dhillon  
 Director

/s/ Bob Rai  
 Director

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

**EMERALD HEALTH THERAPEUTICS, INC.**  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**  
(Unaudited)  
(Expressed in Canadian dollars)

	For the three months ended September 30,		For the nine months ended September 30,	
	2017	2016	2017	2016
<b>Revenue</b>				
Sales	\$ 211,316	\$ 48,933	\$ 658,292	\$ 129,070
<b>Cost of sales</b>				
Cost of goods sold	161,136	35,261	517,694	107,248
Production costs	114,487	139,497	438,380	395,422
Gain on changes in fair value of biological assets	(64,307)	6,555	(208,637)	(101,921)
Gross margin	-	(132,380)	(89,145)	(271,679)
<b>Expenses</b>				
General and administrative	1,292,148	255,797	3,141,208	724,443
Sales and marketing	77,958	50,718	282,158	193,398
Research and development	30,711	70,971	167,274	244,231
Depreciation	49,567	32,097	132,006	82,651
Share-based payments (Note 12)	271,968	467,878	842,942	543,675
	1,722,352	877,461	4,565,588	1,788,398
<b>Loss from operations</b>	1,722,352	1,009,841	4,654,733	2,060,077
Share of loss from joint venture (Note 10)	278,016	-	278,016	-
Interest revenue	(60,997)	-	(118,494)	-
<b>NET LOSS AND COMPREHENSIVE LOSS</b>	1,939,371	1,009,841	4,814,255	2,060,077
<b>Basic and diluted loss per common share</b>	\$ 0.02	\$ 0.02	\$ 0.06	\$ 0.04
<b>Weighted average number of common shares outstanding (note 14)</b>				
-basic	93,071,874	54,381,242	85,623,260	49,411,725
-diluted	93,071,874	54,381,242	85,623,260	49,411,725

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

**EMERALD HEALTH THERAPEUTICS, INC.**  
**CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
**(Unaudited)**  
**(Expressed in Canadian dollars, except share and warrant numbers)**

	Common Shares Without Par Value		Warrants		Contributed Surplus	Accumulated Deficit	Total Shareholders' Equity
	# of Shares	Amount	# of Warrants	Amount			
Balance, December 31, 2016	67,794,698	\$ 9,756,732	8,489,451	\$ -	\$ 3,043,099	\$ (9,097,537)	\$ 3,702,294
Shares issued on stock option exercises	453,000	308,658	-	-	(135,747)	-	172,911
Shares issued on prospectus offerings	24,870,100	36,260,901	-	-	-	-	36,260,901
Warrants issued on prospectus offerings	-	-	12,690,250	4,679,773	-	-	4,679,773
Share issuance costs	-	(3,149,516)	-	-	-	-	(3,149,516)
Compensation options	-	(350,098)	-	-	350,098	-	-
Share-based payments	-	-	-	-	842,942	-	842,942
Net loss and comprehensive loss	-	-	-	-	-	(4,814,255)	(4,814,255)
<b>Balance, September 30, 2017</b>	<b>93,117,798</b>	<b>\$ 42,826,677</b>	<b>21,179,701</b>	<b>\$ 4,679,773</b>	<b>\$ 4,100,392</b>	<b>\$ (13,911,792)</b>	<b>\$ 37,695,050</b>
Balance, December 31, 2015	46,070,841	\$ 3,076,966	-	\$ -	\$ 2,666,874	\$ (6,157,036)	\$ (413,196)
Shares issued on conversion of debt	12,592,606	2,314,261	-	-	-	-	2,314,261
Shares issued on private placement	4,077,687	835,926	-	-	-	-	835,926
Shares issued on stock option exercise	125,000	139,469	-	-	(89,469)	-	50,000
Share issuance costs	-	(30,660)	-	-	-	-	(30,660)
Share-based payments	-	-	-	-	543,675	-	543,675
Net loss and comprehensive loss	-	-	-	-	-	(2,060,077)	(2,060,077)
<b>Balance, September 30, 2016</b>	<b>62,866,134</b>	<b>\$ 6,335,962</b>	<b>-</b>	<b>\$ -</b>	<b>\$ 3,121,080</b>	<b>\$ (8,217,113)</b>	<b>\$ 1,239,929</b>

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**EMERALD HEALTH THERAPEUTICS, INC.**  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited)  
(Expressed in Canadian dollars)

	<b>For the nine months ended</b>	
	<b>September 30,</b>	
	<b>2017</b>	<b>2016</b>
<b>Operating activities</b>		
Net loss	\$ (4,814,255)	\$ (2,060,077)
Items not involving cash:		
Depreciation of plant and equipment	110,846	71,250
Depreciation of intangible assets	21,160	11,401
Gain on changes in fair value of biological assets	(208,637)	(101,921)
Share-based payments	842,942	543,675
Share of loss from joint venture	278,016	-
Accrued interest	-	33,425
Loss on disposal of assets	-	1,100
Changes in non-cash operating working capital:		
Accounts receivable	(196,863)	18,481
Due from related parties	(132,538)	-
Prepaid expenses	(145,983)	(4,018)
Inventory and biological assets	(454,469)	5,106
Accounts payable and accrued liabilities	(26,419)	(6,924)
Due to related parties	(29,145)	90,185
<b>Net cash flows used in operating activities</b>	<b>(4,755,345)</b>	<b>(1,398,317)</b>
<b>Investing activities</b>		
Investment in joint venture	(12,227,259)	-
Purchase of plant and equipment	(1,160,868)	(198,209)
Deposits on equipment	(19,147)	(15,893)
Refundable deposits	(196,391)	-
<b>Net cash flows used in investing activities</b>	<b>(13,603,665)</b>	<b>(214,102)</b>
<b>Financing activities</b>		
Proceeds from prospectus offering	40,940,674	-
Proceeds from private placement	-	835,926
Stock option exercises	172,911	50,000
Share issuance costs	(3,149,516)	(30,660)
Advances from related parties	-	1,550,770
<b>Net cash flows generated from financing activities</b>	<b>37,964,069</b>	<b>2,406,036</b>
<b>Increase in cash and cash equivalents</b>	<b>19,605,059</b>	<b>793,617</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>3,217,205</b>	<b>81,836</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 22,822,264</b>	<b>\$ 875,453</b>

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**EMERALD HEALTH THERAPEUTICS, INC.**  
**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**For the three and nine months ended September 30, 2017 and 2016**  
**(Unaudited)**  
**(Expressed in Canadian dollars)**

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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 as Firebird Capital Partners Inc. and changed its name to Firebird Energy Inc. in December 2012. On September 4, 2014, the Company completed the acquisition of all of the issued and outstanding common shares of Thunderbird Biomedical Inc. ("Thunderbird"), by way of a reverse takeover (the "RTO") under the rules of the TSX Venture Exchange (the "TSXV") and concurrently changed its name to T-Bird Pharma, Inc. Thunderbird became a wholly owned subsidiary of the Company. In June 2015, the Company changed its name to Emerald Health Therapeutics, Inc. and Thunderbird changed its name to Emerald Health Botanicals Inc. ("Botanicals"). The Company's registered office is at Suite 2600 Oceanic Plaza, 1066 West Hastings Street, Vancouver, BC, V6E 3X1. The Company is classified as a Tier 2 Venture Issuer on the TSXV.

The Company owns 100% of the shares of Botanicals, a private Victoria, British Columbia based company which was incorporated pursuant to the *Business Corporations Act* (British Columbia) on January 28, 2013. The principal business of Botanicals is the production and sale of medical marihuana pursuant to the Access to Cannabis for Medical Purposes Regulations.

On June 6, 2017, the Company and Botanicals entered into a joint venture arrangement with respect to Botanicals' 50% equity interest in Pure Sunfarms Corp., for the purpose to produce, cultivate and distribute wholesale cannabis and cannabis extracts for therapeutic and non-therapeutic use purposes, if permitted by applicable law.

Botanicals owns 100% of the shares of Emerald Health Farms Inc., a holding company incorporated pursuant to the *Business Corporations Act* (British Columbia) on September 7, 2017.

**2. BASIS OF PRESENTATION**

These condensed interim 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, 2016. Accordingly, accounting policies, estimates, and judgements applied are the same as those applied in the Company's annual financial statements, unless otherwise indicated. The Company assesses its accounting estimates and judgements every reporting period.

The Company's interim results are not necessarily indicative of its results for a full year.

*a) Statement of Compliance*

These condensed interim financial statements including comparative figures, have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34") using the accounting principles consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These condensed interim consolidated financial statements were authorized for filing by the Board of Directors on November 15, 2017.

**EMERALD HEALTH THERAPEUTICS, INC.**  
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**For the three and nine months ended September 30, 2017 and 2016**  
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*b) Basis of measurement*

These condensed interim consolidated financial statements have been prepared on a historical cost basis except for cash and biological assets, which are measured at fair value.

*c) Functional and presentation currency*

The Company's functional currency is Canadian dollars. All dollar amounts presented are in Canadian dollars unless otherwise specified.

**3. ACCOUNTING POLICIES**

These condensed interim consolidated financial statements have been prepared using the same accounting policies as those used in the Company's annual financial statements at December 31, 2016 with the exceptions noted below.

**Cash and cash equivalents**

Cash and cash equivalents include cash and redeemable short-term investment certificates with a maturity of less than one year held at major financial institutions. No amounts are considered restricted cash that is not available for use by the Company.

**Plant under construction**

Expenditures for plant under construction are capitalized to the statement of financial position, and will be amortized over the life of the asset, commencing at the time the asset is ready for its intended use. At each balance sheet date, the Company considers whether there is objective evidence of impairment of the asset, and if so, will write down the asset to its recoverable value.

**Investment in joint venture**

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

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**4. NEW ACCOUNTING PRONOUNCEMENTS**

The Company has assessed the impact of the below standards that were issued but not yet effective up to the date of issuance of these condensed interim consolidated financial statements and has determined that there will be no significant changes to the financial position when applied at a future date. The Company will provide additional disclosures and modify existing disclosures as required in the notes to the financial statements upon adoption of the new standards for periods beginning January 1, 2018.

*IFRS 15, Revenue from Contracts with Customers* - clarifies the principles for recognizing revenue from contracts with customers. IFRS 15 will also result in enhanced disclosure about revenue, provide guidance for transactions that were not previously addressed comprehensively (i.e. service revenue and contract modifications) and improve guidance for multiple-element arrangements. The standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

*IFRS 9, Financial Instruments* - replaces the guidance in IAS 39 - Financial Instruments; Recognition and Measurement, on the classification and measurement of financial assets. The standard eliminates the existing IAS 39 categories of held to maturity, available-for-sale and loans and receivable. Financial assets will be classified into one of two categories on initial recognition, financial assets measured at amortized cost or financial assets measured at fair value. Gains and losses on re-measurement of financial assets measured at fair value will be recognized in profit or loss, except that for an investment in an equity instrument which is not held-for-trading, IFRS 9 provides, on initial recognition, an irrevocable election to present all fair value changes from the investment in other comprehensive income. The standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

**5. ACCOUNTS RECEIVABLE**

The Company's accounts receivable is comprised of:

	<b>September 30, 2017</b>	<b>December 31, 2016</b>
Goods and Services Tax refund receivable	\$ 132,776	\$ 26,350
Interest receivable	78,948	-
Other	13,840	2,351
	<b>\$ 225,564</b>	<b>\$ 28,701</b>



**EMERALD HEALTH THERAPEUTICS, INC.**  
**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
For the three and nine months ended September 30, 2017 and 2016  
(Unaudited)  
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**6. BIOLOGICAL ASSETS**

The Company's biological assets consist of seeds and cannabis on plants. The continuity of biological assets for the nine months ended September 30, 2017 and for the year ended December 31, 2016 is as follows:

	<b>September 30, 2017</b>	<b>December 31, 2016</b>
Carrying amount, beginning of period	\$ 162,986	\$ 140,422
Use of seeds	-	(2,640)
Changes in fair value less costs to sell due to biological transformation	208,637	197,293
Transferred to inventory upon harvest	(186,736)	(172,089)
Carrying amount	\$ 184,887	\$ 162,986

As at September 30, 2017, included in the carrying amount of biological assets is \$25,113 (December 31, 2016 - \$25,113) in seeds and \$159,774 (December 31, 2016 - \$137,873) in live plants.

**7. INVENTORY**

The Company's inventory is comprised of:

	<b>September 30, 2017</b>	<b>December 31, 2016</b>
Finished goods	\$ 790,350	\$ 146,056
Supplies and consumables	10,903	13,992
	\$ 801,253	\$ 160,048

**8. PLANT AND EQUIPMENT**

	<b>Leasehold improvements</b>	<b>Growing and extract equipment</b>	<b>Other equipment</b>	<b>Total</b>
<b>Cost</b>				
Balance, December 31, 2015	\$ 184,327	\$ 258,913	\$ 28,631	\$ 471,871
Additions	602	199,470	24,927	224,999
Disposals	-	(2,604)	(1,305)	(3,909)
Balance, December 31, 2016	\$ 184,929	\$ 455,779	\$ 52,253	\$ 692,961
Additions	59,242	248,865	30,101	338,208
Balance, September 30, 2017	\$ 244,171	\$ 704,644	\$ 82,354	\$ 1,031,169

**EMERALD HEALTH THERAPEUTICS, INC.**  
**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
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<b>Accumulated depreciation</b>								
Balance, December 31, 2015	\$	27,229	\$	29,495	\$	9,337	\$	66,061
Additions		18,775		68,281		12,387		99,443
Disposals		-		(825)		(906)		(1,731)
Balance, December 31, 2016	\$	46,004	\$	96,951	\$	20,818	\$	163,773
Additions		23,629		73,256		13,960		110,845
Balance, September 30, 2017	\$	69,633	\$	170,207	\$	34,778	\$	274,618
<b>Net book value</b>								
At December 31, 2016	\$	138,925	\$	358,828	\$	31,435	\$	529,188
At September 30, 2017	\$	174,538	\$	534,437	\$	47,576	\$	756,551

During 2017, site preparation began on the Company's new self-constructed plant located in Metro Vancouver, British Columbia. As at September 30, 2017 \$1,000,211 of expenditures were capitalized. Construction on the new asset is expected to continue into the 2018 fiscal year, upon completion the asset will be put into use and depreciation will commence.

The deposit on equipment as at September 30, 2017 in the amount of \$19,147 (December 31, 2016 – \$Nil) is for lab equipment to be delivered subsequent to the period end.

**9. INTANGIBLE ASSETS**

		<b>Computer Software</b>	<b>Total</b>
<b>Cost</b>			
Balance, December 31, 2015	\$	2,549	\$ 2,549
Additions		61,771	61,771
Disposals		(2,185)	(2,185)
Balance, December 31, 2016	\$	62,135	\$ 62,135
Balance, September 30, 2017	\$	62,135	\$ 62,135
<b>Accumulated depreciation</b>			
Balance, December 31, 2015	\$	1,232	\$ 1,232
Additions		16,906	16,906
Disposals		(1,421)	(1,421)
Balance, December 31, 2016	\$	16,717	\$ 16,717
Additions		21,160	21,160
Balance, September 30, 2017	\$	37,877	\$ 37,877

**EMERALD HEALTH THERAPEUTICS, INC.**  
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**Net book value**

<b>At December 31, 2016</b>	<b>\$ 45,418</b>	<b>\$ 45,418</b>
<b>At September 30, 2017</b>	<b>\$ 24,258</b>	<b>\$ 24,258</b>

**10. INVESTMENT IN JOINT VENTURE**

On June 6, 2017, the Company entered into an agreement with respect to Pure Sunfarms Corp. (“Pure Sunfarms”), a company incorporated pursuant to the Business Corporations Act (British Columbia), with Village Farms International, Inc. (“Village Farms”). The purpose of Pure Sunfarms is to pursue large-scale cannabis production in Canada. Village Farms and Emerald each have a 50% ownership interest in Pure Sunfarms in the form of common shares. The Company has concluded that the agreement constitutes a joint arrangement where joint control is shared with Village Farms and therefore has accounted for Pure Sunfarms in accordance with IFRS 11 and IAS 28, using the equity method.

The Company has contributed \$12 million in cash to the joint venture as at September 30, 2017. A further \$8 million in cash is required to be forwarded to the joint venture as milestones are achieved; this amount is currently included as “payable to joint venture” on the statement of financial position. As part of the transaction, the Company incurred related transaction costs of \$229,639, which have been added to the amount of the investment in Pure Sunfarms in accordance with IAS 28.

Summarized financial information for Pure Sunfarms is set out below:

	<b>September 30, 2017</b>	<b>December 31, 2016</b>
Non-current assets	\$ 20,021,442	\$ -
Current assets (a)	19,701,676	-
<b>Total assets</b>	<b>39,723,118</b>	<b>-</b>
Non-current liabilities	-	-
Current liabilities	279,151	-
<b>Total liabilities</b>	<b>279,151</b>	<b>-</b>
(a) Includes cash and cash equivalents	1,642,630	-
<b>Loss and total comprehensive loss</b>	<b>556,033</b>	<b>-</b>

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**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
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A reconciliation of the summarized financial information to the carrying amount of the investment in Pure Sunfarms is set out below:

	<b>September 30, 2017</b>	<b>December 31, 2016</b>
Total net assets of Pure Sunfarms	\$ 39,443,967	\$ -
50% ownership interest held by the Company	19,721,983	-
Transaction costs	229,639	-
<b>Carrying amount of the investment</b>	<b>19,951,622</b>	<b>-</b>

To date, Pure Sunfarms has not issued dividends. As a privately held company, there are no quoted market prices available for the shares of Pure Sunfarms.

**11. RELATED PARTY TRANSACTIONS**

Sciences charged the Company \$599,250 and \$1,271,521 during the three and nine months ended September 30, 2017 (2016 - \$19,500 and \$85,890) for services related to financing, business development, investor relations and joint venture negotiations. Sciences charged the Company \$67,488 and \$244,485 during the three and nine months ended September 30, 2017 (2016 - \$Nil) for invoices paid on behalf of the Company. As of September 30, 2017, the Company owed \$65,342 (December 31, 2016 - \$97,696) to Sciences.

As of September 30, 2017, Sciences holds an aggregate of 45,636,555 shares, representing 49% of the issued and outstanding common shares of the Company ("Common Shares") and it holds 8,489,451 common share purchase warrants of the Company.

As of September 30, 2017, Pure Sunfarms owes the Company \$132,538 (December 31, 2016 - \$Nil) for expenditures made on behalf of the joint venture.

During the period ended September 30, 2017, the Company entered into a 30-year lease with a company (the "Landlord") that is controlled by Dr. 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. During the three and nine months ended September 30, 2017, the Company paid to the Landlord \$86,471 (2016 - \$Nil) in rent, and a further \$196,391 utility deposit, refundable if usage minimum is met as expected by 2022. The Landlord also charged the Company \$144,979 during the three and nine months ended September 30, 2017 (2016 - \$Nil) for services related to construction of the Company's new facility. As of September 30, 2017, the Company owed \$83,623 (December 31, 2016 - \$Nil) to the Landlord.

**EMERALD HEALTH THERAPEUTICS, INC.**  
**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**For the three and nine months ended September 30, 2017 and 2016**  
**(Unaudited)**  
**(Expressed in Canadian dollars)**

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**12. SHARE CAPITAL**

*Authorized*

Unlimited number of common shares without par value

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

*Issued*

93,117,798 common shares (December 31, 2016 – 67,794,698)

Nil preferred shares (December 31, 2016 - Nil)

The outstanding share capital has increased by 25,323,100 Common Shares since December 31, 2016 due to the following transactions:

- A prospectus offering, completed on February 10, 2017, for 10,235,000 units of the Company at a price of \$1.35 per unit, for gross proceeds of \$13,817,250. Each unit consisted of one Common Share and one-half of one common share purchase warrant of the Company, with each warrant entitling the holder to acquire an additional Common Share at an exercise price of \$2.00 for a period of 24 months from the closing date;
- A prospectus offering (the “April Offering”), completed on April 20, 2017, for 13,170,000 units of the Company at a price of \$1.85 per unit, for gross proceeds of \$24,364,500. Each unit consisted of one Common Share and one-half of one common share purchase warrant of the Company, with each warrant entitling the holder to acquire an additional Common Share at an exercise price of \$2.60 for a period of 24 months from the closing date;
- The issuance on April 21, 2017 of an additional 1,465,100 shares of the Company at a price of \$1.755 per share and 987,750 common share purchase warrants (on the same terms as the warrants issued under the April Offering) at a price of \$0.19 per warrant, for gross proceeds of \$2,758,923 pursuant to the exercise of an over-allotment option granted to the underwriter in connection with the April Offering; and
- During the nine months ended September 30, 2017, 453,000 stock options were exercised at an average exercise price of \$0.38 for gross proceeds of \$172,911.

**Surplus and Value Escrow Agreements**

In September 2014, the Company entered into a Surplus Security Escrow Agreement and a Value Security Escrow Agreement in connection with the RTO pursuant to TSXV Policy 5.4 *Escrow, Vendor Consideration and Resale Restrictions*.

Approximately 59% of the initial outstanding Common Shares issued in September 2014 were subject to the Surplus Security Escrow Agreement and as at September 30, 2017, none (December 31, 2016 – 14,921,220) of the Common Shares held under the Surplus Security Escrow Agreement remained in escrow. Approximately 11% of the initial Common Shares were subject to the Value Security Escrow Agreement and as of September 30, 2017, none (December 31, 2016 – 1,520,256) of the Common Shares held under the Value Security Escrow Agreement remained in escrow.

**EMERALD HEALTH THERAPEUTICS, INC.**  
**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**For the three and nine months ended September 30, 2017 and 2016**  
**(Unaudited)**  
**(Expressed in Canadian dollars)**

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The Surplus Security Escrow Agreement and the Value Security Escrow Agreement were releasable in the following tranches:

	<b>Surplus Security Escrow</b>	<b>Value Security Escrow</b>
September 2014	-	10%
March 2015	-	15%
May 2015	10%	-
September 2015	10%	15%
March 2016	10%	15%
September 2016	15%	15%
March 2017	15%	15%
September 2017	40%	15%

**Share based payments**

In May 2017, the board of directors approved the adoption of a New Omnibus Incentive Plan (the “New Plan”), which was approved by the shareholders in June 2017. The New Plan replaces the stock option plan that was previously approved by the shareholders (the “Previous Plan”). Options granted under the Previous Plan will remain outstanding and governed by the terms of the Previous Plan.

Under the New Plan, the maximum number of common shares issuable upon the exercise or redemption and settlement of all awards granted under the New Plan shall not exceed 10% of the issued and outstanding Shares at the time of granting of such award less the number of Shares reserved for issuance under all other security based compensation arrangements of the Company. Under the New Plan, the following types of awards can be issued: stock options, share appreciation rights, restricted share units and other performance awards.

The New Plan, as was the Previous Plan, is administered by the Board of Directors of the Company who establish exercise prices, at not less than market price at the date of grant, and expiry dates, which have been set at five years from issuance.

The Board of Directors has the discretion to determine to whom options will be granted, the number and exercise price of such options and the terms and time frames in which the options will vest and be exercisable.

The exercise price of the options must be no less than the closing market price of the Common Shares on the day preceding the grant.

**EMERALD HEALTH THERAPEUTICS, INC.**  
**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**For the three and nine months ended September 30, 2017 and 2016**  
**(Unaudited)**  
**(Expressed in Canadian dollars)**

The changes in incentive stock options outstanding are summarized as follows:

	Number of Shares	Weighted Average Exercise Price
Balance at December 31, 2015	3,950,000	\$0.44
Granted	2,725,000	\$0.62
Forfeited	(25,000)	\$0.72
Exercised	(641,800)	\$0.43
Expired	(250,000)	\$0.40
Balance at December 31, 2016	5,758,200	\$0.53
Granted	2,230,000	\$1.30
Forfeited	(250,000)	\$1.38
Exercised	(453,000)	\$0.38
Balance at September 30, 2017	7,285,200	\$0.75

During the nine months ended September 30, 2017, the Company granted 2,230,000 stock options to employees and consultants. The stock options granted had exercise prices between \$1.16 and \$1.51, expiry dates of up to five years and vest over periods of up to three years. The fair values of the stock options were determined to be between \$0.41 and \$0.73.

The fair values of the options granted during the nine months ended September 30, 2017 and 2016 were determined on the date of the grant using the Black-Scholes option pricing model with the following assumptions:

	September 30, 2017	September 30, 2016
Risk free interest rate	0.74% - 1.16%	0.59% - 0.74%
Expected life of options (years)	1 - 3	5
Expected annualized volatility	80%	80%
Expected dividend yield	Nil	Nil
Weighted average Black-Scholes value of each option	\$0.59	\$0.38

Volatility was estimated by using the historical volatility of other companies that the Company considers comparable that have similar trading and volatility history. The expected life in years represents the period of time that options granted are expected to be outstanding. The risk-free rate is based on Canada government bonds with a remaining term equal to the expected life of the options.

**EMERALD HEALTH THERAPEUTICS, INC.**  
**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
For the three and nine months ended September 30, 2017 and 2016  
(Unaudited)  
(Expressed in Canadian dollars)

Incentive stock options outstanding and exercisable at September 30, 2017 are summarized as follows:

Exercise price	Outstanding			Exercisable		
	Quantity	Remaining contractual life (Years)	Weighted average exercise price	Quantity	Weighted average exercise price	
\$0.175	225,000	3.4	\$ 0.175	83,333	\$ 0.175	
\$0.335	210,000	3.9	\$0.335	210,000	\$0.335	
\$0.40	750,000	1.9	\$ 0.40	750,000	\$ 0.40	
\$0.41	250,000	2.3	\$ 0.41	205,747	\$ 0.41	
\$0.45	1,500,000	2.6	\$ 0.45	1,500,000	\$ 0.45	
\$0.55	381,500	2.2	\$ 0.55	348,167	\$ 0.55	
\$0.72	1,913,700	4.0	\$0.72	1,163,700	\$0.72	
\$1.16	35,000	4.7	\$1.16	3,889	\$1.16	
\$1.18	200,000	4.7	\$1.18	50,000	\$1.18	
\$1.19	100,000	4.9	\$1.19	4,167	\$1.22	
\$1.21	50,000	4.8	\$1.21	2,778	\$1.22	
\$1.22	795,000	4.6	\$1.22	110,417	\$1.22	
\$1.38	600,000	2.3	\$1.38	526,041	\$1.38	
\$1.42	175,000	4.6	\$1.42	24,305	\$1.42	
\$1.51	100,000	1.3	\$1.51	90,000	\$1.51	
	7,285,200	3.3	\$0.75	5,072,544	\$0.65	

The Company recorded share-based compensation expense related to the incentive stock options of \$276,598 and \$809,887 for the three and nine months ended September 30, 2017 (\$467,878 and \$543,675 for the three and nine months ended September 30, 2016). The expense has been charged to the consolidated statement of loss and comprehensive loss.

**Restricted share units**

During 2017, the Company issued 200,000 restricted share units (“RSUs”), as permitted under the New Plan described above. The RSUs vest in full on May 8, 2020 and will be settled in shares, provided the specified target milestones are met. At the time of issuance, the fair value of the RSUs was determined to be \$1.19 per unit. The Company recorded share-based compensation expense related to the RSUs of \$19,833 and \$33,055 for the three and nine months ended September 30, 2017 (2016 - \$Nil) to the consolidated statement of loss and comprehensive loss.



**EMERALD HEALTH THERAPEUTICS, INC.**  
**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**For the three and nine months ended September 30, 2017 and 2016**  
**(Unaudited)**  
**(Expressed in Canadian dollars)**

**Compensation options**

As part of the prospectus offerings completed in February 2017 and April 2017, the Company issued compensation options to the underwriters, exercisable into units with the same terms as the units issued in the applicable offerings for a period of twenty-four months. The fair value of the compensation options reduced the share capital amount. Compensation options outstanding and exercisable at September 30, 2017 are summarized as follows:

	<b>Number of Shares</b>	<b>Weighted Average Exercise Price</b>	<b>Remaining contractual life (Years)</b>	<b>Fair Value per unit</b>	<b>Fair Value at issue</b>
Balance at December 31, 2016	-	-	-		
Granted, February offering	307,050	\$1.35	1.4	\$0.40	121,941
Granted, April offering	395,100	\$1.85	1.6	\$0.52	205,830
Granted, April offering, over allotment	43,953	\$1.85	1.6	\$0.51	22,327
Exercised	-	-	-		
Balance at September 30, 2017	746,103	\$1.64	1.5		

The fair values of the compensation options granted during the period ended September 30, 2017 were determined on the date of the grant using the Black-Scholes option pricing model with the following assumptions:

	<b>Grant February 10, 2017</b>	<b>Grant April 20, 2017</b>	<b>Grant April 21, 2017</b>
Number of share options granted	307,050	395,100	43,953
Exercise price	\$1.35	\$1.85	\$1.85
Market value on grant date	\$1.31	\$1.44	\$1.42
Risk free interest rate	0.77%	0.74%	0.71%
Expected life	2 years	2 years	2 years
Annualized volatility	80%	80%	80%
Expected dividends	Nil	Nil	Nil

Volatility was estimated by using the historical volatility of other companies that the Company considers comparable that have similar trading and volatility history. The expected life in years represents the period of time that options granted are expected to be outstanding. The risk-free rate is based on Canada government bonds with a remaining term equal to the expected life of the options.

**EMERALD HEALTH THERAPEUTICS, INC.**  
**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
For the three and nine months ended September 30, 2017 and 2016  
(Unaudited)  
(Expressed in Canadian dollars)

**13. WARRANTS**

The Company issued the following common share purchase warrants:

	<b>Number of Warrants</b>	<b>Weighted Average Exercise Price</b>
Balance at December 31, 2015	-	-
Issued in September, 2016	4,077,687	\$0.27
Issued in November, 2016	4,411,764	\$0.85
Balance at December 31, 2016	8,489,451	\$0.57
Issued in February, 2017	5,117,500	\$2.00
Issued in April, 2017	7,572,750	\$2.60
Balance at September 30, 2017	21,179,701	\$1.64

**14. LOSS PER SHARE**

	<b>For the three months ended September 30, 2017</b>		<b>For the nine months ended September 30, 2016</b>	
<b>Numerator</b>				
Net loss for the period	\$ 1,939,371	\$ 1,009,841	\$ 4,814,255	\$ 2,060,077
<b>Denominator</b>				
For basic and diluted - weighted average number of shares outstanding	93,071,874	54,381,242	85,623,260	49,411,725
<b>Loss per share</b>				
Basic	\$ (0.02)	\$ (0.02)	\$ (0.06)	\$ (0.04)
Diluted	\$ (0.02)	\$ (0.02)	\$ (0.06)	\$ (0.04)

The basic loss per share is computed by dividing the net loss by the weighted average number of Common Shares outstanding during the period. The diluted loss per share reflects the potential dilution of Common Share equivalents, such as outstanding stock options and warrants, in the weighted average number of Common Shares outstanding during the period, if dilutive. For the three and nine months ended September 30, 2017 and 2016, the Company was in a loss position and therefore all options are anti-dilutive.

**EMERALD HEALTH THERAPEUTICS, INC.**  
**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
For the three and nine months ended September 30, 2017 and 2016  
(Unaudited)  
(Expressed in Canadian dollars)

**15. COMMITMENTS**

**Operating leases**

The Company has entered into certain operating lease commitments for land and office space through 2047. The future minimum lease payments for the next five years and thereafter are as follows:

	Remainder of 2017	2018	2019	2020	2021	2022	Thereafter
Production facilities	\$ 30,409	\$ 123,081	\$ 89,245	\$ 10,812	\$ -	\$ -	\$ -
Land (Note 9)	80,000	320,000	320,000	320,000	320,000	320,000	7,760,000
	<u>\$ 110,409</u>	<u>\$ 443,081</u>	<u>\$ 409,245</u>	<u>\$ 330,812</u>	<u>\$ 320,000</u>	<u>\$ 320,000</u>	<u>\$ 7,760,000</u>

**16. FINANCIAL INSTRUMENTS**

Financial assets and financial liabilities are measured on an ongoing basis at fair value or amortized cost. As at September 30, 2017 and December 31, 2016, the classification of the financial instruments, as well as their carrying values and fair values, are shown in the table below:

	September 30, 2017		December 31, 2016	
	Fair Value	Carrying Value	Fair Value	Carrying Value
<b>Financial Assets</b>				
FVTPL:				
Cash	\$ 822,264	\$ 822,264	\$ 3,217,205	\$ 3,217,205
Loans and accounts, recorded at amortized cost:				
Cash equivalents	22,000,000	22,000,000	-	-
Accounts receivable	225,564	225,564	28,701	28,701
Due from related parties	132,538	132,538	-	-
Refundable deposits	196,391	196,391	-	-
<b>Financial Liabilities</b>				
Other financial liabilities, recorded at amortized cost:				
Accounts payable and accrued liabilities	449,437	449,437	376,339	376,339
Payable to joint venture	8,000,000	8,000,000	-	-
Due to related parties	148,965	148,965	97,696	97,696

**EMERALD HEALTH THERAPEUTICS, INC.**  
**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**For the three and nine months ended September 30, 2017 and 2016**  
**(Unaudited)**  
**(Expressed in Canadian dollars)**

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Fair value hierarchy financial instruments recorded at fair value at the statement of financial position dates are classified using the fair value hierarchy, which reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 – Valuation based on quoted prices [unadjusted] in active markets for identical assets or liabilities.

Level 2 – Valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 – Valuation techniques using inputs for the asset or liability that are not based on observable market data.

The carrying value of the cash and cash equivalents, accounts receivables, due from related parties, accounts payable and accrued liabilities and amounts due to related parties, approximates the fair value because of the short-term nature of these instruments.

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

	Carrying Value	Fair Value Measurement		
		Level 1	Level 2	Level 3
As at September 30, 2017				
Financial Assets				
Cash	\$ 822,264	\$ 822,264	-	-
As at December 31, 2016				
Financial Assets				
Cash	\$ 3,217,205	\$ 3,217,205	-	-

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

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.

Credit risk

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. The Company’s maximum exposure to credit risk as at September 30, 2017 is the carrying value of its financial assets.

**EMERALD HEALTH THERAPEUTICS, INC.**  
**NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**For the three and nine months ended September 30, 2017 and 2016**  
**(Unaudited)**  
**(Expressed in Canadian dollars)**

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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.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations associated with financial liabilities. As at September 30, 2017, the Company had positive working capital of \$15,746,870 (December 31, 2016 – positive working capital of \$3,127,688). The Company's ability to continue as a going concern is dependent on management's ability to raise required funding through future equity issuances and through short-term borrowing. The Company manages its liquidity risk by forecasting cash flows from operations and anticipating any investing and financing activities. Management and the Board of Directors are actively involved in the review, planning and approval of significant expenditures and commitments.

**17. EVENTS AFTER THE REPORTING PERIOD**

On October 10, 2017, the Company entered into an agreement for the purchase and installation of a greenhouse for its new production facility for \$1.9 million.

Subsequent to September 30, 2017, 775,000 options have been granted. These options vest over three years, and expire October 2022.