EMERALD HEALTH THERAPEUTICS, INC.
(Formerly T-Bird Pharma, Inc. and formerly Firebird Energy Inc.)

Consolidated Financial Statements

For the years ended December 31, 2015 and December 31, 2014.
(Expressed in Canadian Dollars)

EMERALD HEALTH THERAPEUTICS, INC.

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements have been prepared by and are the responsibility of the Board of Directors and management of Emerald Health Therapeutics, Inc. (the "Company").

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and reflect management's best estimates and judgments based on currently available information. The Company has developed and maintains a system of internal controls in order to ensure, on a reasonable and cost effective basis, the reliability of its financial information.

The Board of Directors is responsible for overseeing management's performance of its responsibilities for financial reporting and internal control. The Audit Committee of the Company, which is composed of non-executive directors, meets with management as well as the external auditors to ensure that management is properly fulfilling its financial reporting responsibilities to the Directors who approve the financial statements. The external auditors have unrestricted access to the Audit Committee to discuss the scope of their audits, the adequacy of the system of internal controls and to review financial reporting issues.

The financial statements have been audited by Deloitte LLP. Their report outlines the scope of their examination and opinion on the consolidated financial statements.

April 15, 2016

/s/ Bin Huang
Bin Huang
Chief Executive Officer

/s/ Sandy Pratt
Sandy Pratt
Chief Financial Officer

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Emerald Health Therapeutics, Inc. (formerly T-Bird Pharma, Inc. and formerly Firebird Energy Inc.)

We have audited the accompanying consolidated financial statements of Emerald Health Therapeutics, Inc., which comprise the consolidated statement of financial position as at December 31, 2015, and the consolidated statement of loss and comprehensive loss, consolidated statement of changes in shareholders' equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Emerald Health Therapeutics, Inc. as at December 31, 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements, which indicates that the Company has incurred losses in the amount of $6.2 million since inception and currently has a working capital deficiency of $0.9 million. This condition, along with other matters as set forth in Note 1 indicate the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern.

Other Matter

The consolidated financial statements of Emerald Health Therapeutics, Inc. (formerly T-Bird Pharma, Inc. and formerly Firebird Energy Inc.) as at and for the year ended December 31, 2014 were audited by another auditor who expressed an unmodified opinion on those statements on April 10, 2015.

/s/ Deloitte LLP

Chartered Professional Accountants
April 15, 2015
Vancouver, Canada

EMERALD HEALTH THERAPEUTICS, INC. (FORMERLY T-BIRD PHARMA, INC. and FIREBIRD ENERGY INC.)
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian dollars)

	December 31, 2015	December 31, 2014
ASSETS		
Current		
Cash	$ 81,836	$ 1,718,795
Accounts receivable (Note 5)	42,140	42,548
Inventory (Note 6)	30,644	6,595
Biological assets (Note 6)	140,422	-
Prepaid expenses (Note 7)	27,736	70,888
Total current assets	322,778	1,838,826
Plant and equipment (Note 8)	407,127	202,708
Deposits on equipment (Note 8)	41,774	-
	448,901	207,708
TOTAL ASSETS	$ 771,679	$ 2,041,534
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	$ 212,198	$ 114,009
Due to related parties (Note 9)	972,677	19,851
Total current liabilities	1,184,875	133,860
TOTAL LIABILITIES	1,184,875	133,860
SHAREHOLDERS' EQUITY		
Share capital (Note 10)	3,076,966	3,076,966
Contributed surplus	2,666,874	1,490,473
Accumulated deficit	(6,157,036)	(2,659,765)
TOTAL SHAREHOLDERS' (DEFICIT) EQUITY	(413,196)	1,907,674
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 771,679	$ 2,041,534

Nature and continuance of operations (Note 1)
Commitments (Note 12)
Events after the reporting period (Note 18)

On behalf of the Board of Directors:

/s/ Punit Dhillon
Director

/s/ David Raffa
Director

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

EMERALD HEALTH THERAPEUTICS, INC. (FORMERLY T-BIRD PHARMA, INC. and FIREBIRD ENERGY INC.)
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
For the years ended December 31, 2015 and December 31, 2014
(Expressed in Canadian dollars)

	Year ended December 31, 2015	Year ended December 31, 2014
Revenue	$ 31,291	$ -
Cost of sales		
Cost of goods sold	27,314	-
Production costs	362,424	-
Gain on changes in fair value of biological assets	(185,936)	-
	203,802	-
Gross margin	(172,511)	-
Expenses		
General and administrative	1,578,848	876,580
Pre-distribution growing costs	194,047	194,185
Sales and marketing	166,739	39,298
Research and development (net of government contribution)	162,316	40,066
Depreciation	46,409	20,188
Share-based payments (Note 10)	1,176,401	728,494
	3,324,760	1,898,811
Other expenses		
Reverse acquisition transaction costs (Note 13)	-	746,294
	-	746,294
Loss before income taxes	3,497,271	2,645,105
Income tax expense (Note 16)	-	-
NET LOSS AND COMPREHENSIVE LOSS	3,497,271	2,645,105
Basic and diluted loss per common share	$ 0.08	$ 0.07
Weighted average number of common shares outstanding (Note 11)		
-basic	46,070,841	37,081,841
-diluted	46,070,841	37,081,841

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

EMERALD HEALTH THERAPEUTICS, INC. (FORMERLY T-BIRD PHARMA, INC. and FIREBIRD ENERGY INC.)
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Expressed in Canadian dollars, except share number)

	Common Shares Without Par Value				
	Shares	Amount	Contributed Surplus	Deficit	Total Shareholders' Equity
Balance, December 31, 2013	30,000,000	$ 1	$ -	$ (14,660)	$ (14,659)
Shares issued for April subscription	1,578,750	252,600	-	-	252,600
Shares issued for May private placement	3,750,264	600,042	-	-	600,042
Recapitalization - Firebird	2,005,312	671,780	-	-	671,780
Shares issued for RTO Finder's fees	1,236,515	(414,233)	414,233		-
Shares issued for September private placement	7,500,000	1,966,776	600,341	-	2,567,117
Share-based payments	-	-	475,899	-	475,899
Net loss and comprehensive loss	-	-	-	(2,645,105)	(2,645,105)
Balance, December 31, 2014	46,070,841	$ 3,076,966	$ 1,490,473	$ (2,659,765)	$ 1,907,674
Share-based payments	-	-	1,176,401	-	1,176,401
Net loss and comprehensive loss	-	-	-	(3,497,271)	(3,497,271)
Balance, December 31, 2015	46,070,841	$ 3,076,966	$ 2,666,874	$ (6,157,036)	$ (413,196)

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

EMERALD HEALTH THERAPEUTICS, INC. (FORMERLY T-BIRD PHARMA, INC. and FIREBIRD ENERGY INC.)
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended December 31, 2015 and December 31, 2014
(Expressed in Canadian dollars)

	Year ended December 31, 2015	Year ended December 31, 2014
Operating activities		
Net loss and comprehensive loss	$ (3,497,271)	$ (2,645,105)
Items not involving cash		
Depreciation (Note 8)	46,409	20,188
Loss on disposal of plant and equipment (Note 8)	19,633	-
Share-based payments (Note 10)	1,176,401	728,494
Reverse acquisition transaction costs (Note 13)	-	653,056
Changes in non-cash operating working capital		
Accounts receivable	408	(42,548)
Prepaid expenses	43,152	(70,888)
Inventory and biological assets (Note 6)	(164,471)	(6,595)
Accounts payable and accrued liabilities	98,189	108,508
Net cash flows used in operating activities	(2,277,550)	(1,254,890)
Investing activities		
Purchase of plant and equipment (Note 8)	(270,461)	(218,951)
Deposits on equipment (Note 8)	(41,774)	-
Net cash flows used in investing activities	(312,235)	(218,951)
Financing activities		
Advances from related parties (Note 9)	952,826	14,763
Repayment of note payable	-	(8,017)
Proceeds of share issuance	-	3,185,889
Net cash flows generated from financing activities	952,826	3,192,635
(Decrease) increase in cash during the year	(1,636,959)	1,718,794
Cash, beginning of year	1,718,795	1
Cash, end of year	$ 81,836	$ 1,718,795

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

1. NATURE AND CONTINUANCE OF OPERATIONS

Emerald Health Therapeutics Inc. (the "Company"), (formerly T-Bird Pharma, Inc. and formerly Firebird Energy Inc.) was incorporated by articles of incorporation pursuant to the Business Corporations Act (British Columbia) on July 31, 2007 as Firebird Capital Partners Inc. and changed its name to Firebird Energy Inc. in December 2012. On September 4, 2014, the Company completed the acquisition of all of the issued and outstanding common shares of Thunderbird Biomedical Inc. (“Thunderbird”), by way of a reverse takeover (the “Transaction”) under the rules of the TSX Venture Exchange (the “TSXV”) and concurrently changed its name to T-Bird Pharma, Inc. Thunderbird became a wholly owned subsidiary of the Company. In June 2015, the Company changed its name to Emerald Health Therapeutics, Inc. and Thunderbird changed its name to Emerald Health Botanicals Inc. (“Botanicals”). Its registered office is at Suite 2600 Oceanic Plaza, 1066 West Hastings Street, Vancouver, B.C. V6E 3X1. The Company is classified as a Tier 2 Venture Issuer on the TSXV.

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

These consolidated financial statements have been prepared by management on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. As of December 31, 2015, the Company had a working capital deficiency, had not yet achieved profitable operations and had accumulated losses of $6,157,036 (December 31, 2014 - $2,659,765) since its inception. The continuing operations of the Company are dependent upon its ability to continue to raise adequate capital and to commence profitable operations in the future and repay its liabilities arising from normal business operations as they become due. Alternative financing options may include obtaining bank credit facilities and short-term loans from related and third parties. As of December 31, 2015, the Company owes $972,677 to related parties (Note 9). Management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the Company’s ability to continue as a going concern.

These consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The annual consolidated financial statements were authorized for filing by the Board of Directors on April 15, 2016.

b) Basis of presentation

The Company has revised its presentation of the statements of loss and comprehensive loss to reflect the categorization of expenses by function, rather than by nature as it had previously. This is a change in accounting policy and the Company has accordingly restated the prior year's presentation. The Company views this change as reflecting information which is more reliable and relevant to users as the individual expense categories may not have been good predictors of future cash flows.

These consolidated financial statements have been prepared on a historical cost basis except for certain financial assets measured at fair value. These consolidated financial statements have been prepared using accrual basis of accounting, except for cash flow information.

All dollar amounts presented are in Canadian dollars unless otherwise specified. In addition, there may be minor differences due to rounding of numbers.

c) Basis of consolidation

These consolidated financial statements include the accounts of the Company and its 100% controlled subsidiary, Emerald Health Botanicals, Inc.

Intercompany transactions and balances between the Company and its subsidiary are eliminated in full on consolidation.

d) Significant accounting judgments and estimates

The preparation of financial statements in conformity with IFRS requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported revenues and expenses during the year.

Although management uses historical experience and its best knowledge of the amount, events or actions to form the basis for judgments and estimates, actual results may differ from these estimates.

Significant estimates are evaluations and assumptions about the future and other sources of estimation uncertainty that management has made, that could result in a material adjustment to the carrying amounts of assets and liabilities. Significant estimates used in the preparation of these consolidated financial statements include, but are not limited to, the following:

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Inputs used in determining the estimated fair values of biological assets and net realizable value of inventory

The Company measures biological assets consisting of medical cannabis on plants at fair value less cost to sell up to the point of harvest. Those assumptions are described in Note 6 and include, among others, expected yield on harvest, expected selling price and remaining costs to be incurred up to the point of harvest. The Company measures inventory at the lower of cost and net realizable value and is required to estimate selling price, the estimated costs of completion and the estimated costs necessary to make the sale.

Inputs used in determining the estimated fair values of options and warrants issued during the year

The Company has an equity-settled share-based compensation plan for directors, officers and consultants. Services received, and the corresponding increase in equity, are measured by reference to the fair value of the equity instruments at the date of grant, excluding the impact of any non-market vesting conditions. The fair value of share options are estimated using Black-Scholes model on the date of grant based on certain assumptions. Those assumptions are described in Note 10 and include, among others, expected volatility, expected life of the options and number of options expected to vest.

Estimated useful lives of plant and equipment

The Company makes estimates and utilizes assumptions in determining the useful lives of plant and equipment and related depreciation. Uncertainties in these estimates relate to technical obsolescence that may change the utilization of certain assets.

Provisions and contingencies

The amount recognized as a provision, including legal, contractual, constructive and other exposures or obligations, is the best estimate of the consideration required to settle the related liability, including any related interest charges, taking into account the risks and uncertainties surrounding the obligation. In addition, contingencies will only be resolved when one or more future events occur or fail to occur. Therefore, assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events. The Company assesses its liabilities and contingencies based upon the best information available.

Income taxes

In assessing the probability of realizing income tax assets, management makes estimates related to expectations of future taxable income, applicable tax opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified. No deferred tax assets were recognized for the years ended December 31, 2015 or 2014

Going concern

The Company’s ability to execute its strategy by funding future working capital requirements requires

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

judgment. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, such as expectations of future events that are believed to be reasonable under the circumstances.

Impairment of plant and equipment

Management considers both external and internal sources of information in determining if there are any indications that the Company's plant and equipment are impaired. Management considers the market, economic, and legal environment in which the Company operates that are not within its control and affect the recoverable amount of its plant and equipment. Management considers the manner in which the plant and equipment are being used or are expected to be used, and indication of economic performance of the assets.

e) Cash

Cash is held at major financial institutions. No amounts are considered restricted cash that is not available for use by the Company.

f) Plant and equipment

Plant and equipment is carried at cost less accumulated depreciation. Plant and equipment are depreciated annually at the following rates:

- Leasehold improvements – 10 years straight line
- Growing equipment – 5 to 10 years straight line
- Lab equipment – 5 years straight line
- Computers and software – 3 years straight line

In the year of acquisition, depreciation for plant and equipment is recorded once it is available for use.

An item of plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss.

When an item of plant and equipment comprises major components with different useful lives, the components are accounted for as separate items of plant and equipment. Expenditures incurred to replace a component of an item of plant and equipment that is accounted for separately, including major inspection and overhaul expenditures, are capitalized.

Residual values and estimated useful lives are reviewed at least annually.

g) Biological assets

The Company measures biological assets consisting of medical 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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

due to the conditions under which they were acquired that are measured at cost.

h) Inventory

Inventories of harvested finished goods 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 deemed cost. Any subsequent post-harvest costs are capitalized to inventory to the extent that cost is less than net realizable value. 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. Products for resale and supplies and consumables are valued at cost.

i) Revenue recognition

Revenue is recognized at the fair value of consideration received or receivable. Revenue from the sale of goods is recognized when all of the following conditions have been satisfied:

- the Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

j) Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

k) Related party transactions

Parties are considered to be related if one party has the ability, directly, or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

l) Income taxes

Income tax expense comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity. Current tax expense is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regard to previous years.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred tax is recorded using the liability method, providing for temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for relating to goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable loss, and differences relating to investments in subsidiary to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

m) Loss per share

Basic loss per share is computed by dividing net loss for the year by the weighted average number of common shares outstanding during the year. The Company uses the treasury stock method for calculating diluted loss per share.

n) Segment reporting

The Company has one reportable operating segment of production and sales of medical marihuana pursuant to the Marihuana for Medical Purposes Regulations. All property and equipment is located in Canada and all revenue is generated in Canada.

o) Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the date of inception; whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainly that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognized as an operating expense in profit or loss on a straight-line basis over the lease term.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

p) Foreign exchange

The functional currency of an entity is the currency of the primary economic environment in which the entity operates. The functional currency of the Company is the Canadian dollar. The functional currency determinations were conducted through an analysis of the consideration factors identified in IAS 21, *The Effects of Changes in Foreign Exchange Rates.*

Transactions in currencies other than the Canadian dollar are recorded at exchange rates prevailing on the dates of the transactions. At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are translated at the period end exchange rate while non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at the exchange rates approximating those in effect on the date of the transactions. Exchange gains and losses arising on translation are included in comprehensive loss.

q) Financial instruments

<u>Financial assets</u>

The Company classifies its financial assets into one of the following categories as follows:

Fair value through profit or loss - This category comprises derivatives and financial assets acquired principally for the purpose of selling or repurchasing in the near term. They are carried at fair value with changes in fair value recognized in profit or loss. Cash has been classified under this category.

Loans and receivables - These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at amortized cost using the effective interest method less any provision for impairment. Accounts receivable has been classified under this category.

Held-to-maturity investments - These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method less any provision for impairment.

Available-for-sale - Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized in other comprehensive income (loss). Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from accumulated other comprehensive income (loss) and recognized in profit or loss.

All financial assets except those measured at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is objective evidence of impairment as a result of one or more event that have occurred after initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or the group of financial assets.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities

The Company classifies its financial liabilities into one of two categories as follows:

Fair value through profit or loss - This category comprises derivatives and financial liabilities incurred principally for the purpose of selling or repurchasing in the near term. They are carried at fair value with changes in fair value recognized in profit or loss.

Other financial liabilities - This category consists of liabilities carried at amortized cost using the effective interest method. Accounts payable and accrued liabilities, due to shareholders and note payable have been classified under this category.

r) Impairment of non-financial assets

At the end of each reporting period, the Company's assets are reviewed to determine whether there is any indication that those assets may be impaired. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the period. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

s) Share-based payments

The Company grants share options to purchase common shares of the Company to directors, officers, employees and service providers. The Board of Directors grants such options for a period of up to five years, with vesting periods determined at its sole discretion and at prices equal to or greater than closing market price on the day the options were granted.

The fair value of share options granted to employees is recognized as an expense over the vesting period with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee, including directors of the Company. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest. In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at fair value of the share-based payment.

No expense is recognized for awards that do not ultimately vest except for equity settled transactions for which vesting is conditional upon a market or non-vesting condition.

Share options with a graded vesting schedule are accounted for as separate grants with different vesting periods and fair values. The fair value is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the share purchase options were granted.

Where the terms of an equity settled award are modified, the minimum expense recognized is the expense as if the terms had not been modified. An additional expense is recognized for any modification which increase the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

When an equity award is cancelled, it is treated as if it vests on the date of the cancellation and any expense not recognized for the award is recognized immediately.

t) Research and development contributions

The Company applies government contributions towards research and development directly against the applicable expenses and therefore presents the research and development expenses on a net basis. Research and development expenses are net of $62,973 in government contributions for the current year.

3. CHANGE IN ESTIMATE

During the year, the Company changed the method of depreciation of plant and equipment from declining balance to straight line over the estimated useful lives of the fixed assets after determining that this method more accurately accounts for the useful lives of plant and equipment and related depreciation. This change has been applied prospectively from January 1, 2015.

4. NEW ACCOUNTING PRONOUNCEMENTS

Standards issued but not yet effective up to date of issuance of the Company's financial statements are listed below. The Company is still evaluating the impact of these new standards on disclosures, financial position or performance when applied at a future date. The Company intends to adopt those standards when they become effective.

IAS 1, Presentation of Financial Statements ("IAS 1") – amended to clarify IAS 1 to address perceived impediments to preparers exercising their judgment in presenting their financial reports. It is effective for annual periods beginning on or after January 1, 2016.

IAS 16, Property, Plant and Equipment and IAS 41, Agriculture are amended to:

- Include 'bearer plants' within the scope of IAS 16 rather than IAS 41, allowing such assets to be accounted for as property, plant and equipment and measure initial recognition on a cost or revaluation basis in accordance with IAS 16
- Introduce a definition of 'bearer plants' as a living plant that is used in the production or supply of agricultural produce, is expected to bear produce for more than one period and has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales
- Clarify that produce growing on bearer plants remains within the scope of IAS 41.

Applicable to annual periods beginning on or after January 1, 2016.

IFRS 7, Financial Instruments - Disclosure – amended to clarify whether a servicing contract is continuing involvement in a transferred asset and to clarify offsetting disclosure requirements in condensed interim financial statements. It is effective for annual periods beginning on or after July 1, 2016.

IAS 34, Interim Financial Reporting – amended to clarify the meaning of "elsewhere in the interim report" and require a cross-reference. It is effective for annual periods beginning on or after July 1, 2016.

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

(Expressed in Canadian dollars)

4. NEW ACCOUNTING PRONOUNCEMENTS (continued)

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

5. ACCOUNTS RECEIVABLE

The accounts receivable as at December 31, 2015 $42,140 (2014 – $42,548) primarily consisted of Goods and Service Tax ("GST") receivable from the Canada Revenue Agency.

6. BIOLOGICAL ASSETS AND INVENTORY

The Company's biological assets consist of seeds and cannabis on plants and are comprised as follows:

	December 31, 2015
Seeds	$ 27,270
Changes in fair value less costs to sell due to biological transformation	177,850
Transferred to inventory upon harvest	(64,698)
Carrying amount	$ 140,422

A portion of the Company's cannabis seeds, with a carrying value of $19,760, are restricted with respect to distribution due to the conditions under which they were acquired.

All of the plants are to be harvested as agricultural produce (ie. Medical cannabis). All of the plants are between three and fifteen weeks from harvest.

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

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

The Company estimates the harvest yields for the plants at various stages of growth. As of December 31, 2015, it is expected that the Company's biological assets will yield approximately 32,800 grams. The Company's estimates are, by their nature, subject to change. Changes in the anticipated yield will be reflected in future changes in the gain or loss on changes in fair value of biological assets.

(Expressed in Canadian dollars)

6. BIOLOGICAL ASSETS AND INVENTORY (continued)

The Company's inventory is comprised of:

	December 31, 2015	December 31, 2014
Finished goods	29,894	6,595
Other	750	-
	$ 30,644	$ 6,595

Included in production costs is an adjustment of $32,159 in inventory from cost to net realizable value. Prior to obtaining the authorization to sell from Health Canada in May 2015, the dried marihuana in finished goods inventory was classified under other assets and has been reclassified in the comparatives to inventory. Production costs incurred in excess of net realizable value prior to obtaining the authorization to sell have been expensed as pre-distribution growing costs.

7. PREPAID EXPENSES

The prepaid expenses as at December 31, 2015 $27,736 (2014 – $70,888) primarily consisted of prepaid insurance and rent deposits.

8. PLANT AND EQUIPMENT

	Leasehold improvements	Equipment	Total
Cost			
Balance, December 31, 2013	$ -	$ 4,641	$ 4,641
Additions	148,363	70,588	218,951
Balance, December 31, 2014	$ 148,363	$ 75,229	$ 223,592
Additions	55,597	214,864	270,461
Disposals	(19,633)	-	(19,633)
Balance, December 31, 2015	$ 184,327	$ 290,093	$ 474,420
Accumulated depreciation			
Balance, December 31, 2013	$ -	$ 696	$ 696
Additions	8,520	11,668	20,188
Balance, December 31, 2014	$ 8,520	$ 12,364	$ 20,884
Additions	18,709	27,700	46,409
Balance, December 31, 2015	$ 27,229	$ 40,064	$ 67,293
Net book value			
At December 31, 2014	**$ 139,843**	**$ 62,865**	**$ 202,708**
At December 31, 2015	**$ 157,098**	**$ 250,029**	**$ 407,127**

8. PLANT AND EQUIPMENT (continued)

The deposit on equipment as at December 31, 2015 in the amount of $41,744 (2014 – $Nil) was for lab equipment received subsequent to the year-end.

9. RELATED PARTY TRANSACTIONS

The balances due to related parties, with the exception of the demand loans owing to Emerald Health Sciences, Inc. ("Sciences") (formerly Medna Biosciences Inc.), a related party of the Company, are unsecured, non-interest bearing and have no specific terms of repayment.

In August 2015, the Company entered into a loan agreement with Sciences pursuant to which Sciences agreed to loan monies to the Company on a revolving basis, in amounts and at times agreed to by the parties. Amounts loaned to the Company bear interest at 5% per annum and are repayable on demand. As of December 31, 2015, the Company owed Sciences $939,003 on this loan, including $8,433 in accrued interest. The Company also agreed to pay a fee for services provided by Sciences pursuant to a service contract based on cost and as of December 31, 2015, the Company owed $16,064 for these services. Amounts owing for services are due within 30 days and bear interest at 12% per annum if not paid within that time.

In April 2015, incoming directors were granted a total of 1,500,000 options at an exercise price of $0.45, with an expiry date of April 25, 2020 and immediate vesting. Two directors stepped down in April 2015 and surrendered 125,000 options each.

In January 2015, the Chief Executive Officer of the Company stepped down and was replaced by the Company's existing President and Chief Operating Officer. The former Chief Executive Officer continued to provide consulting services to the company for a period of twelve months from February 1, 2015 to January 31, 2016 for $10,000 per month. There were no termination costs incurred and the stock options held by the former Chief Executive Officer are exercisable until the end of the consulting period.

A director was engaged to provide consulting services to the Company from May 2014 until August 2015. The total expense for the year ended December 31, 2015 was $40,000 (2014 - $31,370).

During the year ended December 31, 2014, the Company borrowed funds from two of its senior management. These loans remain outstanding in the amount of $17,610 and are non-interest bearing.

During the year ended December 31, 2014, the Company's wholly-owned subsidiary acquired certain equipment and lease commitments attached to the leased premises from a related entity controlled by the former Chief Executive Officer at fair market value in the amount of $32,828. This amount was paid in full as of December 31, 2014. Also during the year ended December 31, 2014, the Company borrowed funds from a director and the spouse of a shareholder of $5,000 each, bearing interest at 15% per annum. The Company paid off these two interest-bearing loans in 2014.

(Expressed in Canadian dollars)

9. RELATED PARTY TRANSACTIONS (continued)

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 and Chief Executive Officer and the Chief Financial Officer, includes the following:

	Year ended December 31, 2015	Year ended December 31, 2014
Wage and short-term benefits	312,383	229,241
Share-based payments (Note 10)	744,197	379,698
Total compensation of key management personnel	$ 1,056,580	$ 608,939

In the event that the President and Chief Executive Officer's or the Chief Financial Officer's 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 and at market rates, which is the amount of consideration established and agreed to by the related parties.

10. SHARE CAPITAL

Authorized
Unlimited number of common shares without par value

Issued
46,070,841 common shares (2014 – 46,070,841)

In April 2015, the Company, together with certain of its shareholders, completed a transaction whereby Sciences acquired (the "Escrow Transfer") a total of 20,156,790 common shares of the Company (44% of the Company's issued shares) from five of its founding shareholders, including its former Chief Executive Officer and Chief Financial Officer, at a price of $0.21 per share. The shares were held in escrow and were transferred within escrow and remain bound by those terms and conditions. Three representatives from Sciences joined the Board in April 2015 and three existing directors concurrently stepped down.

In the prior year, on September 4, 2014, the Company completed a reverse takeover transaction (the "RTO" or the "Transaction") pursuant to a share exchange agreement made on July 30, 2014, between the Company and Thunderbird. The Company acquired all of the issued and outstanding shares of Thunderbird in consideration for three common shares for each common share of Thunderbird. Under these terms, the Company issued 35,329,014 common shares to Thunderbird's former shareholders to complete the acquisition.

10. SHARE CAPITAL (continued)

Concurrent with the completion of the Transaction, the Company affected a consolidation of its share capital, on a 15 (old) for 1 (new) basis.

Also concurrent with the completion of the Transaction, the Company completed a private placement of 7,500,000 post-consolidation units at $0.40 per unit, for gross proceeds of $3 million. Each unit was comprised of one common share and one-half of one common share purchase warrant, with each whole warrant being exercisable into one share at an exercise price of $0.80 until September 4, 2015.

Surplus and Value Escrow Agreements

In 2014, the Company entered into a Surplus Security Escrow Agreement and a Value Security Escrow Agreement. The Agreements were entered into under TSXV Policy 5.4 *Escrow, Vendor Consideration and Resale Restrictions* in connection with a Reverse Takeover.

Approximately 58.9% of the outstanding common shares were subject to the Surplus Security Escrow Agreement and are releasable in tranches of 5% upon the date of completion of the private placement financing ("Closing") being September 4, 2014, 5% nine months from the date of Closing, 10% 12 months from the date of Closing, 10% 18 months from the date of Closing, 15% 24 months from the date of Closing, 15% 30 months from the date of Closing and 40% 36 months from the date of Closing. As of December 31, 2015, 21,703,596 common shares held under the Surplus Security Escrow Agreement remained in escrow.

Approximately 11% of the common shares were subject to the Value Security Escrow Agreement and are releasable in tranches of 10% upon the date of Closing, 15% nine months from the date of Closing, 15% 12 months from the date of Closing, 15% 18 months from the date of Closing, 15% 24 months from the date of Closing, 15% 30 months from the date of Closing and 15% 36 months from the date of Closing. As of December 31, 2015, 3,040,508 common shares held under the Surplus Security Escrow Agreement remained in escrow.

In June 2015, the shareholders of the Company approved the termination, in certain circumstances, of the escrow agreements entered into by the Company. As of December 31, 2015, no specific transaction was being contemplated that would require the termination of the escrow agreements.

Warrants

In September 2014, the Company issued 4,275,000 warrants in conjunction with a private placement. 3,750,000 of the warrants had an exercise price of $0.80 and 525,000 had an exercise price of $0.40. All of the warrants expired on September 4, 2015 without being exercised. The fair value of the warrants in the amount of $600,341 was included in Contributed Surplus when originally issued.

(Expressed in Canadian dollars)

10. SHARE CAPITAL (continued)

Share based payments

During the year, the shareholders of the Company approved the adoption of a new Stock Option Plan (the "New Plan") in compliance with the policies of the TSX. All options to acquire common shares of the Company previously issued to directors, officers, employees and consultants of the Company that were still outstanding were deemed to have been granted and issued under the New Plan and otherwise be governed by the terms and conditions of the New Plan, subject to the specific terms and conditions as to exercise price, vesting periods, if any, and expiry dates as were applicable to such options under the previous plan.

The maximum number of stock options available under the New Plan is equal to 10% of the outstanding shares of the Company from time to time. Subject to the terms of each grant as may be determined by the Board of Directors at the time options are granted, options may be exercisable for a period of up to ten years after the date of grant thereof. The number of shares reserved for issue to any individual director or officer will not exceed 5% of the number of then outstanding shares and the number of shares reserved for issue to any consultants or persons conducting investor relations activities will not exceed 2% of the number of then outstanding shares.

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 price on the day preceding the grant.

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

	Number of Shares	Weighted Average Exercise Price
Granted	2,950,000	$0.47
Balance at December 31, 2014	2,950,000	$0.47
Granted	1,850,000	$0.44
Forfeited	(177,758)	$0.40
Expired	(272,242)	$0.59
Cancelled	(400,000)	$0.53
Balance at December 31, 2015	3,950,000	$0.44

During the year, the Company granted 350,000 stock options at an exercise price of $0.41 to an employee with an expiry date of January 26, 2020, vesting over three years commencing on February 16, 2015. The fair value of each option was $0.26. In addition, the incoming directors were granted a total of 1,500,000 options at an exercise price of $0.45, an expiry date of April 25, 2020 and immediate vesting. The fair value of the grant in the amount of $405,000 was recorded as share based payment expense. Two of the directors that stepped down in April 2015 surrendered 125,000 options each and the vesting period on the remaining options was accelerated. The modifications resulted in an acceleration of vesting and the recognition of an additional $100,652 in share based expense.

(Expressed in Canadian dollars)

10. SHARE CAPITAL (continued)

During the year, the Company modified a previous grant by reducing the number of options granted by 150,000. All other terms of the original grant remained the same. The modification resulted in an acceleration of vesting and the recognition of an additional $48,600 in share based payments. On December 31, 2015 the remaining 150,000 stock options were cancelled upon termination of the consulting contract. There were also 300,000 stock options forfeited by an employee during the year.

The fair values of the options granted during the year ended December 31, 2015 were determined on the date of the grant using the Black-Scholes option pricing model with the following assumptions:

	Grant January 2015	**Grant April 2015**
Number of share options granted	350,000	1,500,000
Exercise price	$0.41	$0.45
Market value on grant date	$0.41	$0.45
Risk free interest rate	0.79%	0.87%
Expected life	5 years	5 years
Annualized volatility	80%	80%
Forfeiture rate	Nil	Nil
Expected dividends	Nil	Nil

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

Incentive stock options outstanding and exercisable at December 31, 2015 are summarized as follows:

	Outstanding			**Exercisable**	
Exercise price	**Quantity**	**Remaining contractual life (Years)**	**Weighted average exercise price**	**Quantity**	**Weighted average exercise price**
$0.40	1,500,000	3.68	$ 0.40	1,305,556	$ 0.40
$0.41	350,000	4.07	$ 0.41	101,580	$ 0.41
$0.45	1,500,000	4.32	$ 0.45	1,500,000	$ 0.45
$0.55	600,000	3.92	$ 0.55	216,667	$ 0.55
	3,950,000	3.99	$ 0.44	3,123,803	$ 0.43

The Company recorded share-based compensation expense related to the incentive stock options of $868,001 (2014 - $475,899) for the year ended December 31, 2015. The expense has been charged to the consolidated statements of loss and comprehensive loss.

10. SHARE CAPITAL (continued)

In connection with the termination of the CEO in January 2015, and pursuant to a settlement agreement between the Company and the former CEO, the former CEO granted an irrevocable option (the "Private Option") to the Company to acquire up to 1,000,000 of the common shares of the Company held by the former CEO, and currently held in escrow, at an exercise price of $0.10 per share, for a period of three years following the date of the Settlement Agreement. The Board may assign the Private Option to one or more assignees, or designate into whose name the Optioned Shares will be transferred upon exercise of the Private Option.

During the year, the Board assigned 150,000 of the Optioned Shares with 45,000 vesting in September 2015, 45,000 vesting in December 2015 and 60,000 vesting in March 2016. The fair value of the Private Option was determined using the Black-Scholes option pricing model with the following assumptions: exercise price $0.425; market value on grant date of $0.40; risk free interest rate of 0.61% and an expected life of 4 years. The exercise price used was $0.425 as there was a requirement for an equal number of stock options to be exercised at a price of $0.75. For the year ended December 31, 2015, $34,500 was included in share based payments expense related to the private option.

During the quarter ended June 30, 2015, the Board assigned 830,000 of the Optioned Shares in consideration as a finder's fee for the Escrow Transfer. The fair value of the Private Option was determined using the Black-Scholes option pricing model with the following assumptions: exercise price $0.10; market value on grant date of $0.42; risk free interest rate of 0.70% and an expected life of 2 years. Share-based compensation expense of $273,900 was recorded.

(Expressed in Canadian dollars)

11. LOSS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share for the years ended December 31, 2015 and 2014:

		Year ended December 31, 2015		Year ended December 31, 2014
Numerator				
Net loss for the year		3,497,271		2,645,105
Denominator				
For basic- weighted average number of shares outstanding		46,070,841		37,081,841
Effect of dilutive securities incentive share options/warrants		-		-
For diluted – adjusted weighted average number of shares outstanding		46,070,841		37,081,841
Loss per share				
Basic	$	(0.08)	$	(0.07)
Diluted	$	(0.08)	$	(0.07)

The basic loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding during the period. The diluted loss per share reflects the potential dilution of common share equivalents, such as outstanding stock options, and warrants, in the weighted average number of common shares outstanding during the year, if dilutive. For the year ended December 31, 2015, no stock options or warrants were anti-dilutive and therefore would not impact the weighted average number of common shares outstanding.

12. COMMITMENTS

The Company leases it premises for $4,750 per month for an initial term from June 1, 2014 to May 31, 2019 with an option to renew for an additional two, five year terms.

On September 1, 2014 the Company signed a lease for expansion premises to conduct its operations for an initial month-to-month period from November 1, 2014 to July 31, 2015, a second period from August 1, 2015 to October 31, 2015 and a third period from November 1, 2015 to October 31, 2019. Basic rent for the initial and second period was $26,552 per month plus additional rent of $9,221 per month to cover operating costs. The lease was terminated at the end of the second period, October 31, 2015.

(Expressed in Canadian dollars)

12. COMMITMENTS (continued)

The Company entered a purchase agreement with another Licenced Producer to supplement inventory. The former CEO continued to provide consulting services to the company for a period of twelve months from February 1, 2015 to January 31, 2016 for $10,000 per month.

				Due by year ending		
	Total	**2016**	**2017**	**2018**	**2019**	**2020 and thereafter**
Production facilities	$ 194,750	$ 57,000	$57,000	$57,000	$23,750	-
Purchase agreement	198,000	198,000	-	-	-	-
Consulting services	10,000	10,000	-	-	-	-
	$ 402,750	$265,000	$57,000	$57,000	$23,750	$ -

13. REVERSE ACQUISITION

In 2014, the Company completed a reverse takeover transaction (the “RTO” or the “Transaction”) pursuant to a share exchange agreement between the Company and Thunderbird. The Company acquired all of the issued and outstanding shares of Thunderbird in consideration for three T-Bird Pharma shares for each common share of Thunderbird.

The value of net monetary assets of Firebird (a legal parent) acquired in exchange for all of the issued and outstanding common shares of Thunderbird (a legal subsidiary) is set out as follows:

Cash	$ 1,555
Accounts receivable	16,467
Prepaids	30,750
Accounts payable	(30,048)
Net assets acquired	$ 18,724

In accordance with IFRS 3, Business Combinations, the substance of the transaction was a reverse acquisition of a non-operating company. The transaction does not constitute a business combination since the Company does not meet the definition of a business under the standard. As a result, under IFRS the transaction is accounted for as a capital transaction with Thunderbird being identified as the acquirer and the transaction being measured at the fair value of the equity consideration issued to the Company.

IFRS 2, Share-based Payments, applies to transactions where an entity grants equity instruments and cannot identify specifically some or all of the goods or services received in return. Since Thunderbird shareholders have issued shares with a fair value in excess of the net assets received, IFRS 2 would indicate that the difference is recognized in comprehensive loss as a reverse acquisition transaction cost.

The fair value of the consideration is determined based on the percentage of ownership the legal parent’s shareholders have in the combined entity after the reverse takeover transaction. By reference to a completion of a private placement of 7,500,000 units at $0.40 per unit on a closing date of the Transaction, the fair value of each Company common share at the time of the Transaction was $0.335. Accordingly, the value of the 4.35% (i.e. 2,005,312 shares) of the share capital owned by former owners of the Company at the time of the Transaction was $671,780. In addition, the Company incurred $93,238 related to this Transaction.

(Expressed in Canadian dollars)

13. REVERSE ACQUISITION (continued)

The amount assigned to the reverse acquisition transaction cost is $746,294, being the difference between the fair values of the equity consideration ($671,780), related legal costs ($93,238) and the net identifiable assets of the Company ($18,724). Under IFRS, this amount is included in the statement of comprehensive loss.

Consideration	$	671,780
Legal costs		93,238
Net monetary assets acquired		(18,724)
Unidentifiable assets acquired	$	746,294

14. FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are measured on an ongoing basis at fair value or amortized cost. The disclosure in the notes to these financial statements describe how the categories of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognized.

As at December 31, 2015 and 2014, the classification of the financial instruments, as well as their carrying values and fair values, are shown in the table below:

	December 31, 2015		December 31,2014	
	Fair Value	**Carrying Value**	**Fair Value**	**Carrying Value**
Financial Assets				
FVTPL:				
Cash	$81,836	$81,836	$1,718,795	$1,718,795
Loans and accounts, recorded at amortized cost:				
Accounts receivable	42,140	42,140	42,548	42,548
Financial Liabilities				
Other financial liabilities, recorded at amortized cost:				
Accounts payable and accrued liabilities	212,198	212,198	114,009	114,009
Due to related parties	981,077	972,677	19,851	19,851

14. FINANCIAL INSTRUMENTS (continued)

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

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

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

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

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

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

		Fair Value Measurement		
	Carrying Value	Level 1	Level 2	Level 3
As at December 31, 2015				
Financial Assets				
Cash	$ 81,836	$ 81,836	-	-
As at December 31, 2014				
Financial Assets				
Cash	$ 1,718,795	$ 1,718,795	-	-

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

<u>Currency risk</u>

The Company's functional and reporting currency is the Canadian dollar and major purchases are transacted in Canadian dollars. The Company has not hedged its exposure to currency fluctuations. As a result, the Company's exposure to foreign currency risk is minimal.

<u>Credit risk</u>

The Company's cash is largely held in large Canadian financial institutions. The Company does not have any asset-backed commercial paper. The Company maintains cash deposits with Schedule A financial institutions, which from time to time may exceed federally insured limits. The Company's maximum exposure to credit risk as at December 31, 2015 is the carrying value of its financial assets.

14. FINANCIAL INSTRUMENTS (continued)

Interest rate risk

Interest rate risk is the risk the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Financial assets and liabilities with variable interest rates expose the Company to cash flow interest rate risk. The Company does not hold any financial liabilities with variable interest rates. The Company does maintain bank accounts which earn interest at variable rates but it does not believe it is currently subject to any significant interest rate risk.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations associated with financial liabilities. As at December 31, 2015, the Company had negative working capital, which includes the demand loan of $955,067 owing to Sciences. Sciences agreed to provide funds as needed in order for the Company to continue to meet its ongoing financial obligations. The Company's ability to continue as a going concern is dependent on management's ability to raise required funding through future equity issuances and through short-term borrowing. The Company manages its liquidity risk by forecasting cash flows from operations and anticipating any investing and financing activities. Management and the Board of Directors are actively involved in the review, planning and approval of significant expenditures and commitments.

15. CAPITAL MANAGEMENT

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

(Expressed in Canadian dollars)

16. INCOME TAXES

As the Company has recorded a net loss for accounting and income tax purposes in both 2015 and 2014, no current income tax expense has been recorded in these financial statements.

The income taxes shown in the Statements of Loss and Comprehensive Loss differ from the amounts obtained by applying statutory rates to the loss before income taxes due to the following:

	2015	2014
Statutory tax rate	26%	26%
Loss for the year before income taxes	$(3,497,271)	$(2,645,105)
Expected income tax recovery	(909,290)	(687,727)
Non-deductible items	307,732	366,436
Unrecognized deductible temporary differences	601,558	321,291
Deferred income tax expense	$ -	$ -

Deferred taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes. Deferred tax assets (liabilities) at December 31, 2015 and 2014 are comprised of the following:

	2015	2014
Non-capital loss carry-forwards	920,227	307,773
Plant and equipment	2,011	1,163
Legal and share issue costs	46,880	58,380
	969,118	367,316
Valuation allowance	(969,118)	(367,316)
Net deferred tax assets	$ -	$ -

The Company has operating losses carry forward of approximately $3,539,000 (2014 - $1,000,000) at December 31, 2015 which may be carried forward to apply against future year income tax for Canadian income tax purposes, subject to the final determination by taxation authorities, expiring in the following years:

Expire years	$
2032	13,000
2034	1,227,000
2035	2,299,000
	3,539,000

17. SEGMENTED INFORMATION

The Company has one reportable operating segment of production of medical marihuana pursuant to the Marihuana for Medical Purposes Regulations. As at December 31, 2015 and 2014, all of the Company's operations and assets were in Canada.

18. EVENTS AFTER THE REPORTING PERIOD

a) Debt conversion

Subsequent to the year-end, Sciences agreed to convert the debt owing to it into common shares, subject to approval by the TSXV. The total debt outstanding as of February 26, 2016, the date Sciences agreed to the conversion of the debt, was $1,392,796 which converted to 8,097,651 common shares at a deemed price of $0.172 per share. Upon the issuance of such shares, Sciences will own 52% of the issued and outstanding common shares.

b) Stock options issuance

Subsequent to the reporting date, 300,000 stock options were granted to an employee with an exercise price of $0.175, vesting over 36 months with a five-year term.

c) Supplemental Sales Licence

In April 2016, Botanicals applied to Health Canada for a Supplemental Licence allowing for the sale of cannabis oils for which the Company had received approval to manufacture in November 2015.