



EMERALD HEALTH THERAPEUTICS, INC.

Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2018 and 2017

(Unaudited)

(Expressed in Canadian Dollars)

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

| | June 30 | December 31 |
|---|-----------------------|----------------------|
| | 2018 | 2017 |
| ASSETS | | |
| Current | | |
| Cash and cash equivalents | \$ 72,676,108 | \$ 44,523,145 |
| Accounts receivable (Note 5) | 874,155 | 278,232 |
| Biological assets (Note 6) | 1,374,204 | 114,559 |
| Inventory (Note 7) | 1,576,004 | 727,635 |
| Prepaid expenses | 628,391 | 167,911 |
| Due from related parties (Note 16) | 1,186,427 | 324,674 |
| Total current assets | 78,315,289 | 46,136,156 |
| Plant and equipment (Note 9) | 7,938,442 | 1,031,335 |
| Plant under construction (Note 10) | 6,882,158 | 2,772,051 |
| Deposits on materials and equipment (Note 11) | 2,000,000 | - |
| Refundable deposits | 196,391 | 196,391 |
| Intangible assets (Note 12) | 87,998,875 | 2,851,855 |
| Goodwill | 169,323 | 169,323 |
| Long-term investment (Note 13) | 542,022 | 666,667 |
| Investment in joint venture (Note 14) | 20,287,699 | 19,907,061 |
| Total non-current assets | 126,014,910 | 27,594,683 |
| TOTAL ASSETS | \$ 204,330,199 | \$ 73,730,839 |
| LIABILITIES | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | \$ 1,523,632 | \$ 1,378,645 |
| Current portion of long-term debt (Note 15) | 2,563,556 | - |
| Deferred payment (Note 4) | 22,171,857 | - |
| Payable to joint venture (Note 14) | - | 4,000,000 |
| Due to related parties (Note 16) | 88,649 | 247,505 |
| Total current liabilities | 26,347,694 | 5,626,150 |
| Deferred income tax liability | - | 317,497 |
| TOTAL LIABILITIES | \$ 26,347,694 | \$ 5,943,647 |
| SHAREHOLDERS' EQUITY | | |
| Share capital (Note 17) | 188,960,607 | 77,912,246 |
| Warrants | 6,460,000 | 461,772 |
| Contributed surplus | 9,090,823 | 5,285,709 |
| Accumulated deficit | (28,682,388) | (17,829,369) |
| TOTAL SHAREHOLDERS' EQUITY | 175,829,042 | 65,830,358 |
| Non-controlling interest (Note 4) | 2,153,463 | 1,956,834 |
| TOTAL LIABILITIES AND EQUITY | \$ 204,330,199 | \$ 73,730,839 |

Nature and continuance of operations (Note 1)
 Commitments (Note 19)
 Events after the reporting period (Note 24)

On behalf of the Board of Directors:

/s/ Punit Dhillon
 Director

/s/ Chris Wagner
 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)

| | Three months ended June 30 2018 | Three months ended June 30 2017 | Six months ended June 30 2018 | Six months ended June 30 2017 |
|---|--|--|--|--|
| Revenue | | | | |
| Sales (Note 22) | \$ 284,262 | \$ 245,708 | \$ 657,480 | \$ 446,976 |
| Cost of sales | | | | |
| Cost of goods sold | 249,761 | 190,806 | 555,288 | 356,558 |
| Production costs | 548,269 | 158,532 | 723,915 | 323,893 |
| Gain on changes in fair value of biological assets | (978,893) | (53,985) | (1,371,884) | (144,330) |
| Gross margin | 465,125 | (49,645) | 750,161 | (89,145) |
| Expenses | | | | |
| General and administrative | 3,344,578 | 1,060,103 | 5,956,584 | 1,849,058 |
| Sales and marketing | 868,943 | 112,032 | 1,154,840 | 204,200 |
| Research and development | 83,409 | 93,402 | 180,953 | 136,564 |
| Depreciation (Note 9 and 12) | 927,907 | 41,553 | 1,176,456 | 82,439 |
| Share-based payments (Note 17) | 2,081,661 | 369,788 | 4,035,708 | 570,974 |
| | 7,306,498 | 1,676,878 | 12,504,541 | 2,843,235 |
| Loss from operations | 6,841,373 | 1,726,523 | 11,754,380 | 2,932,380 |
| Share of income from joint venture (Note 14) | (682,431) | - | (380,638) | - |
| Interest revenue | (274,436) | - | (524,500) | (57,497) |
| Fair value changes in financial assets (Note 13) | (140,716) | - | 124,645 | - |
| Deferred income tax recovery | (132,820) | - | (317,497) | - |
| NET LOSS AND COMPREHENSIVE LOSS | 5,610,970 | 1,726,523 | 10,656,390 | 2,874,883 |
| Net loss and comprehensive loss attributable to: | | | | |
| Emerald Health Therapeutics, Inc. | 5,422,497 | 1,669,025 | 10,330,815 | 2,874,883 |
| Non-controlling interest | 188,473 | - | 325,575 | - |
| | 5,610,970 | 1,669,025 | 10,656,390 | 2,874,883 |
| Net loss per common share | | | | |
| Basic and diluted | \$ 0.04 | \$ 0.02 | \$ 0.09 | \$ 0.04 |
| Weighted average number of common shares outstanding | | | | |
| Basic and diluted | 129,906,112 | 89,968,293 | 122,586,500 | 81,837,223 |

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

EMERALD HEALTH THERAPEUTICS, INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Unaudited)
(Expressed in Canadian dollars)

| | Share Capital | | Warrants | | Contributed Surplus | Accumulated Deficit | Total Shareholders' Equity | Non-Controlling Interest | Total Equity |
|---|--------------------|-----------------------|-------------------|---------------------|---------------------|------------------------|----------------------------|--------------------------|-----------------------|
| | # of Shares | Amount | # of Warrants | Amount | | | | | |
| Balance, December 31, 2017 | 106,787,226 | \$ 77,912,246 | 9,707,677 | \$ 461,772 | \$ 5,285,709 | \$ (17,829,369) | \$ 65,830,358 | \$ 1,956,834 | \$ 67,787,192 |
| Shares issued on stock option exercises (Note 17) | 538,523 | 679,414 | - | - | (247,687) | - | 431,727 | - | 431,727 |
| Units issued on prospectus offerings (Note 17) | 10,000,000 | 40,740,000 | 10,000,000 | 9,060,000 | - | - | 49,800,000 | - | 49,800,000 |
| Share issuance costs | - | (272,355) | - | - | - | - | (272,355) | - | (272,355) |
| Acquisition of Agro-Biotech (Note 4) | 9,911,894 | 45,000,000 | - | - | - | - | 45,000,000 | - | 45,000,000 |
| Increase in ownership of Northern Vine (Note 4) | - | - | - | - | - | (522,204) | (522,204) | 522,204 | - |
| Shares issued on warrant exercises (Note 17) | 8,239,863 | 24,901,302 | (8,239,863) | (3,044,679) | - | - | 21,856,623 | - | 21,856,623 |
| Warrants expired | - | - | (56,050) | (17,093) | 17,093 | - | - | - | - |
| Share-based payments (Note 17) | - | - | - | - | 4,035,708 | - | 4,035,708 | - | 4,035,708 |
| Net loss and comprehensive loss | - | - | - | - | - | (10,330,815) | (10,330,815) | (325,575) | (10,656,390) |
| Balance, June 30, 2018 | 135,477,506 | \$ 188,960,607 | 11,411,764 | \$ 6,460,000 | \$ 9,090,823 | \$ (28,682,388) | \$ 175,829,042 | \$ 2,153,463 | \$ 177,982,505 |
| Balance, December 31, 2016 | 67,794,698 | \$ 9,756,732 | 8,489,451 | \$ - | \$ 3,043,099 | \$ (9,097,537) | \$ 3,702,294 | \$ - | \$ 3,702,294 |
| Shares issued on stock option exercise | 400,000 | 271,628 | - | - | (121,377) | - | 150,251 | - | 150,251 |
| Units issued on prospectus offering | 24,870,100 | 36,260,901 | 12,690,250 | 4,679,773 | - | - | 40,940,674 | - | 40,940,674 |
| Share issuance costs | - | (3,138,792) | - | - | - | - | (3,138,792) | - | (3,138,792) |
| Compensation options | - | (350,098) | - | - | 350,098 | - | - | - | - |
| Share-based payments | - | - | - | - | 570,974 | - | 570,974 | - | 570,974 |
| Net loss and comprehensive loss | - | - | - | - | - | (2,874,883) | (2,874,883) | - | (2,874,883) |
| Balance, June 30, 2017 | 93,064,798 | \$ 42,800,371 | 21,179,701 | \$ 4,679,773 | \$ 3,842,794 | \$ (11,972,420) | \$ 39,350,518 | \$ - | \$ 39,350,518 |

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

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

| | Six months ended June 30 2018 | Six months ended June 30 2017 |
|---|--|--|
| Operating activities | | |
| Net loss | \$ (10,656,390) | \$ (2,874,883) |
| Items not involving cash | | |
| Depreciation | 1,176,456 | 82,439 |
| Gain on changes in fair value of biological assets | (1,371,884) | (24,373) |
| Fair value changes in financial assets | 124,645 | - |
| Share-based payments | 4,035,708 | 570,974 |
| Share of loss from joint venture | (380,638) | - |
| Deferred income tax recovery | (317,497) | - |
| Changes in non-cash operating working capital | | |
| Accounts receivable | (491,132) | (106,622) |
| Due from related parties | (861,753) | - |
| Prepaid expenses | (459,554) | (35,831) |
| Inventory and biological assets | (758,509) | (324,368) |
| Accounts payable and accrued liabilities | 658,279 | 56,845 |
| Due to related parties | (104,763) | 135,552 |
| Net cash flows used in operating activities | (9,407,032) | (2,520,267) |
| Investing activities | | |
| Investment in joint venture (Note 14) | (4,000,000) | (2,007,729) |
| Acquisition of assets, net of cash acquired (Note 4) | (22,634,061) | - |
| Deposits on equipment | (2,000,000) | (84,052) |
| Purchase of plant and equipment | (5,593,281) | (454,122) |
| Purchase of intangible assets | (5,183) | - |
| Net cash flows used in investing activities | (34,232,525) | (2,545,903) |
| Financing activities | | |
| Principal payment on long-term debt | (22,888) | - |
| Proceeds from prospectus offering | 49,800,000 | 40,940,674 |
| Share issuance costs | (272,942) | (3,081,850) |
| Stock option exercises | 431,727 | 150,251 |
| Warrant exercises | 21,856,623 | - |
| Net cash flows generated from financing activities | 71,792,520 | 38,009,075 |
| Increase in cash and cash equivalents | 28,152,963 | 32,942,905 |
| Cash and cash equivalents, beginning of period | 44,523,145 | 3,217,205 |
| Cash and cash equivalents, end of period | \$ 72,676,108 | \$ 36,160,110 |

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

EMERALD HEALTH THERAPEUTICS, INC.
NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
For the three and six months ended June 30, 2018 and 2017
(Unaudited)
(Expressed in Canadian dollars)

1. NATURE AND CONTINUANCE OF OPERATIONS

Emerald Health Therapeutics, Inc. (the "Company"), is classified as a Tier 1 Venture Issuer on the TSXV, with its common shares ("Common Shares") listed under the trading symbol "EMH". The Company is also traded on the OTCQX, with its Common Shares listed under the trading symbol "EMHTF". The Company was incorporated pursuant to the *Business Corporations Act (British Columbia)*, and its registered office is at Suite 2600 Oceanic Plaza, 1066 West Hastings Street, Vancouver, BC, V6E 3X1.

On May 2, 2018 the Company acquired 100% of the issued and outstanding shares of 8611165 Canada Inc. and its affiliate 9353-8460 Quebec Inc. (together "Agro-Biotech"). The principle business of 8611165 Canada Inc. is the production of dried cannabis flower. The principle business of 9353-8460 Quebec Inc. is to hold the land and building occupied by 8611165 Canada Inc. for cannabis production.

The Company owns 100% of the shares of Emerald Health Therapeutics Canada Inc. ("EHTC"), a company incorporated pursuant to the *Business Corporations Act (British Columbia)*. The principle business of EHTC is the production and sale of medical cannabis pursuant to the Access to Cannabis for Medical Purposes Regulations.

Through EHTC's 50% equity interest in Pure Sunfarms Corp. ("PSF"), the Company cultivates and intends to distribute wholesale cannabis and cannabis extracts for therapeutic and non-therapeutic use purposes, when permitted by applicable law. Through EHTC's 65% owned subsidiary, Northern Vine Canada Inc. ("Northern Vine"), a Licensed Dealer under the provisions of the *Canadian Controlled Drugs and Substances Act*, the Company operates a laboratory facility located in Langley, British Columbia.

2. BASIS OF PRESENTATION

These condensed interim consolidated financial statements do not include all disclosures normally provided in annual financial statements and should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2017. 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, 2017, 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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and its interpretations and comply with International Accounting Standard ("IAS") 34 *Interim Financial Reporting*.

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(Expressed in Canadian dollars)

These condensed interim consolidated financial statements were authorized for filing by the Board of Directors on August 29, 2018.

b) Basis of measurement

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

c) Basis of consolidation

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

The subsidiaries of the Company at June 30, 2018 and December 31, 2017 include the following:

| Name of subsidiary | Ownership Interest | |
|--|---------------------------|--------------------------|
| | June 30, 2018 | December 31, 2017 |
| 8611165 Canada Inc. ("Agro-Biotech") | 100% | N/A |
| 9353-8460 Quebec Inc. ("Agro-Biotech") | 100% | N/A |
| Emerald Health Therapeutics Canada Inc. ("EHTC") | 100% | 100% |
| Pure Sunfarms Canada Inc. ("PSC") | 100% | 100% |
| Northern Vine Canada Inc. ("Northern Vine") | 65% | 53% |

d) Functional and presentation currency

The Company and its subsidiaries' 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, 2017 with the exceptions noted below.

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NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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Biological Assets

The Company measures biological assets consisting of cannabis on plants at fair value less cost to sell up to the point of harvest, which becomes the basis for the cost of finished goods inventories after harvest. Seeds are measured at fair market value, except for a portion which are restricted with respect to distribution due to the conditions under which they were acquired that are measured at cost.

Gains or losses arising from changes in fair value less cost to sell are included in the results of operations of the related period.

Production Costs

Production costs includes costs incurred in the period that relate to the production and growth of cannabis plants. Costs include labour directly related to growing activities, growing medium and supplies, nutrients, rent, and electricity.

Inventory

Inventories of dried cannabis consist of harvested cannabis and purchased cannabis and are valued at the lower of cost and net realizable value. Inventories of harvested cannabis are transferred from biological assets at their fair value at harvest, which becomes the deemed cost. Any subsequent post-harvest costs incurred to dry and package the product are capitalized to inventory to the extent that cost is less than net realizable value.

Inventories of cannabis oils are derived from dried cannabis and may include the deemed cost of inventory that arose from the fair value measurement of biological assets. Additional costs to produce, test and package cannabis oils are capitalized to inventory to the extent that cost is less than net realizable value.

Goods for resale are measured at the lower of cost and net realizable value. Supplies and consumables are valued at cost.

Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Cost is determined using the average cost basis.

Warrants

Warrants issued as part of unit offerings subsequent to December 31, 2017, have been measured by the relative fair value approach. Under the relative fair value approach, the total proceeds of a unit offering are allocated to the components of the unit in proportion to their relative fair values, as determined by using the Black-Scholes Option-Pricing Model.

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Financial Instruments

Effective January 1, 2018 the Company adopted IFRS 9 *Financial Instruments* (“IFRS 9”), which replaced IAS 39 *Financial Instruments: Recognition and Measurement* (“IAS 39”). The standard eliminates the existing IAS 39 categories of held to maturity, available-for-sale and loans and receivable.

The adoption of this standard did not have a material impact on the measurement of the Company’s financial instruments in these condensed interim consolidated financial statements, however additional disclosures have been provided.

The following table summarizes the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Company’s financial assets and financial liabilities:

| | IAS 39 | IFRS 9 |
|--|-----------------------|-----------------------|
| | Classification | Classification |
| Financial Assets | | |
| Cash | FVTPL | FVTPL |
| Cash equivalents | Amortized cost | Amortized cost |
| Accounts receivable | Amortized cost | Amortized cost |
| Due from related parties | Amortized cost | Amortized cost |
| Refundable deposits | Amortized cost | Amortized cost |
| Long-term investment | FVTPL | FVTPL |
| Financial Liabilities | | |
| Accounts payable and accrued liabilities | Amortized cost | Amortized cost |
| Payable to joint venture | Amortized cost | Amortized cost |
| Due to related parties | Amortized cost | Amortized cost |

The following are new accounting policies for financial instruments:

Financial assets

The Company classifies its financial assets as either subsequently measured at amortized cost, at fair value through other comprehensive income, or at fair value through profit or loss. Upon initial recognition, management determines the classification of its financial assets based upon the purpose for which the financial assets were acquired. Measurement and classification of financial assets is determined based on the entity’s business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Management may, at initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss to prevent a measurement or recognition inconsistency.

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Financial assets are derecognized when they mature or are sold and substantially all the risks and rewards of ownership have been transferred.

Financial liabilities

The Company initially recognizes financial liabilities at fair value and are subsequently measured at amortized cost.

Revenue from Contracts with Customers

Effective January 1, 2018 the Company adopted IFRS 15 *Revenue from Contracts with Customers*. The Company recognizes revenue from contracts with customers based on a five-step model, which is applied to all contracts with customers.

There were no changes required to the statements of financial position or statements of loss and comprehensive loss as a result of adopting this standard, other than enhanced disclosures.

New accounting pronouncements, issued but not yet adopted

IFRS 16, *Leases* – replaces the guidance in IAS 17 *Leases* and establishes principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions.

IFRS 16 applies to annual reporting periods beginning on or after January 1, 2019. The extent of the impact of adoption of the standard has not yet been determined.

4. ACQUISITIONS

Northern Vine – Increase of Ownership

On November 17, 2017 the Company acquired control of Northern Vine by way of shares purchased from treasury resulting in ownership of 53% of the issued and outstanding shares of Northern Vine. On May 15, 2018, the Company increased its ownership of Northern Vine to 65% by way of additional shares purchased from treasury for \$2.75 million paid in cash. Northern Vine is a Licensed Dealer under the provisions of the Canadian Controlled Drugs and Substances Act and is licensed to provide analytical testing services.

If the Company had increased its interest at the beginning of the year there would have been no change to revenue or net loss as Northern Vine is a consolidated subsidiary. The net loss attributable to the Company would have increased by \$59,321 and the net loss attributable to the non-controlling interest would have decreased by \$59,321.

The increase in the Company's ownership interest was accounted for as an equity transaction.

Upon the initial acquisition of 53% ownership, the non-controlling interest was measured by proportionate share in the recognized amounts of the identifiable net assets. The change in non-controlling interest at the time of the May 15, 2018 transaction was also measured by the proportionate share of net identifiable assets method.

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The equity transaction is as follows:

| | Preliminary |
|---|------------------|
| | \$ |
| Net assets acquired | 2,750,000 |
| Non-controlling interest | (1,292,500) |
| 12% reduction of non-controlling interest | 770,296 |
| Reduction to equity | 522,204 |
| Total purchase price | 2,750,000 |

The change in non-controlling interest is as follows:

| | |
|---|------------------|
| | \$ |
| Initial amount at acquisition, November 17, 2017 | 2,066,826 |
| Loss attributed as at December 31, 2017 | (109,992) |
| Non controlling interest of 47% as at December 31, 2017 | 1,956,834 |
| Loss attributed January 1, 2018 to May 15, 2018 | (232,342) |
| Increase due to issuance of shares from treasury for cash consideration | 1,292,500 |
| 12% reduction of non-controlling interest | (770,296) |
| Non-controlling interest of 35% as at May 16, 2018 | 2,246,696 |
| Loss attributed May 16, 2018 to June 30, 2018 | (93,233) |
| Non-controlling interest of 35% as at June 30, 2018 | 2,153,463 |

Nominal transaction costs were expensed during the three months ended June 30, 2018.

Agro-Biotech

On May 2, 2018 the Company acquired 100% of the issued and outstanding shares of 8611165 Canada Inc. and its affiliate 9353-8460 Quebec Inc. (together Agro-Biotech), and the shareholder loans payable by Agro-Biotech, for total consideration of \$90 million, subject to adjustment, payable 50% in cash and 50% in Common Shares (the "Purchase Price"). The Company paid \$22.5 million in cash upon closing and \$45 million was satisfied by the issuance of 9,911,894 Common Shares of which 4,955,947 Common Shares will be held in escrow until May 1, 2019 pursuant to an escrow agreement (Note 17). The remaining \$22.5 million in cash is payable on May 1, 2019.

Until such time as the remaining \$22.5 million cash payment is made, 21,491,603 shares, being equal to 25% of the outstanding 8611165 Canada Inc. shares, and 750 shares, being equal to 25% of the outstanding 9353-8460 Quebec Inc. shares, will be held in escrow.

Agro-Biotech is a Licensed Producer under the Access to Cannabis for Medical Purposes Regulations.

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Management has determined that on the date of acquisition, Agro-Biotech did not have significant processes or outputs, therefore Agro-Biotech does not meet the definition of a business under IFRS 3 *Business Combinations*. As a result, the transaction was accounted for as an asset acquisition.

The total purchase price of the acquisition and the net assets acquired of Agro-Biotech are disclosed below:

| | |
|---|-------------------|
| | \$ |
| Cash | 22,500,000 |
| Deferred payment, present value of final \$22.5 million cash payable May 2019 | 22,171,857 |
| Portion specified as purchase of shareholder loans | (3,933,591) |
| 9,911,894 Common Shares | 45,000,000 |
| Transaction costs | 153,967 |
| Total purchase price | 85,892,233 |

| | |
|---|--------------------|
| | \$ |
| Cash | 19,906 |
| Amounts receivable | 104,791 |
| Prepaid expenses | 926 |
| Property and equipment | 6,311,123 |
| Intangible assets | 86,095,532 |
| Total assets | 92,532,278 |
| Accounts payable and accrued liabilities | (120,010) |
| Current portion of long-term debt (note 15) | (2,586,444) |
| Shareholder loans | (3,933,591) |
| Total liabilities | (6,640,045) |
| Net assets acquired | 85,892,233 |

Prior to the purchase date, Pivot Pharmaceuticals Inc. served a statement of claim against Agro-Biotech. The Company believes that the Claim is without merit. See Note 23 *Claim against Agro-Biotech*.

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5. ACCOUNTS RECEIVABLE

The Company's accounts receivable is comprised of:

| | June 30 | December 31 |
|--|----------------|-------------|
| | 2018 | 2017 |
| | \$ | \$ |
| Goods and Services Tax refund receivable | 536,134 | 186,410 |
| Interest receivable | 274,027 | 24,438 |
| Other | 63,994 | 67,384 |
| | 874,155 | 278,232 |

Accounts receivable are neither impaired nor past due.

6. BIOLOGICAL ASSETS

The Company's biological assets consist of cannabis seeds and cannabis plants. Changes in the Company's biological assets are as follows:

| | June 30 | December 31 |
|---|------------------|-------------|
| | 2018 | 2017 |
| | \$ | \$ |
| Carrying amount, beginning of period | 114,559 | 162,986 |
| Costs incurred until harvest | - | 218,874 |
| Effect of unrealized changes in fair value of biological assets | 1,371,884 | (1,977) |
| Biological assets sold | (112,239) | - |
| Transferred to inventory upon harvest | - | (265,324) |
| Carrying amount, end of period | 1,374,204 | 114,559 |

As at June 30, 2018, included in the carrying amount of biological assets is \$28,570 (December 31, 2017 - \$25,113) in seeds and \$1,345,634 (December 31, 2017 - \$89,446) in live plants.

The significant assumptions used in determining the fair value of cannabis plants are as follows:

- plant waste based on various stages of growth;
- yield per plant;
- selling price, less costs to sell;
- percentage of costs incurred to date compared to the total costs to be incurred (to estimate the fair value of an in-process plant); and
- costs incurred for each stage of plant growth.

EMERALD HEALTH THERAPEUTICS, INC.
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Biological assets are classified as Level 3 on the fair value hierarchy. Significant unobservable inputs used to fair value biological assets include the Company's estimate of the yield of medical cannabis per plant. A 5% increase or decrease in the estimated yield of medical cannabis per plant would result in an increase or decrease in the fair value of biological assets of \$67,282 at June 30, 2018 (December 31, 2017 - \$4,472).

7. INVENTORY

The Company's inventory is comprised of:

| | June 30 2018 | December 31 2017 |
|--------------------------|-------------------------|---------------------|
| | \$ | \$ |
| Dried cannabis | 1,339,399 | 524,651 |
| Cannabis oils | 209,295 | 190,116 |
| Goods for resale | 4,742 | 3,727 |
| Supplies and consumables | 22,568 | 9,141 |
| | 1,576,004 | 727,635 |

Inventory expensed and included in cost of sales during the six months ended June 30, 2018 was \$555,288 (June 30, 2017 – 356,558). The fair value of biological assets included in cost of goods sold was \$129,699 (June 30, 2017 - \$109,354).

8. COST OF SALES

Cost of sales represents the deemed cost of inventory that arose from the fair value measurement of biological assets, subsequent post-harvest costs capitalized to inventory, purchased dried cannabis, costs to produce cannabis oils capitalized to inventory (including the deemed cost of dried inventory that arose from the fair value measurement of biological assets that were used to produce cannabis oils), and packaging costs.

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9. PLANT AND EQUIPMENT

| | Land | Building | Leasehold improvements | Growing, lab and extract equipment | Other equipment | Total |
|---------------------------------|----------------|------------------|------------------------|------------------------------------|-----------------|------------------|
| Cost | \$ | \$ | \$ | \$ | \$ | \$ |
| Balance, December 31, 2016 | - | - | 184,929 | 455,779 | 52,253 | 692,961 |
| Additions | - | - | 59,242 | 299,675 | 42,931 | 401,848 |
| Acquired through Northern Vine | - | - | 30,300 | 237,271 | - | 267,571 |
| Disposals | - | - | - | - | (911) | (911) |
| Balance, December 31, 2017 | - | - | 274,471 | 992,725 | 94,273 | 1,361,469 |
| Additions | - | - | 57,562 | 643,496 | 118,732 | 819,790 |
| Acquired through Agro-Biotech | 476,041 | 2,703,568 | 2,562,326 | 237,793 | 331,395 | 6,311,123 |
| Disposals | - | - | - | - | (1,343) | (1,343) |
| Balance, June 30, 2018 | 476,041 | 2,703,568 | 2,894,359 | 1,874,014 | 543,057 | 8,491,039 |
| Accumulated depreciation | | | | | | |
| Balance, December 31, 2016 | - | - | 46,004 | 96,951 | 20,818 | 163,773 |
| Additions | - | - | 33,605 | 113,702 | 19,484 | 166,791 |
| Disposals | - | - | - | - | (430) | (430) |
| Balance, December 31, 2017 | - | - | 79,609 | 210,653 | 39,872 | 330,134 |
| Additions | - | 18,748 | 62,559 | 112,638 | 28,817 | 222,762 |
| Disposals | - | - | - | - | (299) | (299) |
| Balance, June 30, 2018 | - | 18,748 | 142,168 | 323,291 | 68,390 | 552,597 |
| Net book value | | | | | | |
| At December 31, 2017 | - | - | 194,862 | 782,072 | 54,401 | 1,031,335 |
| At June 30, 2018 | 476,041 | 2,684,820 | 2,752,191 | 1,550,723 | 474,667 | 7,938,442 |

10. PLANT UNDER CONSTRUCTION

During 2017, site preparation began on the Company's new self-constructed plant located in Metro Vancouver, British Columbia. As at June 30, 2018 \$6,882,158 (December 31, 2017 - \$2,772,051) of expenditures were capitalized. Construction on the new asset is expected to continue throughout 2018, at the time the asset is ready for its intended use depreciation will commence.

11. DEPOSITS ON MATERIALS AND EQUIPMENT

Deposits on equipment as at June 30, 2018 consist of \$2,000,000 funds held in trust for materials for the Company's self-constructed plant located in Metro Vancouver (December 31, 2017 - \$Nil).

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12. INTANGIBLE ASSETS

The Company's intangible assets continuity is as follows:

| | Health Canada License | Computer Software | Total |
|---------------------------------|--------------------------|----------------------|-------------------|
| Cost | \$ | \$ | \$ |
| Balance, December 31, 2016 | - | 62,135 | 62,135 |
| Acquired through Northern Vine | 2,922,096 | - | 2,922,096 |
| Balance, December 31, 2017 | 2,922,096 | 62,135 | 2,984,231 |
| Acquired through Agro-Biotech | 86,095,532 | - | 86,095,532 |
| Additions | - | 5,183 | 5,183 |
| Balance, June 30, 2018 | 89,017,628 | 67,318 | 89,084,946 |
| Accumulated depreciation | | | |
| Balance, December 31, 2016 | - | 16,717 | 16,717 |
| Additions | 87,446 | 28,213 | 115,659 |
| Balance, December 31, 2017 | 87,446 | 44,930 | 132,376 |
| Additions | 940,942 | 12,753 | 953,695 |
| Balance, June 30, 2018 | 1,028,388 | 57,683 | 1,086,071 |
| Net book value | | | |
| At December 31, 2017 | 2,834,650 | 17,205 | 2,851,855 |
| At June 30, 2018 | 87,989,240 | 9,635 | 87,998,875 |

13. LONG-TERM INVESTMENTS

| | Fair value December 31 2017 | Change in fair value | Fair value June 30 2018 |
|--|-----------------------------------|-------------------------|-------------------------------|
| | \$ | \$ | \$ |
| Level 1 on fair value hierarchy | | | |
| VANC Pharmaceuticals Inc. - shares | 500,000 | (200,000) | 300,000 |
| Level 2 on fair value hierarchy | | | |
| VANC Pharmaceuticals Inc. - warrants | 166,667 | 75,355 | 242,022 |
| | 666,667 | (124,645) | 542,022 |

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On November 27, 2017 the Company purchased 1,666,667 units of VANC Pharmaceuticals Inc., (“VANC”), a related party, 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 VANC are traded on the TSX Alpha Exchange under the symbol “VANC.”

Each warrant entitles the holder to purchase one common share at the price of \$0.20 per share. The warrants expire November 27, 2022, or earlier if the accelerated exercise provision is enacted. If the closing sales price trades at \$0.25 or higher for 10 consecutive trading days, and VANC, within 5 days of such event, provides notice by way of news release to the holders of the warrants of the early expiry of the warrants, then the warrants shall expire 30 days from the date of notice.

14. INVESTMENT IN JOINT VENTURE

The Company uses the equity method to record its 50% equity interest in Pure Sunfarms Corp. (“Pure Sunfarms”).

The Company has contributed \$20 million in cash to the joint venture as at June 30, 2018. As at June 30, 2018 the amount payable to Pure Sunfarms was \$Nil (December 31, 2017 - \$4,000,000).

Summarized financial information for Pure Sunfarms is set out below:

| | June 30 2018 | December 31 2017 |
|--|-------------------------|---------------------|
| | \$ | \$ |
| Non-current assets | 43,386,180 | 23,144,466 |
| Current assets (a) | 5,900,386 | 17,381,496 |
| Total assets | 49,286,566 | 40,525,962 |
| Non-current liabilities | - | - |
| Current liabilities | 9,170,445 | 1,171,118 |
| Total liabilities | 9,170,445 | 1,171,118 |
| (a) includes cash and cash equivalents | 790,787 | 2,906,910 |
| Income (loss) and comprehensive income (loss) (b) | 761,276 | (645,156) |
| (b) includes income tax recovery | - | 238,620 |

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The details of the Company's investment in Pure Sunfarms are as follows:

| | |
|---------------------------------|-------------------|
| Balance at January 1, 2017 | - |
| Investment in Joint Venture | 20,000,000 |
| Transaction costs | 229,639 |
| Share of loss | (322,578) |
| Balance at December 31, 2017 | 19,907,061 |
| Share of income | 380,638 |
| Balance at June 30, 2018 | 20,287,699 |

A reconciliation of the summarized financial information to the carrying amount of the investment in Pure Sunfarms is set out below:

| | June 30 2018 | December 31 2017 |
|--|-------------------|---------------------|
| | \$ | \$ |
| Total net assets of Pure Sunfarms | 40,116,121 | 39,354,844 |
| 50% ownership interest held by the Company | 20,058,060 | 19,677,422 |
| Transaction costs | 229,639 | 229,639 |
| Carrying amount of the investment | 20,287,699 | 19,907,061 |

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.

15. LONG-TERM DEBT

| | June 30 2018 | December 31 2017 |
|---|-----------------|---------------------|
| Maturity Date | \$ | \$ |
| National Bank of Canada mortgage variable interest of bank rate plus 0.65% | 2,563,556 | - |
| Less: current portion | (2,563,556) | - |
| Long-term portion | - | - |

The mortgage held by National Bank of Canada has an amortization period of twenty years, is payable monthly in the amount of \$11,444 plus interest, and is secured by the property held by 9353-8460 Quebec Inc.

During the three and six months ended June 30, 2018, the Company paid \$17,923 (three and six months ended June 30, 2017 – \$Nil) in interest on mortgage.

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16. RELATED PARTY TRANSACTIONS

With Emerald Health Sciences Inc.

Emerald Health Sciences Inc. ("Sciences") charged the Company \$1,050,000 and \$2,100,000 during the three and six months ended June 30, 2018 (June 30, 2017 - \$501,800 and \$672,271) for services related to financing, business development, investor relations and acquisition activities, in accordance with the amended management agreement. Sciences charged the Company \$Nil during the three and six months ended June 30, 2018 (June 30, 2017 - \$71,605 and \$176,997) for invoices paid on behalf of the Company. As of June 30, 2018, the Company owed \$Nil (December 31, 2017 - \$125,486) to Sciences, this amount is included in the due to related parties caption on the condensed interim consolidated statements of financial position and is non-interest bearing. As of June 30, 2018, Sciences owed the Company \$16,575 for invoices paid on behalf of Sciences, this amount is included in the due from related parties caption on the condensed interim consolidated statements of financial position.

During the six months ended June 30, 2018 Sciences exercised 4,077,687 warrants at a price of \$0.27 per warrant for total gross proceeds to the Company of \$1,100,975.

As of June 30, 2018, Sciences held an aggregate of 43,234,242 shares, representing 32% (December 31, 2017 - 45,156,555 shares, representing 42%) of the issued and outstanding Common Shares and it held 4,411,764 (December 31, 2017 - 8,489,451) common share purchase warrants of the Company.

With the Company's joint venture

As of June 30, 2018, Pure Sunfarms owes the Company \$1,169,852 (December 31, 2017 - \$324,674) for expenditures made on behalf of the joint venture. This amount is included in the due from related parties caption on the condensed interim consolidated statements of financial position and is non-interest bearing.

With a company controlled by the Company's 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 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 six months ended June 30, 2018, the Company paid to the Landlord \$82,235 and \$166,469 (June 30, 2017 - \$Nil) in rent, \$73,000 (June 30, 2017 - \$Nil) for building permits, \$40,699 (June 30, 2017 - \$Nil) for invoices paid on behalf of the Company and a \$60,000 (June 30, 2017 - \$Nil) damage deposit. The Landlord also charged the Company \$12,261 and \$37,981 during the three and six months ended June 30, 2018 (June 30, 2017 - \$Nil) for services related to construction of the Company's new facility. As of June 30, 2018, the Company owed \$19,261 (December 31, 2017 - \$77,244) to the Landlord, this amount is included in the due to related parties caption on the condensed interim consolidated statements of financial position and is non-interest bearing.

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With a company whose CEO is also a director of the Company

The Company holds 1,666,667 common shares and 1,666,667 common share purchase warrants of VANC Pharma as described in Note 13. The CEO of VANC is also a director of the Company.

Remuneration of directors and key management of the Company

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

| | For the three months ended June 30, 2018 | For the three months ended June 30, 2017 | For the six months ended June 30, 2018 | For the six months ended June 30, 2017 |
|--------------------------------|---|--|---|--|
| | \$ | \$ | \$ | \$ |
| Wage and short-term benefits | 258,930 | 167,515 | 478,350 | 325,863 |
| Share-based payments (Note 17) | 949,773 | 44,696 | 1,065,763 | 87,356 |
| | 1,208,703 | 212,211 | 1,544,113 | 413,219 |

Included in the due to related parties caption on the condensed interim consolidated statements of financial position at June 30, 2018 is \$69,388 (December 31, 2017 - \$44,775) due to related parties with respect to key management personnel and expense reimbursements and are non-interest bearing.

In the event that senior key management employment agreements are terminated by the Company, other than for just cause, such officers are entitled to a minimum severance amount equal to six months of salary.

These transactions are in the normal course of the operations on normal commercial terms and conditions.

17. SHARE CAPITAL

Authorized

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

Issued

- 135,477,506 Common Shares (December 31, 2017 – 106,787,226)
- Nil preferred shares (December 31, 2017 - Nil)

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During the six months ended June 30, 2018 the outstanding share capital increased by 28,690,280 Common Shares due to the following transactions:

- A prospectus offering (the “January 2018 Offering”) completed January 8, 2018, for 3,000,000 units of the Company at a price of \$5.00 per unit, for gross proceeds of \$15,000,000. Each unit consisted of one Common Share and 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 \$6.00 for a period of 36 months from the closing date;
- A prospectus offering completed February 9, 2018, for 3,000,000 units of the Company at a price of \$6.00 per unit, for gross proceeds of \$18,000,000. Each unit consisted of one Common Share and 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 \$7.00 for a period of 6 months from the closing date;
- A prospectus offering completed May 22, 2018, for 4,000,000 units of the Company at a price of \$4.20 per unit, for gross proceeds of \$16,800,000. Each unit consisted of one Common Share and 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 \$5.20 for a period of 18 months from the closing date;
- Issued 9,911,894 shares for the acquisition of Agro-Biotech as described in Note 4;
- A total of 4,077,687 warrants were exercised at an exercise price of \$0.27 for gross proceeds of \$1,100,975;
- A total of 443,350 warrants were exercised at an exercise price of \$2.00 for gross proceeds of \$886,700;
- A total of 718,826 warrants were exercised at an exercise price of \$2.60 for gross proceeds of \$1,868,948;
- A total of 3,000,000 warrants were exercised at an exercise price of \$6.00 for gross proceeds of \$18,000,000; and
- A total of 538,523 stock options were exercised ranging in exercise price from \$0.40 to \$4.25 for gross proceeds of \$431,727.

Escrowed Common Shares

The shares issued as part of the purchase price of Agro-Biotech are subject to an Escrow Agreement. Under the agreement, 50% of the shares issued to the prior owners of Agro-Biotech remain in escrow until May 2019. As at June 30, 2018, 4,955,947 Common Shares (December 31, 2017 – Nil) were held in escrow.

Share based payments

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.

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| | Number of Options | Weighted Average Exercise Price |
|---------------------------------|-------------------|------------------------------------|
| | | \$ |
| Balance at December 31, 2016 | 5,758,200 | 0.53 |
| Granted | 5,905,000 | 2.67 |
| Forfeited | (270,836) | 1.38 |
| Exercised | (1,531,250) | 0.73 |
| Balance at December 31, 2017 | 9,861,114 | 1.76 |
| Granted | 1,025,000 | 5.27 |
| Forfeited | (50,000) | 4.55 |
| Exercised | (538,523) | 0.80 |
| Balance at June 30, 2018 | 10,297,591 | 2.14 |

During the six months ended June 30, 2018, the Company granted 1,025,000 stock options to employees and consultants. The stock options granted had exercise prices between \$3.69 and \$6.68, have expiry dates of five years and vest over three years. The weighted average fair value of the stock options granted was \$2.74. The weighted average share price of the options exercised during the six months ended June 30, 2018 was \$6.30.

The fair values of the options granted during the six months ended June 30, 2018 and 2017 were determined on the date of the grant using the Black-Scholes option pricing model with the following assumptions:

| | June 30 2018 | June 30 2017 |
|---|-----------------|-----------------|
| Risk free interest rate | 1.73% - 2.11% | 0.74% - 0.87% |
| Expected life of options (years) | 3 | 1-3 |
| Expected annualized volatility | 80% | 80% |
| Expected dividend yield | Nil | Nil |
| Weighted average Black-Scholes value of each option | \$ 2.74 | \$ 0.53 |

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.

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Incentive stock options outstanding and exercisable at June 30, 2018 are summarized as follows:

| Range of exercise prices | Quantity | Remaining contractual life (years) | Outstanding | | Exercisable | |
|--------------------------|-------------------|------------------------------------|---------------------------------|------------------|---------------------------------|----------|
| | | | Weighted average exercise price | Quantity | Weighted average exercise price | Quantity |
| \$ | | | \$ | | \$ | |
| 0.175 - 0.43 | 986,673 | 1.82 | 0.354 | 911,664 | 0.369 | |
| 0.44 - 0.50 | 1,500,000 | 1.82 | 0.450 | 1,500,000 | 0.450 | |
| 0.51 - 0.94 | 1,752,718 | 3.22 | 0.717 | 1,283,965 | 0.716 | |
| 0.95 - 1.25 | 1,145,002 | 3.91 | 1.209 | 465,140 | 1.205 | |
| 1.26 - 1.44 | 844,448 | 4.10 | 1.320 | 234,728 | 1.327 | |
| 1.45 - 4.23 | 525,000 | 4.07 | 2.252 | 143,750 | 2.085 | |
| 4.24 - 4.25 | 2,643,750 | 4.48 | 4.250 | 656,250 | 4.250 | |
| 4.26 - 5.44 | 380,000 | 4.74 | 4.720 | 43,750 | 5.210 | |
| 5.45 - 5.68 | 225,000 | 4.57 | 5.670 | 56,250 | 5.670 | |
| 5.69 - 6.68 | 295,000 | 4.68 | 6.106 | 73,750 | 6.106 | |
| | 10,297,591 | 3.52 | 2.143 | 5,369,247 | 1.283 | |

The Company recorded share-based compensation expense related to the incentive stock options of \$1,592,593 and \$3,062,817 for the three and six months ended June 30, 2018 (\$332,103 and \$533,289 for the three and six months ended June 30, 2017) The expense has been charged to the condensed interim consolidated statements of loss and comprehensive loss.

Restricted share units

The Board of Directors has the discretion to determine to whom restricted share units (“RSUs”) will be granted, the number granted, and the terms and time frames in which the RSUs will vest and be settled.

| | Number of RSUs | Weighted average fair value per unit at issue |
|---------------------------------|----------------|---|
| | | \$ |
| Balance at December 31, 2016 | - | - |
| Granted | 825,000 | 3.73 |
| Settled | - | - |
| Balance at December 31, 2017 | 825,000 | 3.73 |
| Granted | 5,000 | 5.67 |
| Settled | - | - |
| Balance at June 30, 2018 | 830,000 | 3.74 |

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During the six months ended June 30, 2018, the Company issued 5,000 RSUs to an employee, which vest on January 12, 2019 and settle in Common Shares. The Company recorded share-based compensation expense related to the RSUs of \$489,068 and \$972,891 for the three and six months ended June 30, 2018 (three and six months ended June 30, 2017 - \$37,685) to the condensed interim consolidated statement of loss and comprehensive loss.

18. WARRANTS

| | Number of Warrants | Weighted Average Exercise Price |
|--|-------------------------------|--|
| | | \$ |
| 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 |
| Issued upon exercise of compensation units | 153,525 | 2.00 |
| Issued upon exercise of compensation units | 219,526 | 2.60 |
| Exercised | (11,845,075) | 2.36 |
| Balance at December 31, 2017 | 9,707,677 | 0.80 |
| Issued in January 2018 | 3,000,000 | 6.00 |
| Issued in February 2018 | 3,000,000 | 7.00 |
| Issued in May 2018 | 4,000,000 | 5.20 |
| Exercised | (8,239,863) | 2.65 |
| Expired | (56,050) | 2.28 |
| Balance at June 30, 2018 | 11,411,764 | 2.17 |
| Expire: | | |
| November 2021 | 4,411,764 | 0.85 |
| November 2019 | 4,000,000 | 5.20 |
| August 2018 | 3,000,000 | 7.00 |
| Balance at June 30, 2018 | 11,411,764 | 2.17 |

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19. COMMITMENTS

Operating leases

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

| | Remainder of | | | | | | |
|-----------------------|---------------------|----------------|----------------|----------------|----------------|----------------|-------------------|
| | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | Thereafter |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Production facilities | 95,714 | 152,117 | 21,290 | - | - | - | - |
| Equipment | 10,800 | 21,600 | 19,800 | - | - | - | - |
| Office space | 47,880 | 95,760 | 39,900 | - | - | - | - |
| Temporary housing | 37,800 | 24,300 | - | - | - | - | - |
| Land (Note 16) | 160,000 | 320,000 | 320,000 | 320,000 | 320,000 | 320,000 | 7,440,000 |
| Total | 352,194 | 613,777 | 400,990 | 320,000 | 320,000 | 320,000 | 7,440,000 |

During the year ended December 31, 2017, the Company entered into agreements for the supply of material and labour to build greenhouses. The Company committed to payments of \$1,568,362 during the remainder of the year ended December 31, 2018.

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20. FINANCIAL INSTRUMENTS

The classification of the Company's financial instruments, as well as their carrying amounts and fair values, are as follows:

| | June 30, 2018 | | December 31, 2017 | |
|--|-------------------|-------------------|-------------------|----------------|
| | Fair Value | Carrying Value | Fair Value | Carrying Value |
| Financial Assets | \$ | \$ | \$ | \$ |
| <i>FVTPL</i> | | | | |
| Long-term investment | 542,022 | 542,022 | 666,667 | 666,667 |
| <i>Amortized cost</i> | | | | |
| Cash and cash equivalents | 72,676,108 | 72,676,108 | 44,523,145 | 44,523,145 |
| Accounts receivable | 338,021 | 338,021 | 91,822 | 91,822 |
| Due from related parties | 1,186,427 | 1,186,427 | 324,674 | 324,674 |
| Refundable deposits | 196,391 | 196,391 | 196,391 | 196,391 |
| Financial Liabilities | | | | |
| <i>Amortized cost</i> | | | | |
| Accounts payable and accrued liabilities | 1,523,632 | 1,523,632 | 1,378,645 | 1,378,645 |
| Current portion of long-term debt | 2,563,556 | 2,563,556 | - | - |
| Deferred payment | 22,171,857 | 22,171,857 | - | - |
| Payable to joint venture | - | - | 4,000,000 | 4,000,000 |
| Due to related parties | 88,649 | 88,649 | 247,505 | 247,505 |

The carrying value of the cash and cash equivalents, accounts receivable (excluding statutory receivable balances), due from related parties, refundable deposits, accounts payable and accrued liabilities, current portion of long-term debt, deferred payment, payable to joint venture and amounts due to related parties, approximate the fair value because of the short-term nature of these instruments.

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.

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

There have been no transfers between fair value levels during the year.

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

| | Fair Value Measurement | | | Total |
|-------------------------|------------------------|---------|---------|----------------|
| | Level 1 | Level 2 | Level 3 | |
| As at June 30, 2018 | \$ | \$ | \$ | \$ |
| Financial Assets | | | | |
| Long-term investments | 300,000 | 242,022 | - | 542,022 |
| As at December 31, 2017 | | | | |
| Financial Assets | | | | |
| Long-term investments | 500,000 | 166,667 | - | 666,667 |

21. SEGMENT INFORMATION

The Company operates in four reportable segments: *Emerald Health Therapeutics, Inc.* - corporate administration and branding and marketing; *EHTC* - the production and sale of medical cannabis pursuant to the Access to Cannabis for Medical Purposes Regulations; *Agro-Biotech* - the production of medical cannabis pursuant to the Access to Cannabis for Medical Purposes Regulations; and *Northern Vine* - laboratory services. As at June 30, 2018 and December 31, 2017, all the Company's operations and assets are located in Canada. A summary and reconciliations of the reportable segments are provided below:

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| | Emerald Health Therapeutics, Inc. | | Northern Vine | Agro- Biotech | Total |
|--|--------------------------------------|-------------|------------------|------------------|---------------------|
| | \$ | \$ | \$ | \$ | \$ |
| For the six months ended June 30, 2018 | | | | | |
| Sales | - | 651,960 | 5,520 | - | 657,480 |
| Interest revenue | 524,500 | - | - | - | 524,500 |
| Gain / (loss) from operations | (8,566,985) | (2,385,384) | (1,075,357) | 273,646 | (11,754,080) |
| Net income (loss) and comprehensive income (loss) | (8,167,130) | (2,005,046) | (757,860) | 273,646 | (10,656,390) |
| Share of income from joint venture | - | 380,638 | - | - | 380,638 |
| For the six months ended June 30, 2017 | | | | | |
| Sales | - | 446,976 | - | - | 446,976 |
| Interest revenue | 57,497 | - | - | - | 57,497 |
| Loss from operations | (1,729,974) | (1,202,406) | - | - | (2,932,380) |
| Net loss and comprehensive loss | (1,672,447) | (1,202,436) | - | - | (2,874,883) |

22. SALES

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

| | For the three months ended June 30, 2018 | For the three months ended June 30, 2017 | For the six months ended June 30, 2018 | For the six months ended June 30, 2017 |
|----------------|---|--|---|--|
| Dried Cannabis | 136,408 | 164,225 | 288,659 | 326,562 |
| Cannabis Oils | 141,308 | 79,534 | 355,180 | 116,879 |
| Other | 6,546 | 1,949 | 13,641 | 3,535 |
| Total | 284,262 | 245,708 | 657,480 | 446,976 |

23. CLAIM AGAINST AGRO-BIOTECH

On February 21, 2018 Agro-Biotech and its former shareholders entered into a non-binding letter of intent ("LOI") with Pivot Pharmaceuticals Inc. ("Pivot") for the potential sale of Agro-Biotech. The parties were unable to agree to final terms and the LOI was terminated. On April 24, 2018 Agro-Biotech was served a statement of claim (the "Claim") from Pivot which alleges that Agro-Biotech and its former shareholders failed to negotiate in good faith. Pivot is seeking damages of \$72.4 million. The Company believes that the Claim is without merit and intends on defending the itself to the fullest extent possible.

No amount has been accrued in these financial statements in respect of the Claim. Any costs ultimately assessed against the Company in respect of this Claim and will be recorded in the period in which actual determination of the liability, if any, is made.

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24. EVENTS AFTER THE REPORTING PERIOD

Northern Vine – purchase of remaining non-controlling interest shares

On August 15, 2018 the Company increased its ownership in Northern Vine to 100% by purchasing all of the shares of Northern Vine held by Abattis Bioceticals Corp (“Abattis”). The Company paid \$2 million in cash and issued 1,093,938 Common Shares valued at \$4 million, for total consideration of \$6 million.

In the event that the Company receives gross revenue of \$10 million or more within thirty-six months ended August 2021, from the sale of products or services introduced by Abattis, the Company will issue additional Common Shares with a deemed value of \$4 million.

If the Company had increased its interest at the beginning of the year there would have been no change to revenue or net loss as Northern Vine is a consolidated subsidiary. The net loss attributable to the Company would have increased by \$325,575 and the net loss attributable to the non-controlling interest would have decreased by \$325,575.

Northern Vine – purchase of property

On July 27, 2018 Northern Vine purchased the land and building it had previously leased for \$956,000 plus applicable taxes.

Pure Sunfarms – Shareholder Loan

On July 5, 2018, the Company and Village Farms International Inc. (together, the “Shareholders”) entered into a Shareholder Loan Agreement, subsequently amended August 24, 2018 (the “Loan Agreement”) with Pure Sunfarms, whereby the Shareholders agreed to make a demand loan to Pure Sunfarms totaling \$16 million (\$8 million from each Shareholder).

The loans bear simple interest at the rate of 8% per annum, calculated semi-annually and are payable on demand.

Emerald Health Naturals, Inc.

On April 17, 2018 the Company entered into a binding agreement with Emerald Health Bioceticals, Inc. (“EHB”), 1160305 BC Ltd., GAB Innovations, Inc. and Dr. Gaetano, a director of Sciences with respect to Emerald Health Naturals (“EHN”). The Company will invest \$5,000,000 for 51% ownership of EHN and EHB will grant EHN the exclusive Canadian distribution rights to EHB’s product line for 49% ownership of EHN. EHB’s product line consists of nutritional supplements, which use non-cannabis, non-psychoactive plant-based ingredients to provide potentially beneficial support to the body’s endocannabinoid system.

Subsequent to June 30, 2018, the Company received TSXV conditional approval for the transaction.

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Factors R&D Technology, Inc.

On August 27, 2018 the Company signed a term sheet with Factors R&D Technology, Inc. (“FTI”), in which FTI will provide pharmaceutical-grade, industrial-scale manufacturing capacity as well as expertise in GMP-level extraction, softgel production, and packaging. FTI will provide the Company with access to a facility capable of processing up to 1 million kg of biomass annually and softgel production capacity of up to 600 million capsules per year. The Company will pay an initial \$5 million fee to FTI to cover the initial costs of transition to cannabis extraction.

Options granted subsequent to period end

Subsequent to June 30, 2018, the Company granted 782,500 options to purchase Common Shares with exercise prices between \$2.49 and \$4.30. These options vest over three years with an expiry date five years from the grant date.