

Emerald Health Therapeutics, Inc. Provides Update on and Additional Background to Transaction with Skye Bioscience

Vancouver, British Columbia--(Newsfile Corp. - August 12, 2022) - Emerald Health Therapeutics, Inc. (CSE: EMH) (OTCQB: EMHTF) ("Emerald" or the "Company") is providing an update and additional background on its transaction (the "Transaction") with Skye Bioscience Inc. (OTCQB: SKYE) ("Skye") pursuant to the terms of an arrangement agreement dated May 11, 2022, as amended (the "Arrangement Agreement").

On July 28, 2022, Emerald mailed to shareholders of Emerald (the "EHT Shareholders") its management information circular (the "Circular") in connection with the annual general and special meeting of Emerald (the "Meeting") to be held August 19, 2022 to, among other things, approve the Transaction. The Circular, which is [available](#) on Emerald's website and under Emerald's profile at www.sedar.com, contains key facts pertaining to the Transaction and should be referenced for an accurate representation of the details and process undertaken by Emerald, its management and the board of directors of Emerald (the "EHT Board") in connection with the Transaction.

On August 4, 2022, a group of shareholders published a news release (the "Third Party News Release") regarding the Transaction. Such shareholders did not identify themselves by name in the Third Party News Release. The Third Party News Release misrepresented and mischaracterized important elements of the Transaction, some of which are addressed below, excluded pertinent information, and presented details not related or relevant to the Transaction in an effort to distract shareholders from the actual facts. Shareholders should deal with facts and not innuendo. Further, such shareholders have not presented any alternative path forward for the Company or any means of addressing the issues facing the Company, as discussed below.

The Company is issuing this release to provide additional background information relating to the Transaction and to correct and respond to some of the statements in the Third Party News Release.

Further Background to the Transaction

On November 29, 2021, the Company announced that it intended to exit the recreational and medical cannabis business in Canada and pivot to a pharmaceutical development focus, an industry in which its directors have expertise. Prior to November 2021, the EHT Board as a whole considered the strategic direction of Emerald from time to time in connection with the overall management of Emerald's business. As the cannabis industry matured in Canada, it became increasingly apparent that the challenging and saturated nature of the recreational and medicinal cannabis sector in Canada would make it difficult, if not impossible, for the Company to become a profitable endeavour if it were to continue the status quo and follow its then current business model. Emerald, along with other similarly sized companies in the cannabis space, faced a number of issues including low margins, evolving demands for different products, high costs of product innovation, greater competition, weaker demand than expected and the impact of COVID-19. As a result of these factors, the Company's business continued to suffer ongoing operating losses at a time when raising funds in the cannabis industry had become increasingly difficult.

The Company was operating in the legalized cannabis market which, since its inception in 2018, was and is extraordinarily complex and competitive. The following facts, among many others, highlight that this complexity and competitiveness continue and represent a challenging and uncertain environment for Licensed Producers:

- There were 894 Health Canada-issued license holders as of August 4, 2022, covering cannabis cultivation, processing, and sales, compared to 133 licenses as of December 3, 2018.¹

- Price compression remained every bit as evident in 2021 as in 2020 and prior years, with the average price per gram of flower down 16% of the course of 2021.²
- In their most recent respective trailing four-quarter periods, the top five Canadian licensed producers (by sales) generated a total of \$1.48B in revenue yet realized an aggregate operating income (loss) of \$-1.83B.³
- The quarterly growth rate of total legal adult-use Canadian cannabis sales has slowed notably in recent quarters and in the most recent quarter was down, by 2% as compared to the prior quarter⁴, for the first time in 13 quarters.
- Canopy Growth Corporation reported a net loss of more than \$2 billion in the quarter ending June 30, 2022⁵, further highlighting the challenge to operate profitably.

During 2020 and 2021, Emerald undertook a variety of different business initiatives aimed at increasing the profitability and value of the Company. Emerald focused on cost-control initiatives, including staff reductions, introduced new products and sought out new partners and new markets for its products as well as attempted a transition into the cannabis pharmaceutical space.

"Emerald's cannabis business realized a loss of \$41.7M during 2021 and has lost an aggregate of \$240 million since 2015," stated Jim Heppell, Chairman of Emerald. "Despite Emerald's efforts to focus and specialize and attempts to adapt in an effort to achieve profitability in the Canadian cannabis industry, Emerald was continuing to lose significant amounts of money and the future of Emerald as a going concern was becoming in doubt. Rather than staying the course in the cannabis industry the EHT Board, after significant consideration and study, decided to pivot out of that industry and into pharmaceutical development. We believed and still believe that operating in the intersection of biotechnology and cannabinoid science is more likely to provide a return to EHT shareholders than Emerald continuing in the cannabis business."

During this period the EHT Board held several formal and informal meetings at which the Company's overall financial performance and the future of its business were discussed. These discussions culminated in November 2021, when the EHT Board met and determined that it would be in the best interests of the EHT Shareholders to undertake the Realization Process described in the Circular and to undertake a fundamental transaction with a public issuer in the pharmaceutical business. In searching for such a transaction, the EHT Board was not solely seeking opportunities which would result in the Company becoming acquired by a third party but considered all relevant alternatives including partnerships, other forms of business relationships and potential acquisition opportunities. The goal of the EHT Board was not necessarily for Emerald to be acquired but rather to transform the entity in one way or another to provide EHT Shareholders with a better opportunity to realize a return on their investments in Emerald through exposure to the pharmaceutical sector.

In the two years leading up to the execution of the Arrangement Agreement, Emerald did not receive any bona fide offer to acquire the EHT Shares or all or substantially all of the assets of the Company or other realizable proposals for strategic alternatives of the nature described above. In September 2021, Emerald did receive a term sheet from a private company with respect to a business combination. The term sheet valued the private company at a figure which the EHT Board considered to be extremely inflated and which would have led to significantly unfavorable dilution to the EHT Shareholders. Accordingly, the Company declined the proposed transaction and the EHT Board does not view such proposal as being a bona fide offer.

As stated in the Company's November 29, 2021 news release and the Circular, the Company retained Vantage Point Advisors ("VPA") to assist it in identifying potential acquisition/merger candidates involved in pharmaceutical cannabinoid development and to carry out due diligence on selected candidates.

As disclosed in the Circular, in the subsequent period, VPA identified and analyzed 21 companies in this sector, including Skye, and then shortlisted ten companies to present to the EHT Board. In discussions between the EHT Board and VPA, this list was further shortened to seven. VPA reached out

to these companies to determine potential interest in a strategic transaction with Emerald. Emerald conducted an initial due diligence review and financial analysis of all the targets, including Skye, with the assistance and advice of VPA, however, none of the discussions with the other potential targets progressed to the term sheet stage. All discussions with potential targets (other than Skye) halted following the execution of the term sheet with Skye on February 18, 2022. Following further due diligence and financial analysis, it was the EHT Board's conclusion that the Transaction was an excellent opportunity for Emerald shareholders to potentially benefit from a new class of cannabinoid-derivative drug candidates.

Under the terms of the Transaction, the exchange ratio (the "Exchange Ratio") of 1.95 shares of Skye common stock (the "Skye Shares") for each common share of Emerald (the "EHT Shares") valued the EHT Shares at approximately \$0.10 per share, based on the volume weighted average price of the Skye Shares as of May 11, 2022 on the OTCQB, which is a premium of approximately 185% to the closing market price of the EHT Shares on the CSE as of May 10, 2022. Based on the then applicable 20-day VWAP of both Skye and Emerald and the Exchange Ratio, the Proposed Transaction implies a 170% premium to the market capitalization of Emerald.

As discussed in the Circular, the Exchange Ratio was the subject of arm's length negotiation between the parties. The initial draft of the Term Sheet received by the Company from Skye provided that following completion of the Transaction, existing Skye shareholders would hold approximately 71% of the outstanding Skye Shares and the former EHT Shareholders would hold approximately 29% of the Skye Shares. Skye and Emerald, after negotiation, entered into the Term Sheet on February 18, 2022 which provided for a merger of equals whereby the shareholders of each company would hold 50% of the shares of the merged entity. The specific exchange ratio would be determined immediately prior to execution of the Arrangement Agreement based on the number of shares of each company then outstanding.

As Skye carried out its due diligence on Emerald it became apparent that the parties had underestimated the costs that Emerald would incur in winding down its operations. After further extensive and difficult negotiations between the special committees of Emerald and Skye, the Exchange Ratio was amended in the final Arrangement Agreement to 1.95 Skye Shares for every EHT Share held. This will result in current Skye shareholders holding 54% of the outstanding Skye Shares and former EHT Shareholders holding 46% of the outstanding Skye Shares following the completion of the Transaction.

Evans & Evans, Inc. ("Evans & Evans") was retained to prepare and deliver a fairness opinion (the "Fairness Opinion") to the special committee of the EHT Board (the "Special Committee"), which was formed for the purposes of evaluating the Transaction. Further details on the formation of the Special Committee, its mandate and role in the negotiations of the Transaction are set out below and in the Circular. The Company is not required to obtain a formal valuation in connection with the Transaction pursuant to Multilateral Instrument 61-101 *Protection of Minority Security Holders in Special Transactions* ("MI 61-101") as it is listed on the Canadian Stock Exchange and therefore can rely on the exemption from the formal valuation requirement set out in section 5.5(b) of MI 61-101.

A copy of the Fairness Opinion is attached to the Circular. Evans & Evans determined that, based upon and subject to the assumptions, limitations and qualifications set out in the Fairness Opinion and such other matters as they considered relevant, it was of the opinion that, as of the date of such opinion, the Transaction and the Exchange Ratio are fair, from a financial point of view, to the EHT Shareholders. The Fairness Opinion was one factor considered by the Special Committee in providing its recommendation to the EHT Board and by the EHT Board in approving the execution of the Arrangement Agreement. A full list of the factors taken into account by the Special Committee and the EHT Board can be found on pages 24-25 of the Circular under the heading "*Reasons for the Recommendations*".

Evans & Evans was paid a fixed fee by the Company for the Fairness Opinion. No part of the fee was contingent on the delivery of a Fairness Opinion that supported the Transaction or the successful

completion of the Transaction. The Special Committee did not consider that the fixed fee amount paid to Evans & Evans impacted the impartiality of Evans & Evans. The Company is not aware of any relationship or arrangement between Evans & Evans and the Company or an interested party in the Transaction that may be relevant to a perception of lack of independence in respect of the Fairness Opinion. No prior valuation in respect of the Company that relates to the subject matter of or is otherwise relevant to the Transaction has been made in the 24 months before the date of the Circular.

Special Committee

At the time VPA was engaged by the Company, the EHT Board considered whether establishing a special committee was appropriate and determined, in light of the small size of the EHT Board, the previous decision to wind down the Company's cannabis operations and the early stage of the transaction review process, that a special committee was not necessary at that time. The EHT Board reconsidered the formation of a special committee after it became clear that there was a reasonable likelihood that the negotiations may lead to the execution of a term sheet with Skye and that Messrs. Heppell (as a director of Skye) and P. Dhillon (as the CEO and Chair of Skye) would be conflicted in such event.

In the early discussions with Skye and prior to the formation of the Special Committee, the EHT Board took the approach that as Mr. P. Dhillon was both director and CEO of Skye and Jim Heppell was also a director of Skye, Mr. Bobby Rai, the third director of EHT and who did not have an interest in the Transaction at such time, would lead the discussions on behalf of the EHT Board and that communications between Skye and Emerald would generally take place at a management level. Mr. Heppell excused himself from all Skye board and management meetings where the Transaction was discussed and Mr. P. Dhillon did the same in respect of EHT Board and management meetings and discussions. Once Skye and Emerald determined that there was a reasonable likelihood that the negotiations may lead to a term sheet (the "Term Sheet"), Skye and Emerald each established their respective special committees. The Company established the Special Committee on February 8, 2022.

In determining the members of the Special Committee, the EHT Board considered that the EHT Board consisted of only three directors, Messrs. Heppell, P. Dhillon and Mr. Bobby Rai. As noted above, each of Messrs. Heppell and P. Dhillon could be considered to have an interest in the Transaction. As a result, there was only one director, Mr. Rai, without a material interest in the Transaction at such time. The EHT Board did not believe that it was desirable to have a special committee composed of a single director and considered that it would be beneficial for the workload of the committee to be spread between two persons. The Company's chief operating officer, Mohammed Jiwan, has extensive experience in the cannabis industry. The EHT Board believed that Mr. Jiwan would provide valuable insight to the Special Committee. As the Special Committee consisted of two members, its mandate required that it could only make recommendations to the EHT Board with the unanimous approval of both members.

The Special Committee's mandate was determined by the EHT Board and provided that the primary responsibilities of the Special Committee would include (a) supervising, conducting and coordinating the process to be followed by Emerald and its professional advisors in evaluating the Transaction; (b) negotiating a term sheet with Skye and providing a recommendation to the EHT Board as to whether or not the term sheet is in the best interests of the Company and its shareholders; and (c) reporting and making recommendations to the EHT Board in respect of the Transaction. The Special Committee did not have the authority to approve the Transaction, however, consistent with its mandate, negotiations concerning the Term Sheet and the Arrangement Agreement were driven by the Special Committee and not by the EHT Board. The Special Committee did consult from time to time with Mr. Heppell as Mr. Heppell has extensive experience with M&A transactions and the biotechnology sector, however, Mr. Heppell's role was limited to an advisory role and the Special Committee made its own decisions in camera and relied on its other professional advisors, including legal counsel, for advice.

Subsequent to the formation of the Special Committee, the parties agreed that upon completion of the Transaction, Mr. Rai would be appointed to the board of directors of Skye (the "Skye Board"). Mr. Rai is expected to be granted options to purchase Skye Shares in connection with his appointment to the Skye

Board. No specific amount of options has been set and the number will be determined by the Skye Board consistent with its compensation practices for other Skye directors. In this respect, Emerald understands that pursuant to the current Skye director compensation policy, the directors of Skye are entitled to receive 250,000 options as an initial grant on joining the Skye Board and then 150,000 options on an annual basis thereafter. In addition, each director of Skye is entitled to receive a cash fee for acting as such. The fee payable to Skye directors for 2022 is US\$40,000 per annum. To the knowledge of the Company, Mr. Rai will not receive any other collateral benefit in connection with the Transaction.

As stated in the Circular, the Special Committee was not able to come to a consensus on whether to approve and recommend the Term Sheet. At the time of execution of the Term Sheet, Mr. Jiwan considered that Emerald could remain a viable producer of cannabis products and, accordingly, was of the view that the Company should not shift to a pharmaceutical focus. The other member of the Special Committee, Mr. Rai, was of the view that the Company's existing cannabis business was unlikely to succeed and that Emerald and its shareholders would be better served by a shift in focus to the pharmaceutical industry. Mr. Rai has extensive experience in the pharmaceutical industry which helped inform his analysis.

As a result, the Special Committee was unable to provide a recommendation to the EHT Board concerning the Term Sheet. At the subsequent EHT Board meeting, each of Messrs. Heppell and P. Dhillon declared their interest in the Term Sheet and abstained from voting. Mr. Rai, as the remaining non-conflicted director, approved the execution of the Term Sheet.

Following the execution of the Term Sheet on February 18, 2022, Skye and Emerald conducted extensive due diligence and continued negotiations with respect to the final terms of the Arrangement Agreement, which were conducted by the parties while maintaining continuous communication with, and direction from, the EHT Special Committee regarding the key remaining issues.

On May 11, 2022, after careful consideration of all applicable factors and risks, and based on the Fairness Opinion, the EHT Special Committee unanimously determined that the Transaction is fair to the EHT Shareholders and in the best interests of Emerald and its stakeholders and unanimously recommended that the EHT Board approve the Transaction on the basis of the draft Arrangement Agreement negotiated with Skye and presented to the EHT Board, subject to any final changes required to be made to the draft Arrangement Agreement based on discussions between the Special Committee, the EHT Board and Skye and approved by the EHT Board. The EHT Board accepted such recommendation to approve the Arrangement Agreement.

As disclosed in the Circular, each of Messrs. Heppell, P. Dhillon and Rai had a disclosable interest at such time in respect of the Transaction and accordingly disclosed such interest to the remaining members of the EHT Board. Pursuant to the *Business Corporations Act* (British Columbia), in such circumstances all directors are permitted to vote on the resolution. Consequently, each of Messrs. Heppell, P. Dhillon and Rai voted on the EHT Board resolution approving the Arrangement Agreement and recommending to EHT Shareholders that they vote in favour of the Transaction. Ultimately, the decision to approve the Transaction rests with the EHT Shareholders.

The Transaction is the result of a comprehensive process overseen by the Special Committee of the EHT Board with the support and advice of a financial advisor and other external advisors. It was not arrived at or agreed to due to any pre-existing relationship between the Company and Skye or any individuals.

Any statements in the Third Party News Release related to Messrs. Heppell and P. Dhillon are inflammatory and meant to distract shareholders from the matters on which they are being asked to vote. **Shareholders should deal with facts and not innuendo.** The facts are that any matters related to former executives or directors that have been accused of any wrongdoing or illegal activity have been investigated by the Company and appropriate steps have been taken.

Emerald Health Sciences

In the Third Party News Release, it is alleged that both Emerald and Skye are controlled by a private company, Emerald Health Sciences Inc. ("Sciences"). This statement is not accurate. At the time of the execution of the Arrangement Agreement, Sciences held approximately 18% of the outstanding EHT Shares and approximately 22.4% of the outstanding Skye Shares and did not control either party.

In connection with the execution of the Arrangement Agreement, Sciences entered into negotiated support agreements with both Emerald and Skye confirming that it would vote the Skye Shares and EHT Shares, respectively, held by it in favour of the Transaction. As previously disclosed on July 15, 2020, the Company had terminated certain related party agreements pertaining to consulting services and a loan facility with Sciences.

Effective July 8, 2022, Sciences distributed all of the EHT Shares held by it to Sciences' shareholders, on a pro rata basis, in connection with a return of capital distribution (the "Return of Capital"). The support agreement entered into between Sciences and Skye (the "Support Agreement") specifically permitted Sciences to transfer such EHT Shares held by it to its shareholders pursuant to a stock dividend, return of capital or other similar transaction. The Support Agreement further confirmed that any such EHT Shares so transferred would cease to be subject to the Support Agreement. To the knowledge of the Company, none of the EHT Shares distributed by Sciences pursuant to the Return of Capital are now subject to any voting covenant or support agreement except for the EHT Shares held by Messrs. Heppell and P. Dhillon, each of whom had entered into a separate support agreement with Skye in his capacity as a director of Emerald. The EHT Shares held by Messrs. Heppell and P. Dhillon will be excluded for the purposes of the minority shareholder approval for the Transaction required by MI 61-101.

Prior to the distribution, (a) Mr. Heppell held 165,806 EHT Shares, representing 0.07% of the total issued and outstanding EHT Shares and he received 1,574,993 EHT Shares as a result of the Return of Capital, resulting in him holding 1,740,799 EHT Shares, representing 0.82% of the total issued and outstanding EHT Shares; and (b) Mr. P. Dhillon held 400,303 EHT Shares, representing 0.18% of the total issued and outstanding EHT Shares and he received 260,252 EHT Shares as a result of the Return of Capital, and obtained control over 1,197,806 EHT Shares, resulting in him holding or exercising control over 1,858,361 EHT Shares, representing 0.87% of the total issued and outstanding EHT Shares. The shareholdings of Messrs. Heppell and P. Dhillon set out under the heading "Annual General Meeting Matters" at page 1 of the Circular reflect their respective holdings on a post-Return of Capital basis. To the knowledge of the Company, the Return of Capital did not result in any person becoming a "related party" of Emerald.

The EHT Shares received by the other shareholders of Sciences will be permitted to be voted at the Meeting as the Return of Capital distribution occurred prior to the record date for the Meeting, being July 12, 2022.

While Sciences was a common shareholder of both Skye and Emerald, the Transaction was agreed to and is being recommended to shareholders of Emerald because the Special Committee and the EHT Board believe that it is in the best interests of the Company and resulted from a comprehensive process overseen by the Special Committee which was supported by external advisors and the Fairness Opinion, not because of any actual or alleged relationship between any parties.

EHT Board Unanimously Recommends Voting in Favour of the Transaction

"Emerald's board of directors recommended that shareholders vote in favour of this Transaction. Management and the Board of Emerald have subsequently held conversations with a number of shareholders, who have been supportive of the transition of the Company to a pharmaceutical cannabinoid focus based on unique, protected intellectual property and with an opportunity to undergo the rigour of clinical assessment to validate its potential therapeutic benefits," added Jim Heppell.

"Skye embodies all of these characteristics, and the purpose and benefit of this Transaction is to combine the intellectual property and financial assets of Skye and Emerald in a manner that provides a path towards potential value creation. If Skye's SBI-100 drug achieves clinical validation and regulatory approval, it would potentially provide exposure to a glaucoma market with over 70 million patients globally⁶. As indicated in the Circular, the EHT Board continues to recommend that all shareholders vote in favour of the arrangement with Skye."

The Company would like to remind EHT Shareholders that the Meeting to approve the Transaction, among other things, is to be held virtually at 10:00am (Vancouver time) on August 19, 2022. For your shares to be voted prior to the Meeting, voting instructions or proxies must be received by Computershare Trust Company of Canada, the Company's transfer agent, no later than 10:00am on August 17, 2022. The directors of Emerald UNANIMOUSLY recommend that EHT Shareholders vote in favour of the Transaction. Information regarding how to vote your EHT Shares is set out in Appendix I of the Circular and if you have questions or require assistance with voting, please contact Bernie Hertel, investor relations, at bhertel@emeraldhealth.ca.

The meeting of the Skye shareholders to approve the Transaction is expected to be held in early October or early November. The Company and Skye anticipate that the Transaction will close promptly after such meeting.

Please visit www.emeraldhealth.ca for more information or contact:

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Neither the Canadian Securities Exchange nor the Market Regulator (as that term is defined in the policies of the Canadian Securities Exchange) accepts responsibility for the adequacy or accuracy of this release.

Cautionary Note Regarding Forward-Looking Statements: Certain statements made in this press release that are not historical facts are forward-looking statements and are subject to important risks, uncertainties and assumptions, both general and specific, which give rise to the possibility that actual results or events could differ materially from our expectations expressed in or implied by such forward-looking statements. Such statements include the time and date of the Meeting, the expected timing for closing of the Transaction and the benefits of the Transaction to EHT Shareholders, the potential valuation creation of the Transaction, Skye's SBI-100 drug achieving clinical validation and regulatory approval and the exposure such approval would provide.

We cannot guarantee that any forward-looking statement will materialize, and readers are cautioned not to place undue reliance on these forward-looking statements. Such statements are subject to the risks that the conditions precedent to the Transaction may not be satisfied, including the receipt of regulatory and shareholder approval, in the time periods anticipated by the Company and Skye or at all and some or all of the expected benefits of the Transaction may fail to materialize or may not occur within the time periods anticipated by the Company and Skye or at all. These statements are not historical facts but instead represent management beliefs regarding future events, many of which, by their nature are inherently uncertain and beyond management control.

The forward-looking statements contained in this press release represent our expectations as of the date hereof. Forward-looking statements are presented for the purpose of providing information about

management's current expectations and plans and allowing investors and others to obtain a better understanding of our anticipated operating environment. Readers are cautioned that such information may not be appropriate for other purposes. Emerald undertakes no obligations to update or revise such statements to reflect new circumstances or unanticipated events as they occur unless required by applicable law.

¹ Health Canada - <https://www.canada.ca/en/health-canada/services/drugs-medication/cannabis/industry-licensees-applicants/licensed-cultivators-processors-sellers.html>

² MJ Biz Daily - <https://mjbizdaily.com/canadian-cannabis-retail-prices-declined-in-2021-led-by-vapes-concentrates/>

³ Filings by the following companies for the most recent four quarters ending, respectively, Canopy Growth (2022-06-30), Aurora (2022-03-31), Tilray (2022-05-31), Hexo (2022-04-30), Organigram (2022-05-31), available on SEDAR

⁴ Statistics Canada - <https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=2010000801> (Table 20-10-0008-01)

⁵ CBC - <https://www.cbc.ca/news/business/canopy-growth-earnings-1.6542659>

⁶ Zhang, N., Wang, J., Li, Y. et al. Prevalence of primary open angle glaucoma in the last 20 years: a meta-analysis and systematic review. Sci Rep 11, 13762 (2021). <https://doi.org/10.1038/s41598-021-92971-w>



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