



Emerald Health Therapeutics Inc. (CSE : EMH)

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Management Discussion & Analysis  
For the three months ended March 31, 2021 & 2020



# Forward-Looking Statements

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Certain statements contained in this Management Discussion and Analysis (“MD&A”) constitute forward-looking information or forward-looking statements under applicable securities laws (collectively, “forward-looking statements”). These statements relate to future events or future performance, business prospects or opportunities of Emerald Health Therapeutics, Inc. and its subsidiaries (together the “Company” or “Emerald”). All statements other than statements of historical fact may be forward-looking statements. Any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions or future events or performance (often, but not always, using words or phrases such as “seek”, “anticipate”, “plan”, “continue”, “estimate”, “expect”, “may”, “will”, “project”, “predict”, “forecast”, “potential”, “targeting”, “intend”, “could”, “might”, “should”, “believe” and similar expressions) are not statements of historical fact and may be “forward-looking statements”. Further information regarding forward-looking information and statements can be found on page 27 of this MD&A.



# Curating Products for the Cannabis Consumer

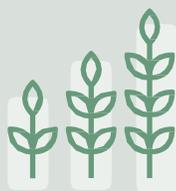


## Who We Are

Emerald is committed to creating new consumer experiences with distinct recreational, medical and wellness-oriented cannabis products, with an emphasis on science-based innovation and product excellence.

## The Emerald Difference

Our goals are to:



Continue to realize value from our fully operational **purpose-built** production facility in St. Eustache, Quebec for the production of defined scale, craft cannabis.



Establish and leverage strategic partnerships to drive faster ideation to commercialization, broaden Emerald's geographical scope of business, and to build additional options to further monetize our extensive knowledge and intellectual property.



Develop **differentiated, consistent and predictable action next generation, cannabis products based upon the scientific expertise** of our Product Development team.



Remain consumer focused addressing the evolving needs of our targeted consumer segments and potential new user segments, **by providing product choices, formats and evidence that addresses their specific needs.**



# Strategy



Emerald is driving the evolution of cannabis products beyond dried flower and oils through the deployment of cutting-edge science to develop novel, innovative products that provide consumers with predictable action profiles: defined onset, duration of action and offset. This unique attribute set is captured in our Defined Dose™ product philosophy.

## Facility Overview

Emerald's wholly-owned 88,000 square foot indoor production facility, Verdélite, is located in St. Eustache, Québec and includes 21 highly-controlled-environment grow rooms and 17 processing rooms. It is vertically integrated for seed to sale craft quality cultivation. It is the hub for the company's operation to sell and distribute packaged, branded dried cannabis products directly to wholesalers and authorized private retailers under provincial/territorial frameworks in Canada. The St. Eustache facility is also home to Souvenir™, a brand exclusive to the Québec recreational cannabis market designed to serve the unique preferences of Québec consumers.

## Innovation

Emerald's Cannabis 2.0/3.0 strategy focuses on leveraging science-based innovation to serve targeted consumer preferences. Emerald's differentiated new product lines build on our commitment to offering consumers defined dosing and predictable actions that let them control their cannabis consumption experience. Emerald has just launched a new product line, SYNC™ Tabs, an innovative, naturally flavoured ingestible offering a controlled 10 mg THC dose with predictable onset and offset. This product line expands our offering under our SYNC™ Wellness brand and is the second of Emerald's Defined Dose™ products. SYNC™ Tabs are designed in a simple tablet form that enables convenient yet discreet cannabis use. Dissolving under the tongue in about three minutes, the fast-acting tabs offer controlled dosing and desired effects within 20 to 30 minutes. Offset is equally controlled, occurring within approximately 90 minutes of taking the SYNC™ Tab. This new product line follows on from the introduction of Emerald's Nano Fast-Action Spray product line in Fall 2020. Both product lines add to the SYNC™ brand's line-up of non-smoking forms of cannabis products, which also include CBD and THC oils. SYNC™ MED Tabs will also be made available through Emerald's medical channel alongside the existing portfolio of medical cannabis products.

In parallel to delivering products with predictive action, Emerald is re-thinking the products that consumers are already using every day. For example, by introducing products with appealing flavours and adding in specific terpenes that are naturally found in cannabis, Emerald can offer both existing and new consumers the ability to enjoy cannabis in a new way, while still providing the assurance that every time they consume an Emerald product, they will receive the same high-quality experience that they have come to expect from Emerald's original SYNC™ 25 oil. Emerald has expanded its SYNC™ formulated oils portfolio with differentiated offerings that are unique to Emerald, such as SYNC™ 15 CBD Mint Chocolate + Linalool, SYNC™ 30 THC Mango + Myrcene, and SYNC™ 100 CBD, which Emerald was the first LP to launch in the recreational market in Canada. Plant-derived terpenes were selected for their scientifically documented health benefits, and then paired with flavours that reflect their natural origins, for example, in addition to being present in cannabis, linalool is found in garden herbs such as mint and lavender, and myrcene is found in mangoes. Starting in Spring 2021, the high-dose CBD oil will also be available to Emerald's medical patients, as SYNC™ MED 100.



# Strategy

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Emerald has recently nationalised seven (7) patents, with filings in the US, Canada and the EU. Emerald's innovation team is seeking to both leverage this intellectual property (IP) with every new product developed as well as to out-licence the technologies in markets where Emerald does not have near-term plans to launch. Emerald's NPD team is continuing to conduct R&D in-house, with the aim of expanding our IP portfolio through the development of proprietary formulations, trade secrets and new patents. The combination of IP + science-based innovation + data driven evidence + understanding of the endocannabinoid system + understanding the attributes of other functional botanical products (beyond cannabis) - uniquely position Emerald to be a leader in the evolution of Cannabis 3.0 products. These products will be targeted to serve the growing base of consumers who utilize cannabis and cannabinoids for health, wellness and medicinal purposes, segments of the market that Emerald is passionate about and understands.

Emerald is also leveraging its regulatory experience and knowledge, its cultivation and product base, and its expertise in health and life-sciences to build partnerships that allow it to broaden its geographical reach and drive revenue growth without the need for substantive capital investments, while mitigating the risk of in-market protectionism. Emerald does this by working with partners based in the geography of interest. Two partnerships have been established in Europe, one focused on the provision of Emerald's medical products into select countries in Europe; and the other on being able to access EU\_GMP certified medical grade cannabis at very competitive pricing to further serve those markets where GMP product is a necessity, such as segments of Europe, Israel and Australia. A third partnership that was recently announced by the Company, is a licensing agreement focused on the United States, which will leverage Emerald's IP and product development expertise, while providing its shareholders with another revenue and growth vector in the world's largest cannabis market.





# Our Capabilities

**avalite**  
SCIENCES

**emerald**  
NATURALS

**emerald**  
THERAPEUTICS

**verdelite**

**emerald**  
THERAPEUTICS

100% owned

51% owned

100% owned

100% owned

100% owned

Location	Langley, BC	Burnaby, BC	Victoria, BC	Saint-Eustache, QC	Metro Vancouver, BC
<b>Purpose</b>	R&D and product innovation; International government approvals to import and export for R&D.	Distribution and sale of non-cannabis nutraceutical products.	Breeding, genetics and R&D lab; Medical hub.	Vertically integrated facility; Expertise in craft growing; New product and innovation hub.	High quality organic flower production greenhouse; Low cost outdoor growing.
<b>Emerald's Strategic Plans</b>	Transfer to EHTC	Wind down	Fully operational	Fully operational	Wind down
<b>Square Feet</b>	4,000	7,000	10,000	88,000	533,814
<b>Cultivation Rooms</b>	-	-	1	21	10
<b>Processing Rooms</b>	-	-	5	17	6
<b>Planned annual Capacity (kg)</b>	-	-	-	5,000	18,200*
<b>Packaging/Extraction (kg)</b>	-	-	5,400	50,000	-
<b>Centers</b>	<ul style="list-style-type: none"> <li>• R&amp;D</li> <li>• New product development</li> </ul>	<ul style="list-style-type: none"> <li>• Packaging</li> <li>• Distribution</li> </ul>	<ul style="list-style-type: none"> <li>• R&amp;D</li> <li>• Packaging</li> <li>• Customer excellence</li> <li>• Extraction</li> <li>• Distribution</li> </ul>	<ul style="list-style-type: none"> <li>• Production</li> <li>• R&amp;D</li> <li>• Packaging</li> <li>• Distribution</li> </ul>	<ul style="list-style-type: none"> <li>• Production</li> <li>• Extraction</li> <li>• Packaging</li> <li>• Distribution</li> </ul>
<b>Standard Cultivation</b>			✓	✓	✓
<b>Standard Processing</b>			✓	✓	✓
<b>Medical Sales</b>			✓		
<b>Research</b>	✓				
<b>Dealer</b>	✓				

Legend: ✓ Licence obtained

# Emerald's Adult-Use Brands



- SYNC™ Wellness
- Souvenir™
- Emerald whole-flower cannabis

Emerald continues to expand its market share through its existing distribution channels across Canada with the launch of consumer-focused brands in the medical, recreational and wellness spaces. Emerald's evolving SYNC™ portfolio will focus on the wellness market segment focusing on extract products using its nano emulsion technology. Enhanced versions of SYNC™ extracts are now available across Canada using a 100% organic coconut-derived carrier oil and the addition of flavours. Emerald's quality flower strains continue to serve recreational consumers through a

unique genetic offering of both classic and modern strains. Furthermore, our Souvenir™ launch in June 2020 positioned Emerald for success in the market with made-in Québec strains.



SYNC™ Wellness is dedicated to helping create balance in everyday life through innovative “smoke-free” cannabis products that are discreet and made with natural ingredients. Taking a holistic approach to cannabis consumption, SYNC™ is committed to helping consumers achieve mind-body balance through a harmony of traditional science and cannabis innovation. The SYNC product line is designed with precision and defined dosing in mind for confident consumption.



## INTRODUCING SYNC TABS



SYNC™ Tabs are a convenient new way to consume cannabis in a controlled and discreet fashion. The rapidly dissolving pills are placed under the tongue for accelerated absorption and formulated to achieve effects within 20-30 minutes and last approximately 90 minutes.



*Souvenir*

L'ART DE LA FLEUR.



*Grapefruit GG1*



*Chemdog*



*Grapefruit GG4*

Emerald launched our Souvenir™ Cannabis brand exclusive to the Québec adult-use market in June 2020. The success of Souvenir can be attributed to the Québec-focused branding and craft quality strains released, including Grapefruit GG1, Grapefruit GG4 and Chemdog.



**emerald**  
WHOLE-FLOWER CANNABIS

adult-use

Emerald is passionate about growing healthy and flavourful whole-flower cannabis. Our team of expert agronomists at our state-of-the-art craft facility in Saint-Eustache, Québec, is focused on producing cultivars with optimal terpene profiles in a range of THC and CBD potencies. We take care in our growing, drying and curing techniques with every batch hand harvested and hang dried.



**CHEMDOG (SATIVA)**

- THC 18-25% CBD 0.1%
- Terpenes: limonene, linalool and myrcene



**DURGA MATA (INDICA)**

- THC 18-23% CBD 0.1%
- Terpenes: terpinolene, limonene and myrcene



**BLACK WIDOW (HYBRID)**

- THC 16-21% CBD 0.1%
- Terpenes: myrcene, limonene and caryophyllene



**JTR 'JACK THE RIPPER' (SATIVA)**

- THC 14-18% CBD 0.1%
- Terpenes: terpinolene, pinene and limonene



**GRAPEFRUIT GG1 (SATIVA)**

- THC 18-24% CBD 0.1%
- Terpenes: terpinolene, linalool and limonene



# Medical

Serving the medical cannabis community is the backbone of Emerald, and one of our core competencies. We recognize the important role that the medical profession plays in the introduction and prescription of cannabis to patients. Emerald continues to partner with the strongest clinical organizations across the country, including O Cannabis, thereby making consultations and prescriptions more readily accessible for all patients across Canada.

We continue to educate medical practitioners about the endocannabinoid system by collaborating with national professional and therapeutic organizations. Additionally, we engage with pharmacists and unions who have recognized cannabis health benefits.



## Coming Soon

### SYNC MED 100

- The most potent addition to our medical portfolio of CBD Oils
- It is formulated with broad-spectrum whole-flower extract from cannabis grown in British Columbia
- Made with 100% organic coconut-derived, palm free oil for excellent quality and natural flavour

### SYNC MED TABS - MINT (10 x 10MG)

- Each tab contains 10 mg of THC and is designed for easy splitting, allowing users to precisely define their own dose with confidence
- They are naturally flavoured, sugar-free, vegan, gluten-free, and made with organic palm-free coconut-based MCT oil



## Cannabis Extracts

### CBD, THC and CBD:THC format

- One of the top selling CBD oils in Canada
- 100% BC Grown cannabis derived oils
- Made with plant based MCT oil for its purity, clarity, neutral flavour and shelf stability
- High temperature CO2 extraction – toxin free



## Dried Cannabis Flower

### Quality dried cannabis flower

- Lab tested for quality
- Hand trimmed
- Strains available: GG1, Durga Mata, Chemdog, and JTR (Jack the Ripper)

# verdélite

## Facility

- Wholly-owned subsidiary
- Vertically integrated seed to sale
- High precision indoor cultivation
- Craft quality through highly controlled environment



## Grow Area

- 88,000 ft<sup>2</sup> indoor grow facility in Québec
- 17 processing and packaging rooms
- 21 independent growing room



## Cultivation

- 15,000 plants grown at a time



## Production Capability

- 5,000 kg



## Packaging Facility

- High-scale automated packaging
- Distribution hub nationwide



## Licence

- Standard Cultivation
- Standard Processing



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## Management's Discussion and Analysis

The following MD&A is prepared as of May 31, 2021 and is intended to assist the understanding of the results of operations and financial condition of the Company.

This MD&A should be read in conjunction with the unaudited condensed interim consolidated financial statements and accompanying notes of the Company for the three months ended March 31, 2021, which have been prepared in accordance with IAS 34 – Interim Financial Reporting as issued by the International Accounting Standards Board (“IASB”) and the audited consolidated financial statements and accompanying notes of the Company for the years ended December 31, 2020 and 2019 which have been prepared in accordance with International Financial Reporting Standards (“IFRS”). This MD&A contains forward-looking statements that are subject to risk factors set out in a cautionary note contained herein. All figures are in Canadian dollars unless otherwise noted.

Additional information related to the Company is available on its website at [www.emeraldhealth.ca](http://www.emeraldhealth.ca). Other information related to the Company, including the Company's most recent Annual Information Form (“AIF”) and financial statements referred to herein are available on the Canadian Securities Administrator's website at [www.sedar.com](http://www.sedar.com).

### Overview

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 the issued and outstanding common shares of Thunderbird Biomedical Inc. (“Thunderbird”), by way of a reverse takeover under the rules of the TSX Venture Exchange (the “TSXV”) and concurrently changed its name to T-Bird Pharma, Inc (“T-Bird”). At that time, Thunderbird became a wholly-owned subsidiary of T-Bird. In June 2015, the Company changed its name to Emerald Health Therapeutics, Inc. and Thunderbird changed its name to Emerald Health Botanicals Inc. (“Botanicals”). In February 2018, Botanicals changed its name to Emerald Health Therapeutics Canada Inc. (“EHTC”).

The Company is a publicly traded company with headquarters in Vancouver, British Columbia, Canada. Common shares of the Company (the “Common Shares”) are listed on the Canadian Stock Exchange (“CSE”) under the trading symbol “EMH”. The Company also trades on the OTCQX® Best Market, operated by OTC Markets Group under the ticker symbol “EMHTF”.

The Company owns:

- (a) 100% of the shares of EHTC, a British Columbia-based licence holder under the Cannabis Act (Canada) (the “Cannabis Act”);
- (b) 100% of the shares of Verdélite Sciences, Inc. (formerly, Agro-Biotech Inc.) (“Verdélite”), a Québec-based licence holder under the Cannabis Act;
- (c) 100% of the shares of Verdélite Property Holdings, Inc. (formerly, Agro-Biotech Property Holdings Inc.) (“Verdélite Holdings”), a Québec-based holding corporation that owns the Verdélite Facility (as defined below); and

- (d) 51% of the shares of Emerald Health Naturals Inc. (“EHN”), a joint venture between the Company and Emerald Health Bioceuticals, Inc. (“EHB”). EHB voluntarily placed itself into Chapter 7 bankruptcy in the County of San Diego, California in October 2020.

The Company, through EHTC, also holds:

- (e) 100% of the shares of Avalite Sciences Inc. (formerly Northern Vine Canada Inc.) (“Avalite”), a British Columbia-based licenced dealer under the provisions of the Controlled Drugs and Substances Act (Canada) (the “CDSA”) and a licence holder under the Cannabis Act. Avalite ceased active operations in January 2021.

### *Coronavirus*

In December 2019, the novel Coronavirus (“COVID-19”) began to spread throughout the world. On March 11, 2020, the World Health Organization declared the outbreak of COVID-19 a global pandemic. In response to this, global reactions have led to significant restrictions on travel, quarantines, temporary business closures and a general reduction in consumer activity. Sales of the Company’s products for the adult use recreational market are primarily with government bodies, which continue to offer end customers online ordering and home delivery options. Consumer market retail stores in most Canadian jurisdictions have generally been permitted to remain open subject to adhering to the required social distancing measures.

During the three months ended March 31, 2021, certain Canadian provinces, most notably Ontario and Quebec, re-enacted increased province wide restrictions and protocols as a response to the rapid increase in COVID-19 cases and hospitalizations. These restrictions included the limitation on retail cannabis to curbside and delivery options. However, as of the date of this MD&A, the cannabis industry continues to be deemed an essential service to Canadians.

All of the Company’s operating facilities in Canada continue to operate at full capacity and the Company continues to work closely with local, provincial and national government authorities to ensure that it is following the required protocols and guidelines related to COVID-19 within each region where the Company’s facilities are located. Although none of the Company’s facilities have to date been subject to any closures, the Company cannot provide assurance that there will not be disruptions to its operations in the future. Refer to the “Risk Factors” section below for further discussion on the potential impacts of COVID-19.

The Company continues to closely monitor the rapid evolution of COVID-19 with a focus on the jurisdictions in which the Company operates. During this period of uncertainty, it is the Company’s priority to safeguard the health and safety of its personnel, support and enforce government actions to slow the spread of COVID-19, and continually assess and mitigate the risks to its business operations. The Company has taken responsible measures to reduce risks and maximize the safety of staff working at all of its facilities. This includes working remotely, reorganizing physical layouts, adjusting schedules to improve physical distancing, implementing extra health screening measures for employees, and applying rigorous standards for personal protective equipment. The Company continues to maintain regular communications with legal and government representatives, suppliers, customers and business partners to identify and monitor any potential risks to our ongoing operations.

### *COVID-19 impact on near term operations*

The impact of the COVID-19 pandemic on the drivers of growth in the Canadian consumer market is difficult to forecast. While the Company is optimistic about the total accessible market size of Canadian consumer cannabis over time, the variables related to the pandemic make the short-term growth of the market, and the Company's revenue expectations difficult to project. Due to the uncertainty, magnitude and duration of the pandemic, COVID-19 impacts on the Company's operations and financial results, continue to be highly uncertain and cannot be predicted with confidence.

### ***Development of Business in the three months ended March 31, 2021***

#### ***Highlights***

- Settled all outstanding amounts owing of \$9.00 million to the original vendors of Verdélite and Verdélite Holdings (the "Verdélite Entities") in connection with the Company's 2018 acquisition
- Received payment in full of \$19.90 million promissory note related to the Company's sale of its interest in Pure Sunfarms Corp. and \$0.62 million in interest
- Closed its Metro Vancouver Production Facility and commenced process to sell
- Established a supply and consulting arrangement with Spanish greenhouse grower for GMP-Certified cannabis
- Ceased operations of Avalite

On January 22, 2021 Avalite ceased active operations. The Company terminated a letter of intent during December 2020 regarding a potential transaction around Avalite's operations. Subsequent to the termination, the Company began considering strategic alternatives for Avalite and its facility.

On January 13, 2021, the Company settled all outstanding amounts owing to the original vendors of the Verdélite Entities (the "Vendors") in connection with the Company's 2018 acquisition of the Verdélite Entities. The Company paid to the Vendors \$9.00 million, fully settling all remaining amount owing to the Vendors including accrued interest. The Company no longer has any liability to the Vendors with respect to the purchase price for the Verdélite Entities.

On February 5, 2021, the Company received from Village Farms International, Inc. ("VF") \$19.90 million plus \$0.62 million in interest, representing full repayment of the promissory note issued to the Company in connection with the sale of the Company's interest in Pure Sunfarms Corp. to VF in October 2020 (the "PSF Transaction"). This was the final payment due pursuant to the PSF Transaction.

On March 17, 2021, the Company announced that it had agreed to provide Medical Plants SLU ("Medical Plants"), a company based out of Almeria, Spain, with resources and expertise to assist Medical Plants to produce medical cannabis and other cannabis products to serve emerging legal medical cannabis markets in the European Union. Medical Plants is a wholly-owned subsidiary of Cualin Quality S.L., a high-tech producer of tomatoes. Medical Plants received processing approval from the Spanish Drug and Healthcare Products Agency in September 2020, making it only one of five authorized medical cannabis producers in

Spain. Medical Plants is in the process of obtaining GMP certification of its cannabis production facility. The Company has agreed, for a three-year period, to provide cannabis seeds, greenhouse construction expertise and cannabis growing expertise to assist Medical Plants in establishing its greenhouse-based production operation. The Company will have a non-obligatory right to purchase cultivated dried flower of certain strains produced by Medical Plants at a discounted price.

On March 31, 2021, the Company ceased operations at its facility in Metro Vancouver, BC and is now actively exploring a sale of the facility. Approximately 10 positions were made redundant by the closure of this facility. The board of directors has formed a special committee (the "Special Committee"), consisting solely of independent directors, to consider the strategic options, specifically, the sale of the Metro Vancouver facility.

### ***Development of Business after the Reporting Period***

#### ***Highlights***

- Announced and shipped the first batches of its new THC sublingual tablet, expanding its SYNC™ Wellness product line
- Transitioned from listing on the TSX Venture Exchange to listing on the Canadian Securities Exchange
- Announced an agreement to License Proprietary Cannabis-related Patents for use in the United States

On April 13, 2021, the Company announced that it had launched its new product line, SYNC™ Tabs, an innovative, naturally-flavoured sublingual offering consumers a controlled 10 mg THC dose with predictable onset and offset. This product line expands its offering under its SYNC™ Wellness brand and is the second of Emerald's Defined Dose™ products. With 10 mg of THC, SYNC™ Tabs offer consumers the measured stringency of Emerald's Defined Dose™ standard, dissolve under the tongue in about three minutes, and provide desired effects within 20 to 30 minutes. Offset is equally controlled, occurring within approximately 90 minutes of taking the tablet. The SYNC Tabs are very predictable as their delivery under the tongue and directly into the bloodstream obviates the effect variability caused by the compound having to pass through the stomach and liver. Tabs are sugar-free, gluten-free, vegan and come in two natural flavours, cherry and mint. The Company made its first product shipments to BC, Manitoba and Newfoundland, with Alberta to follow.

At the close of business on April 26, 2021, the Common Shares were voluntarily de-listed from the TSXV. The Common Shares commenced trading on the CSE as of the open of business on April 27, 2021 under the trading symbol "EMH". The Company expects that the listing of the Common Shares on the CSE will result in lower filing, compliance, legal and other fees, and provide the Company with increased flexibility to conduct business in the United States and other jurisdictions outside of Canada.

On May 5, 2021, the Company entered into a license agreement with FlowerPod LLC ("FlowerPod"), pursuant to which it agreed to exclusively license certain patented technology to FlowerPod for the development and sale of cannabis related products for use in all US states and other key geographical areas where adult use and/or medical cannabis is legal. The Company also provided FlowerPod with a

loan of US\$0.35 million that is repayable within two years and bears interest at 5% per annum. The Company was also granted a 19% equity ownership position in FlowerPod and will receive monthly license and research and development payments from FlowerPod.

On May 10, 2021, Moe Jiwan was appointed as the Chief Operating Officer of the Company.

On May 25, 2021, the Company and The Uplifters' Prima, PBC ("Prima"), based in Santa Monica, California, signed a letter of intent (the "LOI") contemplating joint initiatives to co-develop new cannabinoid-based wellness products for sale in the United States, Canada, and internationally. As an initial step in establishing the relationship, the Company made a capital investment of \$0.05 million in Prima's Series Seed-1 Preferred Stock financing round. Pursuant to the LOI, which is non-binding, the Company and Prima intend to explore the co-development of new science-based body and wellness products for the US, Canadian and global markets and aim to discuss broader corporate partnering options.

In the next 12 months, the Company intends to continue to execute on its growth strategy by executing on three key components encompassing marketing and sales, product development, and global growth opportunities:

- Firstly, the Company expects to focus on employing scientific innovation to create differentiated specialty Cannabis 2.0 and 3.0 products that meet distinct consumer and patient requirements and fit well with the Company's Defined Dose™ and "predictive action" platform of products. The Company intends to continue to develop and in-licence new products and product line extensions to drive additional growth in the adult recreational and medical markets across Canada. The Company is also actively pursuing new business initiatives ancillary to the cannabis business in Canada and the United States, as permitted by applicable law and CSE rules and regulations, to further leverage its innovative product development capability and intellectual property portfolio. Any such initiatives ancillary to the production or sale of cannabis in the United States would be limited to transactions with parties appropriately licenced under applicable state law. See "Risk Factors – Operations in the USA".
- Secondly, the Company intends to continue to cultivate and market high-quality, handcrafted, specialty dried flower in a limited and defined scale that will be targeted to consumers in the Québec market as well as other key markets including Ontario. The Company intends to leverage its controlled-grow indoor facility in Québec and well-recognized Souvenir™ brand to continue its objective of market share expansion in its target markets.
- Thirdly, the Company recognizes that the cutting edge of cannabis science, the development of cannabinoid-based pharmaceutical and nutraceutical medicines that demonstrate efficacy for particular therapeutic indications, is still nascent and it intends to utilize its venture capital and biotech experience to pursue targeted growth opportunities in this segment.

### *Licences*

The Company holds licences from Health Canada under the Cannabis Act to produce and sell cannabis products in accordance with applicable laws in Canada (the "Licences"). The Company currently indirectly holds a number of Licences through its wholly-owned direct and indirect subsidiaries, EHTC, Verdélite and Avalite. The Licences held by EHTC permit it to cultivate cannabis and produce and sell dried cannabis,

cannabis oils, cannabis plants and cannabis seeds; the Licence held by Verdélite permits it to cultivate, extract, manufacture, synthesize, test and sell cannabis; and the Licence held by Avalite permits it to process cannabis and produce cannabis oil, all in accordance with the terms and conditions specified in the applicable Licence and the Cannabis Act.

## Disclosure of Outstanding Share Data

The Company's authorized share capital consists of an unlimited number of Common Shares and an unlimited number of preferred shares of which 213,322,095 Common Shares and nil preferred shares were issued and outstanding as of March 31, 2021 and as of May 31, 2021.

There were 16,304,162 stock options and 335,000 restricted share units outstanding as of March 31, 2021. As of May 31, 2021, there were 15,779,412 stock options and 150,000 restricted share units outstanding.

There were 35,666,849 warrants outstanding as of March 31, 2021 and as of May 31, 2021.

## Summary of Quarterly Results

The financial information in the following tables summarizes selected financial information for the Company for the last eight quarters which was derived from annual financial statements prepared in accordance with IFRS or interim financial statements prepared in accordance with IFRS applicable to the preparation of interim financial statements, *IAS 34, Interim Financial Reporting*:

(000's)	2021	2020		
	March 31 (\$)	December 31 (\$)	September 30 (\$)	June 30 (\$)
Revenue	2,653	3,511	4,311	3,106
Share-based payments	143	432	755	844
Interest income	1,084	428	29	809
Share of loss from Pure Sunfarms Corp.	Nil	(1,367)	(520)	(187)
Gain (loss) on changes in the fair value of the Company's biological assets	95	7,229	(2,339)	871
Net Loss	(2,900)	(8,060)	(11,658)	(18,943)
Net Loss per share (basic and diluted)	(0.014)	(0.039)	(0.057)	(0.098)

(000's)	2020	2019		
	March 31 (\$)	December 31 (\$)	September 30 (\$)	June 30 (\$)
Revenue	3,333	4,940	9,718	5,070
Share-based payments	986	346	2,993	6,421
Interest income	13	(71)	221	165
Share of income (loss) from Pure Sunfarms Corp.	5,205	492	(1,202)	14,489
Gain (loss) on changes in the fair value of the Company's biological assets	644	3,159	(433)	259
Net Loss	(4,879)	(90,344)	(17,461)	(453)
Net Loss per share (basic and diluted)	(0.027)	(0.590)	(0.121)	(0.003)

## Results of Operations

### Quarter ended March 31, 2021

The net loss for the quarter ended March 31, 2021, was \$2.90 million (loss of \$0.014 per share), compared to the net loss of \$4.88 million (loss of \$0.027 per share) for the same quarter in the prior year. Diluted loss per share is the same as basic loss per share as the outstanding options and warrants have an anti-dilutive effect on the loss per share.

Factors contributing to the net loss for the three-month period ended March 31, 2021 include the following:

### Revenue

Revenue for the quarter ended March 31, 2021, was \$2.65 million compared to \$3.33 million for the same period in the prior year. The revenue for the three months ended March 31, 2021 demonstrated the Company's consistency in the market. Recreational sales volumes were comparable in the quarter ended March 31, 2021 as compared to the same period in 2020, however the average selling price decreased, resulting in a decrease in revenues. Medical sales decreased as a result in the decrease in medical patients. For the quarter ended March 31, 2021, revenue was comprised of approximately 61% dried product, and 39% oils, compared to approximately 59% dried product, 38% oils and 3% other in the quarter ended March 31, 2020.

	For the three months ended March 31, 2021	For the three months ended March 31, 2020
Average selling price of adult-use dried flower per gram & gram equivalents	\$3.65	\$4.32
Kilograms sold of adult-use dried flower & kilogram equivalents	555	555
Average selling price of medical dried flower per gram & gram equivalents	\$7.88	\$7.95
Kilograms sold of medical dried flower & kilogram equivalents	29	55
Total kilograms produced of dried flower	562	2,507

## Cost of Sales

Cost of goods sold currently consists of four main categories: (i) cost of goods sold expensed from inventory, (ii) production costs, (iii) change in the fair value of biological assets and (iv) amortization of the Health Canada licences.

Cost of goods sold 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. Cost of goods sold expensed from inventory for the quarter ended March 31, 2021 and March 31, 2020 was \$1.69 million and \$2.14 million, respectively. The decrease in cost of goods sold in the current period was due to the decrease in the cost of inputs as a result of the Company selling its own internally produced dried flower versus externally sourced dried flower from the former joint venture.

Production costs include all direct and indirect production related costs, including security, compliance, quality control and quality assurance costs, as well as overhead relating to the cultivation activities. All post-harvest inventory production costs in excess of standard cost are not capitalized and recorded as a write-down of production costs. This included \$1.44 million of costs during the three months ended March 31, 2021 (March 31, 2020 - \$1.26 million).

During the three months ended March 31, 2021, the Company recognized \$0.38 million (March 31, 2020 - \$0.42 million) in excise taxes from recreational sales. The excise tax attributable to medical sales of \$0.02 million (March 31, 2020 - \$0.02 million), was absorbed by the Company as a cost and not passed on to the end patients.

The change in biological assets for the quarter ended March 31, 2021 was a gain of \$0.10 million compared to a gain of \$0.64 million in the same quarter of the prior year. The decrease is substantially due to the number of plants that were growing in the Verdélite facility during the three months ended March 31, 2021.

The Company measures biological assets consisting of cannabis 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. The significant assumptions used in determining the fair value of cannabis plants are as follows: plant attrition rate for various stages of development; yield per plant; wholesale selling price less costs to sell; percentage of total expected costs incurred to date; and costs incurred for each stage of plant growth.

Gains recognized in the fair value of biological assets are recorded in a manner that decreases the cost of sales. Changes in the fair value of biological assets can be significant during periods of large expansion in the cultivation area. In determining the fair value of cannabis plants, assumptions are used regarding the variability in the average age and number of cannabis plants available at each period end.

*Inventory write-down* – During the quarter ended March 31, 2021, a write-down of \$0.23 million was recognized for dried cannabis, packaged inventory and bulk cannabis oils (March 31, 2020 - \$1.05 million) related to product deterioration and limited remaining shelf life.

## **Other expenses**

*General and Administrative* – During the quarter ended March 31, 2021, the Company incurred general and administrative expenses of \$2.23 million versus \$2.78 million for the quarter ended March 31, 2020. The current quarter saw decreased expenses in professional and consulting services, and travel and accommodations and comparable expenses in investor relations fees. In the quarter ended March 31, 2021, general and administrative costs included; salaries and benefits of \$0.76 million (three months ended March 31, 2020 - \$1.41 million), consulting and professional services fees of \$0.62 million (three months ended March 31, 2020 - \$0.65 million), investor relations fees of \$0.04 million (three months ended March 31, 2020 - \$0.05 million), office and insurance of \$0.80 million (three months ended March 31, 2020 - \$0.59 million) and travel and accommodation of \$0.01 million (three months ended March 31, 2020 - \$0.07 million).

*Sales and marketing* – In the quarter ended March 31, 2021, the Company incurred sales and marketing expenses of \$0.43 million versus \$0.68 million in the comparable 2020 prior period. These costs are related to general marketing, patient acquisition and education expenses. The current period decrease reflects the Company's continued focus on cost reduction and the use of internal resources.

*Research and development* – In the quarter ended March 31, 2021, the Company incurred research and development expenses of \$0.27 million (three months ended March 31, 2020 - \$0.43 million). These costs related to consulting fees and wages associated with the development of new cannabis products. Research and development expenditures were related to not only product development but also to the enhancement of cultivation and extraction efficiencies as well as research into strain genetics.

*Share-based compensation* – In the quarter ended March 31, 2021, the Company incurred share-based compensation expenses of \$0.14 million versus \$0.99 million in the comparable 2020 prior period. The amounts are compensation expenses related to employee, director and consultant incentive stock options and restricted share units ("RSU") which are measured at fair value at the date of grant and expensed over the vesting period. During the current quarter, the Company granted no stock options or RSUs to employees and consultants, compared to 4,580,000 stock options and 375,000 RSUs granted during the same period in 2020.

*Share of income from former joint venture* – In the quarter ended March 31, 2021, the Company recognized \$nil as its share of income due to the sale of the entirety of its 41.28% interest in Pure Sunfarms Corp. In the comparable period the Company recognized \$5.21 million.

The amortization of the Health Canada licence represents the amortization of an acquired licence that is recorded at cost less accumulated amortization. Amortization will be expensed as a cost of sales and the unamortized balance will remain on the Company's balance sheet as an intangible asset. Amortization of the licence is recognized on a straight-line basis over their useful life, irrespective of either production or sale of cannabis from that facility.

## **Liquidity and Capital Resources**

The Company continually monitors and manages its cash flow to assess the liquidity necessary to fund operations and capital projects. The Company manages its capital resources and adjusts it to take into account changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital resources, the Company may, where necessary, control the amount of working capital,

pursue financing or manage the timing of its capital expenditures. As at March 31, 2021, the Company had working capital of \$46.26 million.

The consolidated financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The continuing operations of the Company are dependent upon its ability to obtain debt or equity financing until it achieves profitable operations. There can be no assurance that the Company will gain adequate market acceptance for its products or be able to generate sufficient gross margins to reach profitability.

As at March 31, 2021, the Company had \$31.30 million in cash and cash equivalents. The Company is actively managing current cash flows until such time as the Company is profitable.

Management will continue to closely monitor its cash flows as it purposely shifts away from large-scale, high volume, asset-intense cultivation. The Company intends to direct its resources towards providing defined-scale, high quality dried flower to the premium segment of the market, and to focus more on the science-based development of differentiated, high-margin cannabis derivative products.

The Company has committed to contributing \$5.00 million to EHN in exchange for its 51% ownership in EHN, of which, \$2.40 million has been paid as at March 31, 2021. On May 11, 2021, the Company entered into a purchase agreement (the "Purchase Agreement") with the trustee in bankruptcy of EHB to purchase EHB's 49% interest in EHN for US\$25,000 (the "EHB Buyout"). The EHB Buyout is subject to approval of the United States Bankruptcy Court for the Southern District of California. EHB was a partially-owned subsidiary of Sciences and EHB is therefore a related party of the Company.

The Company has not currently committed to any further projects which may require significant cash injections.

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

(000's)	March 31, 2021 (\$)	December 31, 2020 (\$)
Trade payables	2,654	6,296
Accrued liabilities	565	903
Excise tax payable	1,426	2,239
Payroll liabilities	1,037	1,046
Sales tax liabilities	629	529
Other payables	38	6

The Company also has the following gross contractual obligations as at March 31, 2021, which are expected to be payable in the following respective periods:

(000's)	Total \$	≤ 1 year \$	Over 1 year \$
Leases	8,994	648	8,436
Accounts payable and accrued liabilities	6,349	6,349	-
CEBA Loan	40	-	40

## Operating, Investing and Financing Activities

The chart below highlights the Company's cash flows:

(000's)	For the three months ended March 31, 2021 (\$)	For the three months ended March 31, 2020 (\$)
Net cash provided by (used in):		
Operating activities	(\$6,643)	(\$3,161)
Investing activities	\$10,739	(\$1,413)
Financing activities	\$1,203	\$2,630
Increase (decrease) in cash	\$5,299	(\$1,944)

### Quarter ended March 31, 2021, compared to March 31, 2020

Cash used in operating activities for the period ended March 31, 2021 was \$6.64 million, compared to cash used of \$3.16 million in the comparative period of the prior year. The current quarter amount reflects the cash used to pay down accounts payable upon the receipt of the final cash payment from the sale of its shares of Pure Sunfarms Corp.

Cash provided by investing activities for the period ended March 31, 2021 was \$10.74 million, compared to cash used of \$1.41 million in the comparative period of the prior year. In the current year, this was mostly the result of the receipt of \$20.52 million as the final cash payment from the sale of shares of Pure Sunfarms Corp. offset by the \$9.00 million to settle the deferred payment with the former owners of Verdélite. The Company also spent \$1.07 million on the purchase of plant and equipment for the Verdélite facility.

Cash used in financing activities for the period ended March 31, 2021 was \$1.20 million, compared to cash generated of \$2.63 million in the comparative period of the prior year. Cash received in the current period included proceeds of \$1.31 million received on the exercise of warrants, offset by \$0.08 million of interest payments, \$0.08 million of payments on lease liabilities and receipt of \$0.05 from the exercise of stock options.

## **Financial Risk Management**

The Company's board of directors has overall responsibility for the establishment and oversight of the Company's risk management policies on an annual basis. Management identifies and evaluates the Company's financial risks and is charged with the responsibility of establishing controls and procedures to ensure financial risks are mitigated in accordance with the approved policies.

## **Measurement Uncertainty and Impairment Assessments**

As of March 31, 2021, management of the Company has determined that no impairment indicators of its long-term assets were present and no additional impairment write-downs in excess of those that had been previously recorded were required. Management continues to review each of its assets for indicators of impairment.

## **Transactions with Related Parties**

The Company has entered into transactions with a control person of the Company, a wholly owned subsidiary of such control person, a company controlled by the Company's Executive Chairman, a company whose CEO is also a director of the Company, and with Pure Sunfarms Corp.

*With Emerald Health Sciences Inc.*

As at March 31, 2021, Emerald Health Sciences Inc. ("Sciences") held an aggregate of 39,401,608 Common Shares, representing 18% (December 31, 2020 – 39,401,608 shares, representing 19%) of the issued and outstanding Common Shares and it also held 9,099,706 (December 31, 2020 – 9,099,706) common share purchase warrants of the Company.

As at March 31, 2021, the Company owed \$552 (December 31, 2020 - \$1,327) to Sciences for previous services provided. These amounts are included in the due to related parties caption on the consolidated statements of financial position and bear interest at a rate of 10% per annum. As of March 31, 2021, Sciences owed the Company \$50 (December 31, 2020 – \$50) for invoices paid on behalf of Sciences, this amount is included in the due from related parties caption on the consolidated statements of financial position and is non-interest bearing.

In July 2019, the Company amended a previous loan agreement with Sciences pursuant to which Sciences agreed to loan up to \$15,000 to the Company, in amounts and at times agreed to by the parties. Amounts loaned bear interest at 12% per annum and were repayable on demand. In the year ended December 31, 2019, Emerald Health Hemp Inc. ("EHH"), a wholly-owned subsidiary of Sciences charged the Company \$2,023 for hemp it harvested and the expenditures supporting the harvest through a supply agreement. On January 31, 2020, the Company settled its outstanding balance related to the loan agreement and accrued loan interest totalling \$794 as well as its outstanding balance related to trade payables for hemp purchased totalling \$2,023, by way of issuance of shares for debt. The Company issued 9,713,666 common shares of the Company at a deemed price of \$0.29 per Common Share.

Sciences and the Company entered into an independent contractor agreement on May 1, 2015, as amended from time to time (the "Consulting Agreement"), and a loan agreement on August 25, 2015, as amended from time to time (the "Loan Agreement"). On July 15, 2020, Sciences and the Company agreed to terminate the Consulting Agreement and Loan Agreement.

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

*With Subsidiaries of Emerald Health Sciences Inc.*

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

*With the Company's former joint venture*

As of March 31, 2021, Pure Sunfarms Corp. owes the Company \$170 (December 31, 2020 - \$170) for expenditures the Company made on behalf of Pure Sunfarms Corp. As at March 31, 2021 the Company owes to Pure Sunfarms Corp. \$5 (December 31, 2020 - \$5). These amounts were re-classed from the respective Due To and Due From Related Parties, to the respective accounts receivable and accounts payable on the consolidated statements of financial position at the date of sale. Amounts are 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 Avtar Dhillon, MD, the Executive Chairman of the Company with respect to land in Metro Vancouver, British Columbia on which the Company was constructing its new production facility. The lease amount was determined by an independent valuation and was approved by the nonconflicted directors of the Company. During the three months ended March 31, 2021, the Company paid to the Landlord \$95 (March 31, 2020 - \$85) in rent. As at March 31, 2021, the Company recognized lease liabilities of \$3,506 (December 31, 2020 - \$3,516) relating to the land in Metro Vancouver with a corresponding right of use asset.

*With an Entity with Common Directors*

At March 31, 2021, the Company had an outstanding amount owing to Emerald Health Bioceticals in the amount of \$200, relating to purchased inventory for Naturals. This amount is included in Due To Related Parties on the consolidated statements of financial position.

## **Proposed Transactions**

There are no material decisions by the Company's board of directors with respect to any imminent or proposed transactions that have not been disclosed herein.

## **Critical Accounting Policies and Estimates**

The critical accounting policies and estimates are included in each of the notes of the Company's audited consolidated financial statements for the year ended December 31, 2020 and 2019. These are the accounting policies and estimates that are critical to the understanding of the business operations and results of operations.

## **Changes in Accounting Standards not yet Effective**

Refer to Note 2 of the Company's audited consolidated financial statements for the years ended December 31, 2020 and 2019 for additional information on new standards, amendments to standards and interpretations, which are not effective yet, and have not been applied in preparing these consolidated financial statements but may affect the Company when applied in the future.

## **Off-Balance Sheet Arrangements**

The Company has not entered into any material off-balance sheet arrangements such as guarantee contracts, contingent interests in assets transferred to unconsolidated entities, derivative financial obligations, or with respect to any obligations under a variable interest equity arrangement.

## **Risks and Uncertainties**

The Company's actual results may differ materially from those expected or implied by the forward-looking statements and forward-looking information contained in this management discussion and analysis due to the proposed nature of the Company's business and its present stage of development. A non-exhaustive list of risk factors associated with the Company are discussed in detail under the heading "Risk Factors" in the Company's AIF dated May 1, 2021, as well as in the MD&A of the Company for the year ended December 31, 2020.

The following is a non-exhaustive list of certain additional risk factors associated with the Company.

### **Public Health Crises**

The Company's business, operations and financial condition could be materially adversely affected by the outbreak of epidemics, pandemics or other health crises, such as the current COVID-19 pandemic. As at the date of this MD&A, the global reactions to the spread of COVID-19 have led to, among other things, significant restrictions on travel, quarantines, business closures and a general reduction in consumer activity. The Company's facilities have not been subject to closure due to COVID-19; however, there can be no certainty that this will remain the case.

The risks to the Company of such public health crises also include risks to employee health and safety and a slowdown or temporary suspension of operations in geographic locations impacted by an outbreak. The Company has taken what it believes to be appropriate safety precautions at its facilities to safeguard the health of its employees including remote work plans and additional protective measures on site, and there

have been no outbreaks to date at any of the Company's facilities. However, if an outbreak were to occur, the Company may be required to temporarily close the facility. Any such closure could have a material adverse impact on production and sales. Widespread uncertainty, government restrictions on personal mobility and the other impacts of the COVID-19 crisis on the Company's employees, together with the potential to contract COVID-19 and/or be subject to quarantine may have an impact on the ability or willingness of the Company's employees to attend their workplace. Although certain administrative functions can be conducted remotely, other functions, such as growth, picking and packaging of the Company's products and maintenance and security of the Company's products and facilities cannot be conducted remotely and may be adversely impacted by any resulting decrease in employee availability.

Such public health crises can also result in disruptions and volatility in financial markets and global supply chains as well as declining trade and market sentiment and reduced mobility of people, all of which could impact the market and pricing of cannabis products, interest rates, credit ratings, credit risk and inflation. In addition, the Company's business may be impacted by supply chain disruptions caused by the COVID-19 crisis, including the delivery of essential materials for the Company's products or the delivery of the Company's products to markets. The COVID-19 crisis may also have a negative impact on consumer demand for the Company's products due to, among other things, economic contraction and the potential closure of vendors of the Company's products, which could result in substantially reduced revenue to the Company. While these effects are expected to be temporary, the duration of the disruptions to business and the related financial impact cannot be estimated with any degree of certainty at this time.

Although a number of jurisdictions previously commenced steps to reduce restrictions on businesses and to re-open their economies, the continued spread of COVID-19 and the emergence of new variants of the virus have led to the implementation of new restrictions. There can be no guarantee that these restrictions will be successful or that additional future outbreaks will not lead to increased restrictions. In addition, while many jurisdictions have initiated vaccination programs for COVID-19, the implementation of such programs in Canada has been slower than expected and such programs may not be as efficacious as expected due to a variety of factors including delays in distribution or the emergence of new strains which are resistant to vaccines. At this point, the extent to which COVID-19 may impact the Company is uncertain; however, it is possible that COVID-19 could have a material adverse effect on the Company's business, results of operations and financial condition.

### **Disposition of Assets**

As part of the Company's business strategy, it may seek opportunities to dispose of certain of its assets. In pursuit of such opportunities, the Company may fail to negotiate acceptable arrangements related to such dispositions. Such dispositions may also lead to substantial losses recognized by the Company, particularly as values in the cannabis sector have fallen in recent years with many distressed assets currently on the market. In addition, any such transaction will require the dedication of substantial management effort, time and resources which may divert management's focus and resources from other strategic opportunities and from operational matters during this process. Dispositions of certain assets may also lead to the loss of key employees and the disruption of ongoing business and employee relationships that may adversely affect the Company.

### **Operations in the USA**

The Company does not currently have any operations, business or sales in the United States, but may in the future conduct business or pursue transactions which are ancillary to the cannabis industry in the

United States. Cannabis is illegal under federal law in the United States. Although the Company would expect that any future operations undertaken by the Company in the United States would be conducted in compliance with applicable United States federal and state laws, enforcement of relevant laws in an adverse manner would be a significant risk to the Company and could have a material adverse effect on the Company. Future operations in the United States or transactions or relationships with cannabis related businesses in the United States, depending on the nature and extent of such operations, transactions or relationships, may also impact the Company's ability to raise funds in the public and private markets. The Company will consult with appropriate legal counsel to ensure it considers all relevant factors prior to engaging in any operations in the United States.

### **Future Litigation**

The Company may become party to litigation (including arbitration or mediation) from time to time, which could adversely affect its business. Should any litigation in which the Company becomes involved be determined against the Company or should the Company enter into a settlement, the amount of the award or settlement could adversely affect the Company's resources and its ability to continue operating and the market price for the Common Shares. Monitoring and defending litigation, whether or not meritorious, can be time consuming and may result in significant expenses, including legal fees and other costs. Even if the Company is involved in litigation and is successful, litigation can redirect significant Company resources and attention away from the business of the Company and may have a material adverse effect on the Company's business, reputation, financial condition, financial performance and financial prospects.

Securities class action litigation often has been brought against cannabis companies following periods of volatility in the market price of their securities. The Company may in the future be the target of similar litigation. Securities litigation could result in substantial costs and damages and divert management's attention and resources.

### **Non-GAAP Measures**

The Company has included certain non-GAAP measures "Working capital" to supplement its consolidated financial statements, which are presented in accordance with IFRS. The terms IFRS and generally accepted accounting principles ("GAAP") are used interchangeably throughout this MD&A.

The Company believes that these measures, together with measures determined in accordance with IFRS, provide investors with an improved ability to evaluate the underlying performance of the Company. Non-GAAP measures do not have any standardized meaning prescribed under IFRS, and therefore they may not be comparable to similar measures employed by other companies. The data is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.

### **Forward-Looking Statements**

Certain statements contained in this Management Discussion and Analysis ("MD&A") constitute forward-looking information or forward-looking statements under applicable securities laws (collectively, "forward-looking statements"). These statements relate to future events or future performance, business prospects or opportunities of Emerald Health Therapeutics, Inc. and its subsidiaries (together the "Company" or "Emerald"). All statements other than statements of historical fact may be forward-looking statements. Any statements that express or involve discussions with respect to predictions, expectations,

beliefs, plans, projections, objectives, assumptions or future events or performance (often, but not always, using words or phrases such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "forecast", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions) are not statements of historical fact and may be "forward-looking statements".

Examples of forward-looking statements in this MD&A include, but are not limited to, statements in respect of: the benefits of listing the Common Shares on the CSE; the Company's business objectives; expansion the Company's business operations in other jurisdictions; the Company's operations in Québec; the acceleration of the outstanding warrants; the approval of patent applications that have been submitted by the Company; the Company's use of proceeds from financings; potential proceeds from the exercise of the Company's outstanding common share purchase warrants; actions taken by the Company to maintain or adjust its capital structure; management's anticipation of long-term future profitability; changes to the Company's product offering; improvements to the Company's cultivation, manufacturing and standardization processes; the development of distribution channels for non-medical cannabis products; the Company's longer term strategy of becoming a leading provider of quality products for the broader adult recreational cannabis market; the Company building valuable intellectual property in Canada which could lead to accelerated sales growth and profit margins; potential transactions and development strategies; operations of the Company's subsidiaries; expansion of the cannabis market the impact of the ongoing COVID-19 crisis; strategic alternatives related to the Company's assets; the focus of the Company's efforts; strategic partnerships entered into by the Company; and the effect that each risk factor will have on the Company.

Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The reader of these statements is cautioned that any such statements are not guarantees of future performance and actual results or developments may differ materially from those projected in the forward-looking statements. These forward-looking statements involve risks and uncertainties relating to, among others: market price of cannabis; the impact of the ongoing COVID-19 crisis; continued availability of capital financing and general economic, market or business conditions; reliance on licences to produce and sell cannabis and cannabis oils issued to the Company under the Cannabis Act and its ability to maintain these licences; regulatory risks relating to the Company's compliance with the Cannabis Regulations; the Company's ability to execute its business plans; ; changes in laws, regulations and guidelines; changes in government; changes in government policy; increased competition in the cannabis market; the limited operating history of the Company; the Company's reliance on key persons; failure of counterparties to perform contractual obligations; difficulties in securing additional financing; unfavourable publicity or consumer perception of the cannabis industry; the impact of any negative scientific studies on the effects of cannabis; demand for labour; actual operating and financial performance of facilities, equipment and processes relative to specifications and expectations; results of litigation; the Company's ability to develop and commercialize pharmaceutical products; failure to obtain regulatory approval for pharmaceutical products; changes in the Company's over-all business strategy; and the Company's assumptions stated herein being correct. See "Risks and Uncertainties" in this MD&A and other factors described in the Company's AIF under the heading "Risk Factors".

The Company believes that the expectations reflected in any forward-looking statements are reasonable, but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in, or incorporated by reference into, this MD&A should not be unduly relied upon. These statements speak only as of the date of this MD&A. The Company does not intend, and does not assume any obligation, to update these forward-looking statements, except as required by applicable laws. Actual results may differ materially from those expressed or implied by such forward-looking statements.



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