

**EDEN EMPIRE INC.**

**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**(Unaudited)**

**(Expressed in Canadian Dollars)**

**FOR THE NINE MONTHS ENDED APRIL 30, 2020 AND 2019**

**EDEN EMPIRE INC.****CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION**

(Unaudited)

(Expressed in Canadian Dollars)

**AS AT**

	<b>April 30, 2020</b>	<b>July 31, 2019</b>
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 1,517,335	\$ 5,100,297
Amounts receivable	94,191	68,389
Prepaid expenses and deposits	22,646	59,500
Inventory (Note 5)	27,312	-
	<u>1,661,484</u>	<u>5,228,186</u>
<b>Promissory note</b> (Note 6)	391,844	-
<b>Bridge loan</b> (Note 7)	792,095	465,257
<b>Option agreement</b> (Note 8)	27,820	-
<b>Lease inducements</b> (Note 9)	80,000	-
<b>Property and equipment</b> (Note 10)	3,104,026	131,480
<b>Intangible assets</b> (Note 12)	18,000	18,000
	<u>\$ 6,075,269</u>	<u>\$ 5,842,293</u>
<b>LIABILITIES AND SHAREHOLDERS' DEFICIENCY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 510,036	\$ 374,901
Lease liabilities (Note 13)	365,342	-
Convertible debentures (Note 14)	5,889,367	-
	<u>6,764,745</u>	<u>374,901</u>
<b>Lease liabilities</b> (Note 13)	1,180,426	-
<b>Convertible debentures</b> (Note 14)	-	5,522,449
	<u>7,945,171</u>	<u>5,897,350</u>
<b>Shareholders' deficiency</b>		
Share capital (Note 15)	1,404,564	1,404,564
Subscriptions receivable (Note 15)	-	(101,250)
Reserves (Note 15)	44,293	44,293
Equity component of convertible debentures	171,926	171,926
Accumulated other comprehensive income	59,603	-
Deficit	(3,550,288)	(1,573,960)
	<u>(1,869,902)</u>	<u>(54,427)</u>
	<u>\$ 6,075,269</u>	<u>\$ 5,842,293</u>

NATURE OF OPERATIONS AND GOING CONCERN (Note 1)

SUBSEQUENT EVENTS (Note 20)

Approved and authorized by the Board on June 19, 2020

\_\_\_\_\_  
Director\_\_\_\_\_  
Director

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

**EDEN EMPIRE INC.****CONDENSED CONSOLIDATED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**

(Unaudited)

(Expressed in Canadian Dollars)

**FOR THE NINE MONTHS ENDED APRIL 30, 2020 AND 2019**

	<b>2020</b>	<b>2019</b>
<b>EXPENSES</b>		
Accounting and legal	\$ 473,875	\$ -
Consulting	162,740	249,500
Depreciation (Note 10)	161,179	-
Filing and transfer agent fees	8,740	-
Foreign exchange gain	(27,322)	-
Interest, accretion and bank charges	825,490	-
Investor relations	337,178	-
Licenses and applications	191,326	-
Management fees	90,000	-
Office and administration	45,585	317
Property operating costs	54,245	-
Prospective location costs	382,282	11,753
Salaries	513,363	-
Service agreement (recoveries) costs	(13,393)	-
Travel and meals	75,840	11,206
Total operating expenses	(3,281,128)	(272,776)
Other items:		
Expense recoveries	285,950	-
Interest and other income	54,525	727
Gain on sale of subsidiary (Note 11)	964,325	-
Reverse takeover expense (Note 4)	-	(277,413)
	1,304,800	(276,686)
Net loss for the period	(1,976,328)	(549,462)
<b>OTHER COMPREHENSIVE INCOME</b>		
Foreign exchange on translating foreign operations	59,603	-
Comprehensive loss for the period	\$ (1,916,725)	\$ (549,462)
<b>Basic and diluted loss per common share</b>	\$ (0.03)	\$ (0.20)
<b>Weighted average number of common shares outstanding</b>	65,222,500	2,776,499

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

**EDEN EMPIRE INC.****CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS**

(Unaudited)

(Expressed in Canadian Dollars)

**FOR THE NINE MONTHS ENDED APRIL 30, 2020 AND 2019**

	<b>2020</b>	<b>2019</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss for the period	\$ (1,976,328)	\$ (549,462)
Non-cash items:		
Depreciation	161,179	-
Finance expense	823,295	-
Consulting fees issued in shares	-	225,000
Accrued interest	(35,195)	(727)
Reverse takeover expense	-	277,413
Gain on sale of subsidiary	(964,324)	-
Changes in non-cash working capital items:		
Amounts receivable	(25,802)	(2,197)
Prepaid expenses and deposits	26,854	(8,500)
Inventory	(27,312)	-
Accounts payable and accrued liabilities	135,135	141,037
	<u>(1,882,498)</u>	<u>82,564</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Bridge loan – funds provided	(292,350)	(64,654)
Promissory note – funds provided	(391,137)	-
Investment property	(1,320,416)	-
Property and equipment	(145,163)	-
Lease inducements	(80,000)	-
Cash received upon sale of subsidiary	1,010,000	-
Finder's fee paid on sale of subsidiary	(30,000)	-
Cash received upon completion of reverse take over	-	317,086
Option agreement payment	(26,786)	-
	<u>(1,275,852)</u>	<u>252,432</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from convertible debentures	-	80,000
Interest paid on convertible debentures	(361,670)	-
Proceeds on issuance of common shares	-	182,500
Issuance costs on common shares	-	(74,817)
Lease payments	(164,192)	-
Subscriptions received	101,250	-
	<u>(424,612)</u>	<u>187,683</u>
<b>Change in cash and cash equivalents during the period</b>	<b>(3,582,962)</b>	<b>522,679</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>5,100,297</b>	<b>-</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 1,517,335</b>	<b>\$ 522,679</b>
<b>Supplementary cash flow information:</b>		
Interest paid	\$ 361,670	\$ -
Income taxes paid	-	-

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

**EDEN EMPIRE INC.**

## CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY (DEFICIENCY)

(Unaudited)

(Expressed in Canadian Dollars)

	<u>Share capital</u>		Subscriptions receivable	Reserves	Equity component of convertible debentures	Accumulated other comprehensive income	Deficit	Total
	Number	Amount						
<b>Balance, July 31, 2018</b>	300	\$ 3	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3
Acquisition of 11943630 B.C. Ltd. (Note 4)	45,000,000	-	-	23,625	-	-	-	23,625
Cancellation of incorporation shares	(300)	-	-	-	-	-	-	-
Private placement, net of share issue costs	10,000,000	425,183	-	-	-	-	-	425,183
Shares issued for consulting fees	4,500,000	225,000	-	-	-	-	-	225,000
Loss and comprehensive loss for the period	-	-	-	-	-	-	(549,462)	(549,462)
<b>Balance April 30, 2019</b>	<b>59,500,000</b>	<b>650,186</b>	<b>-</b>	<b>23,625</b>	<b>-</b>	<b>-</b>	<b>(549,462)</b>	<b>124,349</b>
<b>Balance, July 31, 2019</b>	65,222,500	1,404,564	(101,250)	44,293	171,926	-	(1,573,960)	(54,427)
Subscriptions received	-	-	101,250	-	-	-	-	101,250
Loss and comprehensive loss for the period	-	-	-	-	-	59,603	(1,976,328)	(2,026,725)
<b>Balance, April 30, 2020</b>	<b>65,222,500</b>	<b>\$ 1,404,564</b>	<b>\$ -</b>	<b>\$ 44,293</b>	<b>\$ 171,926</b>	<b>\$ 59,603</b>	<b>\$ (3,550,288)</b>	<b>\$ (1,869,902)</b>

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

## **EDEN EMPIRE INC.**

### **NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

(Unaudited)

(Expressed in Canadian Dollars)

**FOR THE NINE MONTHS ENDED APRIL 30, 2020 AND 2019**

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#### **1. NATURE OF OPERATIONS AND GOING CONCERN**

Eden Empire Inc. (with its subsidiaries, collectively, the “Company” or “Eden Empire”) was incorporated under the *Company Act* (British Columbia) on September 25, 2018 as Pemberton Acquisition Corp. The Company’s name was changed to Eden Empire Inc. on April 26, 2019. The Company maintains its registered office at 2300 – 550 Burrard Street, Vancouver, British Columbia, Canada V6C 2B5. The Company’s principal place of business is 2300 - 1177 West Hastings Street, Vancouver, British Columbia, Canada V6E 2K3.

The Company is in the business of investments and operations in the cannabis sector and engaging in retail and activities in respect of cannabis in Canada and the United States. It is the intention that the Company becomes a fully integrated cannabis product retailer company in Canada and the United States. The Company has registered certain trademark brands and has entered into an agreement to acquire dispensary locations currently under licensing process (Note 7).

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) on a going concern basis, which contemplates that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. Accordingly, these condensed consolidated interim financial statements do not include any adjustments to the amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

The Company reported a net loss of \$1,976,328 for the nine months ended April 30, 2020 and had an accumulated deficit of \$3,550,288 as at April 30, 2020. The Company’s ability to continue as a going concern is dependent upon its ability to raise funds primarily through the issuance of shares or achieve profitable operations. The achievement of profitable operations is dependent on successful licensing of its storefront operations. The outcome of these matters cannot be predicted at this time. If the Company is unable to obtain additional financing, management may be required to curtail certain expenses. These material uncertainties may cast significant doubt about the Company’s ability to continue as a going concern.

In March 2020 the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company’s business or ability to raise funds. Management continues to monitor the situation.

#### *Reverse Takeover*

On April 18, 2019, the Company and the shareholders of 1194360 B.C. Ltd. (“1194360”) entered into a share purchase agreement whereby the Company acquired all of the issued and outstanding common shares of 1194360 for the issuance of 45,000,000 common shares. At the time of acquisition, the sole asset of 1194360 was a portfolio of trademarks encompassing the “Eden” trademark family (“Eden IP”). The acquisition was considered an asset acquisition and not a business combination for the purposes of financial reporting. After completion of the transaction, the shareholders of 1194360 held approximately 98.96% of the Company. Accordingly, 1194360 is considered to have acquired the Company with the transaction being accounted for as a reverse takeover of the Company by 1194360 shareholders (the “RTO”).

As 1194360 is deemed to be the acquirer for accounting purposes, these condensed consolidated interim financial statements include its assets and liabilities and operations. The Company’s results of operations are included from April 18, 2019 onwards.

#### **2. BASIS OF PREPARATION**

##### **Statement of compliance**

These condensed consolidated interim financial statements, including comparatives, have been prepared in accordance with International Accounting Standards (“IAS”) 34 ‘Interim Financial Reporting’ (“IAS 34”) using accounting policies consistent with IFRS issued by the International Accounting Standards Board (“IASB”) and Interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

The accounting policies and methods of computation applied by the Company in these condensed consolidated interim financial statements are the same as those applied in the Company’s annual consolidated financial statements for the year ended July 31, 2019. The Company has adopted additional accounting policies as disclosed in Note 3 as required by new transactions and balances.

## EDEN EMPIRE INC.

### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited)

(Expressed in Canadian Dollars)

FOR THE NINE MONTHS ENDED APRIL 30, 2020 AND 2019

## 2. BASIS OF PREPARATION (cont'd...)

### Basis of consolidation and presentation

These condensed consolidated interim financial statements have been prepared on a historical cost basis, except for certain financial instruments measured at fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

The condensed consolidated interim financial statements include the accounts of the Company and its wholly owned subsidiaries:

Subsidiary	Date of Incorporation	Location
1194360 B.C. Ltd.	January 17, 2019	Canada
King Edward & Cambie Operations Ltd.	January 9, 2019	Canada
Peaceful Park Inc.	August 12, 2018	Canada
Eden Empire Ontario One Ltd.	April 28, 2020	Canada
Eden Empire US, Inc.	August 7, 2019	United States
Eden Empire Michigan, LLC	August 7, 2019	United States
Eden Empire Battle Creek RE, LLC	August 7, 2019	United States

All material intercompany transactions have been eliminated upon consolidation. A subsidiary is an entity over which the Company has control, where control indicates exposure or rights to variable returns and the ability to affect those returns through power over the investee.

### Use of judgments and estimates

The preparation of these condensed consolidated interim financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported expenses during the period. Actual results could differ from these estimates.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Accounting estimates will, by definition, seldom equal the actual results. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The key areas of judgment applied in the preparation of the condensed consolidated interim financial statements that could result in a material adjustment to the carrying amounts of assets and liabilities are as follows:

- Going concern

The assessment of the Company's ability to continue as a going concern and to raise sufficient funds to pay its ongoing operation expenditures and to meet its liabilities for the ensuing year, involves significant judgment based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

- Deferred income tax

The value of deferred tax assets is evaluated based on the probability of realization; the Company has assessed that it is improbable that such assets will be realized and has accordingly not recognized a value for deferred taxes.

- Right-of-use assets and lease liability

The Company applies judgement in determining whether the contract contains an identified asset, whether they have the right to control the asset, and the lease term. The lease term is based on considering facts and circumstances, both qualitative and quantitative, that can create an economic incentive to exercise renewal options. Management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option.

## **EDEN EMPIRE INC.**

### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited)

(Expressed in Canadian Dollars)

**FOR THE NINE MONTHS ENDED APRIL 30, 2020 AND 2019**

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## **2. BASIS OF PREPARATION (cont'd...)**

### **Use of judgments and estimates (cont'd...)**

- Business combinations

Judgment is used in determining whether an acquisition is a business combination or an asset acquisition.

The key areas of estimates applied in the preparation of the condensed consolidated interim financial statements that could result in a material adjustment to the carrying amounts of assets and liabilities are as follows:

- Intangible assets – impairment

The application of the Company's accounting policy for intangible assets requires judgment in determining whether it is likely that future economic benefits will flow to the Company, which may be based on assumptions about future events or circumstances. The calculations for impairment testing of the Company's indefinite life intangible assets involve significant estimates and assumptions. Items estimated include cash flows, discount rates and assumptions on revenue growth rates. These estimates could affect the Company's future results if the current estimates of future performance and fair values change. Judgment is also exercised to determine whether an indication of impairment is present that would require the completion of an impairment test in addition to the annual testing.

- Right-of-use assets and lease liability

The Company uses estimation in determining the incremental borrowing rate used to measure the lease liability, specific to the asset, underlying currency, and geographic location. Where the rate implicit in the lease is not readily determinable, the discount rate of the lease obligations are estimated using a discount rate similar to the Company's specific borrowing rate. This rate represents the rate that the Company would incur to obtain the funds necessary to purchase the asset of a similar value, with similar payment terms and security in a similar environment.

- Convertible debentures

The valuation of convertible debentures at inception requires management to make estimates with respect to borrowing rates.

- Share-based payments and compensation

The Company applies estimates with respect to the valuation of shares issued for non-cash consideration. Shares are valued at the fair value of the equity instruments granted at the date the Company receives the goods or services for share-based payments made to those other than employees or others providing similar services. As a private entity, the Company relies on concurrent or recent financings to provide guidance with respect to prevailing share prices.

The Company measures the cost of equity-settled transactions by reference to the fair value of the equity instruments at the date at which they are granted for share-based payments made to employees or others providing similar services. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the fair value of the underlying common shares, the expected life of the share option or warrant, volatility and dividend yield and making assumptions about them.

## **3. SIGNIFICANT ACCOUNTING POLICIES**

### **Currency Translation**

IFRS requires that the functional currency of each entity in the consolidated group be determined separately in accordance with the indicators as per International Accounting Standards ("IAS") 21 *The Effects of Changes in Foreign Exchange Rates* and should be measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of the Company and its Canada-domiciled subsidiaries is the Canadian dollar; subsidiaries domiciled in the US have a US dollar functional currency. The condensed consolidated interim financial statements are presented in Canadian dollars, which is the Company's presentation currency.



## EDEN EMPIRE INC.

### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited)

(Expressed in Canadian Dollars)

**FOR THE NINE MONTHS ENDED APRIL 30, 2020 AND 2019**

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#### 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

##### Currency Translation (cont'd...)

Under IFRS, the results and financial position of all the Company's entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities are translated at the closing rate at the date of the condensed consolidated interim statement of financial position;
- income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the date of the transaction); and
- all resulting exchange differences are recognized as a separate component of equity.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the exchange rate at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

##### Inventory

Inventory is recorded at the lower of cost and net realizable value. Cost is determined using the weighted average cost method. Net realizable value is the estimated selling price in the ordinary course of business, less selling expenses.

All inventories are periodically reviewed for impairment due to slow-moving and obsolete inventory. Provisions for obsolete, slow-moving or defective inventories are recognized in profit or loss. Previous write-downs to net realizable value are reversed to the extent there is a subsequent increase in the net realizable value of the inventories.

##### Property and equipment

Property and equipment are recorded at cost less accumulated depreciation and accumulated impairment losses. Depreciation is recorded using the straight-line method and is intended to depreciate the costs of assets over their estimated useful life:

Office furniture	5 years
Right-of-use assets	Over underlying lease term
Leasehold improvements	Over underlying lease term

##### Investment property

Investment property comprises a building and land owned by the Company and leased to third parties under operating leases. The Company applies the cost model to its investment property whereby the initial recognition value includes the purchase price and transaction costs of the property. The value of the investment property is largely attributable to the land with the building at a nominal value until refurbishments are completed.

#### 4. ACQUISITION OF 1194360 B.C. LTD.

As described in Note 1, the Company acquired 1194360. For accounting purposes, the acquisition is considered to be outside the scope of IFRS 3 – *Business Combinations* ("IFRS 3") since 1194360, prior to acquisition, did not constitute a business. The transaction is accounted for in accordance with IFRS 2 – *Share-based payments* whereby the Company is deemed to have issued shares in exchange for the net assets of 1194360 together with any reverse takeover transaction costs at the fair value of the consideration received.

As a result of this transaction, a reverse takeover transaction cost of \$277,413 has been recorded. This reflects the difference between the estimated fair value of the Eden Empire's shares deemed to have been issued to the Company's shareholders, plus transaction costs incurred, less the net fair value of the assets acquired.

**EDEN EMPIRE INC.**

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited)

(Expressed in Canadian Dollars)

**FOR THE NINE MONTHS ENDED APRIL 30, 2020 AND 2019****4. ACQUISITION OF 1194360 B.C. LTD. (cont'd...)**

In accordance with reverse acquisition accounting:

- i) The assets and liabilities of 1194360 are included in the statement of financial position at their carrying values.
- ii) The net liabilities of the Company are included at their fair value of \$181,012.

Fair value of share based consideration allocated:

Deemed issuance of 1 common share	\$	1
Special warrants		23,625
		<u>23,626</u>
Identifiable net assets acquired:		
Cash and cash equivalent		389,862
Amounts receivable		11,555
Bridge loan		109,056
Accounts payable		(73,985)
Convertible debentures		(300,000)
Share subscriptions received		<u>(317,500)</u>
		<u>(181,011)</u>
Transaction costs		(72,776)
<b>Total RTO expense</b>	<b>\$</b>	<b>277,413</b>

**5. INVENTORY**

<b>Inventory</b>	<b>April 30, 2020</b>	<b>July 31, 2019</b>
Finished goods	\$ 27,312	\$ -
<b>Balance, end of period</b>	<b>\$ 27,312</b>	<b>\$ -</b>

Inventory consists of branded promotional materials for sale.

**6. PROMISSORY NOTE**

In the period ended April 30, 2020, the Company provided a promissory note ("Promissory Note") of \$391,137 to a private entity in St. Vincent & the Grenadines for the purpose of applying for one or more licenses in that jurisdiction. The promissory note is unsecured, accrues interest at a rate of 1% per annum and is payable on demand after March 1, 2021. The Company recognized interest income of \$707 (2019 - \$Nil) in the nine months ended April 30, 2020.

**7. ACQUISITION OF B.C. DISPENSARIES**

On May 16, 2019, as amended March 13, 2020, the Company entered into an agreement to acquire all of the issued and outstanding common shares of seven private companies, each holding a retail lease for a dispensary location, from 1175579 B.C. Ltd. ("1175579"), a private company. Each lease holding company is identified as a "Retail Subsidiary".

Pursuant to the agreement, the Company will acquire the Retail Subsidiaries from 1175579 upon the issuance of a license to operate a private non-medical cannabis retail store under the Cannabis Control and Licensing Act ("License"). Each Retail Subsidiary will be acquired for \$65,000 payable in the form of cash or common shares at a price of \$0.30, escalating to \$0.90 over 6 months following a Retail Subsidiary acquisition (at a rate of \$0.10 per month), per share at the option of 1175579 and an amount not exceeding \$15,000 for expenses in connection with certain allowable expenses incurred by 1175579 B.C. Ltd. in connection with the Retail Subsidiary. Four of the seven Retail Subsidiaries are subject to a cash payment of \$350,000 on acquisition. Should a Retail Subsidiary not be successful in obtaining a License, the Company will not be required to purchase that entity.

## **EDEN EMPIRE INC.**

### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited)

(Expressed in Canadian Dollars)

**FOR THE NINE MONTHS ENDED APRIL 30, 2020 AND 2019**

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#### **7. ACQUISITION OF B.C. DISPENSARIES (cont'd...)**

Additionally, on execution of the agreement, the Company extended a bridge loan to 1175579 for the general working capital purposes to pursue Licenses and maintain operations of the Retail Subsidiaries ("Bridge Loan"). The Bridge Loan has a facility of up to \$1,100,000, which is advanced as and when needed, is subject to an interest rate of 8% and matures on June 30, 2021. At the date the Company acquires each Retail Subsidiary, the Company will forgive all accrued and unpaid interest on the Bridge Loan. The Bridge Loan is repayable in cash or in common shares of 1175579 B.C. Ltd. at the discretion of the 1175579. The Bridge Loan is secured by a general security agreement over the assets of 1175579.

In the event that 1175579 B.C. Ltd. requires further capital loans for the operations of the Retail Subsidiaries, 1175579 B.C. Ltd. will issue a request to the Company for funds under substantially the same terms as the Bridge Loan. If the Company declines to provide additional funds, 1175579 B.C. Ltd. will have the right to obtain external debt or capital financing.

As at April 30, 2020, the Company had advanced \$750,062 (July 31, 2019 - \$457,712) under the Bridge Loan and accrued interest of \$42,033 (July 31, 2019 - \$7,545). The Company has not acquired any Retail Subsidiary as at April 30, 2020.

#### **8. OPTION AGREEMENT**

##### *Option Agreement for the Acquisition of Actium Botanicals*

On October 7, 2019, the Company entered into an option agreement (the "Michigan Option") to purchase all of the issued and outstanding shares of Actium Botanicals, Incorporated ("Actium"). Actium is in the process of applying for facility licenses at two locations: its Battle Creek facility and its Stronach facility in Michigan, USA. Pursuant to the Actium Option, the seller agrees to use reasonable best efforts for Actium to obtain the required licenses, consents and approvals to initiate the operations of the facilities.

The Company paid a non-refundable deposit of USD\$20,000 with respect to the Michigan Option, which may be applied against future payments due under the option. The Michigan Option is valid for a period of one year, and may be extended for up to one year at the cost of US\$8,333 for each month extended.

As the purchase price for the Michigan Option, the Company shall make payments in an amount equal to 4% of the amount of all gross receipts received by Actium at the Battle Creek and Stronach facilities, due within 45 days after each calendar quarter. The Company may terminate its obligation to make payments on gross receipts by making a one-time payment of US\$5,000,000.

The Michigan Option provides that, concurrently with its execution, the Company and Actium will enter into a service agreement and a lease for the real estate owned by Actium and an affiliate of the vendor, on which the Stronach Facility is situated. Pursuant to the service agreement, the Company will provide certain services to support Actium's operation of the Battle Creek and Stronach facilities prior any exercise of the Michigan Option.

#### **9. LEASE INDUCEMENTS**

##### *King Edward & Cambie Operations Ltd.*

On August 21, 2019, entered into a lease agreement for a retail space through its wholly-owned subsidiary King Edward & Cambie Operations Ltd. ("Cambie"). The lease is for a period of 5 years, subject to extension. The Company will pay a monthly rent charge of \$20,000 for the initial 5 years. Additionally, the Company must pay 3% of the gross sales of all goods or products legally sold from the leased premises up to \$5,000,000 annually. The Company must also pay \$110,000 in four non-refundable payments upon satisfaction of the following conditions:

- a) \$20,000 upon acceptance of the lease offer (paid);
- b) \$30,000 upon execution of the lease (paid);
- c) \$30,000 on the date the Company obtains a development permit and the building permit from the City of Vancouver in order to use the premises for cannabis (paid); and
- d) \$30,000 on the date the Company obtains a conditional cannabis permit issued by the applicable governmental authorities having jurisdiction over the sale of cannabis with respect to the premises.

**EDEN EMPIRE INC.**

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited)

(Expressed in Canadian Dollars)

**FOR THE NINE MONTHS ENDED APRIL 30, 2020 AND 2019****9. LEASE INDUCEMENTS (cont'd...)**

As at April 30, 2020, the Company does not have use of the premise and accordingly has not recognized a right-of-use asset. Furthermore, payments under the lease agreement have not begun pending receipt of the conditional cannabis permit. Payments totaling \$80,000 to hold the lease agreement are recorded as lease inducements as at April 30, 2020.

**10. PROPERTY AND EQUIPMENT**

	Office equipment	Investment property	Right-of-use assets	Leasehold improvements	Total
<b>Cost</b>					
Balance, July 31, 2018	\$ -	\$ -	\$ -	\$ -	\$ -
Additions	-	131,480	-	-	131,480
Balance, July 31, 2019	-	131,480	-	-	131,480
Additions	61,336	1,320,414	1,723,900	15,451	3,121,101
Disposal (Note 11)	-	-	(66,046)	-	(66,046)
Foreign exchange	-	58,569	-	-	58,569
Balance, April 30, 2020	\$ 61,336	\$ 1,510,463	\$ 1,657,854	\$ 15,451	\$ 3,245,104
<b>Accumulated Depreciation</b>					
Balance, July 31, 2019 and 2018	\$ -	\$ -	\$ -	\$ -	\$ -
Depreciation expense	6,134	-	153,799	1,246	161,179
Disposal (Note 11)	-	-	(20,101)	-	(20,101)
Foreign exchange	-	-	-	-	-
Balance, April 30, 2020	\$ 6,134	\$ -	\$ 133,698	\$ 1,246	\$ 141,078
<b>Net Book Value</b>					
Balance, July 31, 2019	\$ -	\$ 131,480	\$ -	\$ -	\$ 131,480
Balance, April 30, 2020	\$ 55,202	\$ 1,510,463	\$ 1,524,156	\$ 14,205	\$ 3,104,026

*Investment property*

In the nine months ended April 30, 2020, the Company completed the purchase of a building and contiguous land in Battle Creek, Michigan, US. The Company paid US\$995,000 and additional transaction costs of US\$90,884. The Company has a lease agreement on the property with Actium for the period of one year after which the Company will grant a month to month tenancy. Actium may use the property only for the operation of a provisioning center and/or cannabis retailer for which Actium has received all requisite licenses and permits from all relevant regulatory or governmental authorities and for no other purpose. No income was recognized with respect to the lease agreement in the nine months ended April 30, 2020. Actium will be required to pay rent once the premise is opened for operations.

**EDEN EMPIRE INC.**

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited)

(Expressed in Canadian Dollars)

**FOR THE NINE MONTHS ENDED APRIL 30, 2020 AND 2019****11. SALE OF SUBSIDIARY**

On March 30, 2020, the Company completed the sale of its wholly-owned subsidiary 4317 Fraser Street Operations Ltd. ("4317 Fraser"). The Company received \$1,010,000 in proceeds on the sale of the entity and paid a finder's fee of \$30,000 with respect to the transaction. The Company is entitled to additional proceeds contingent on certain revenue targets which may or may not be met by the purchaser. The contingent consideration has been valued at \$Nil as the ability of the purchaser to generate revenue on the entity's assets is uncertain.

**Disposal of 4317 Fraser**

Consideration	\$ 1,010,000
Finder's fee paid on transaction	(30,000)
	<u>980,000</u>
Net assets disposed	
Deposit	10,000
Right-of-use assets	45,945
Lease liability	(40,270)
	<u>15,675</u>
Gain on sale of subsidiary	<u>\$ 964,325</u>

**12. INTANGIBLE ASSETS**

The Eden IP and underlying trademarks have been assigned an indefinite useful life, as there is no foreseeable limit to the period over which the assets are expected to generate net cash inflows and the Company's intention is to continue to utilize these trade names for the foreseeable future.

<b>Cost</b>	
<b>Balance, April 30, 2020 and July 31, 2019</b>	<u>\$ 18,000</u>

**13. LEASE LIABILITIES****Lease liabilities**

<b>Balance, July 31, 2019 and 2018</b>	\$ -
Additions	1,655,523
Accrued finance expense	94,707
Lease payments	(164,192)
Disposal (Note 11)	(40,270)
<b>Balance, April 30, 2020</b>	<u>\$ 1,545,768</u>
Current	\$ 365,342
Long term	<u>\$ 1,180,426</u>

The Company has applied an incremental borrowing rate of 14%.

**EDEN EMPIRE INC.**

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited)

(Expressed in Canadian Dollars)

**FOR THE NINE MONTHS ENDED APRIL 30, 2020 AND 2019****13. LEASE LIABILITIES (cont'd...)**

The Company has the following lease commitments:

Lease commitments	Fiscal year 2020	Fiscal year 2021	Fiscal year 2022	Fiscal year 2023	Fiscal year 2024 and beyond
1674 Davie St.	\$ 105,000	\$ 426,000	\$ 438,000	\$ 450,000	\$ 696,000

In the event the Company receives a business license from the City of Vancouver, the Company will have to pay a success fee of \$120,000 to the landlord of the Davie property.

The Company has a five year lease at Cambie as detailed in Note 9. The annual lease payments of \$252,000 under the Cambie lease agreement will begin upon receipt of a conditional cannabis permit.

**14. CONVERTIBLE DEBENTURES**

In the year ended July 31, 2019, the Company issued convertible debentures for gross proceeds of \$5,904,000. The debentures accrue interest at a rate of 10%, payable in arrears on December 31<sup>st</sup> of each year, and mature 18 months from issuance. At the option of the holders, the debentures, and any accrued and unpaid interest, may be converted to common shares of the Company at a price of \$0.30 per common share. The debentures will be convertible upon the filing of a prospectus in Canada, becoming a reporting issuer in British Columbia, or similar liquidity transaction.

The Company has estimated that a similar borrowing without a conversion feature would be available to the Company at an interest rate of 14% per annum. The Company has discounted the convertible debentures to recognize the value of the conversion feature as \$325,893, reduced by a deferred income tax impact of \$153,967. The Company incurred other transaction costs of \$235,106 and issued brokers' warrants valued at \$9,248 (Note 15) which are being accreted over the term of the debentures.

Convertible debentures	April 30, 2020	July 31, 2019
Balance, beginning of period	\$ 5,522,450	\$ -
Proceeds on issuance	-	5,904,000
Equity feature	-	(325,893)
Transaction costs	-	(244,354)
Interest paid	(361,670)	-
Finance expense	728,587	188,696
<b>Balance, end of period</b>	<b>\$ 5,889,367</b>	<b>\$ 5,522,450</b>

## **EDEN EMPIRE INC.**

### **NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

(Unaudited)

(Expressed in Canadian Dollars)

**FOR THE NINE MONTHS ENDED APRIL 30, 2020 AND 2019**

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#### **15. SHARE CAPITAL AND RESERVES**

a) Authorized share capital

Unlimited number of common shares without par value.

Unlimited number of preferred shares without par value.

b) Issued share capital

There were no shares issued in the nine months ended April 30, 2020.

In the year ended July 31, 2019, the Company:

- i. Issued 45,000,000 common shares for the reverse takeover transaction to acquire the Eden IP (Note 4).
- ii. Completed a private placement of 10,000,000 units at a price of \$0.05 per unit for gross proceeds of \$500,000. Each unit is comprised of one common share and one-half of one share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share of the Company at an exercise price of \$0.15 for a period of two years. The Company incurred issuance costs of \$277,117 in connection with the financing.
- iii. Issued 472,500 common shares on the conversion of the special warrants (Note 15(c)).
- iv. Issued 5,000,000 common shares pursuant to the exercise of warrants for gross proceeds of \$750,000, of which \$101,250 was included in subscriptions receivable as at July 31, 2019 and received during the period ended April 30, 2020.
- v. Issued 4,750,000 common shares for consulting fees valued at \$262,500.

In the year ended July 31, 2018, the Company issued 200 common shares for the capitalization of 1160101 B.C. Ltd. which was subsequently amalgamated with DKBT Holdings Ltd. to become 1194360 B.C. Ltd.

c) Special Warrants

The Company assumed 472,500 special warrants with the RTO (Note 4). Special warrants automatically convert into common shares on a one for one basis upon the earlier of a prospectus document or June 21, 2019. The special warrants were converted into common shares of the Company on June 21, 2019. As at April 30, 2020 and July 31, 2019, there are no special warrants outstanding.

**EDEN EMPIRE INC.**

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited)

(Expressed in Canadian Dollars)

**FOR THE NINE MONTHS ENDED APRIL 30, 2020 AND 2019****15. SHARE CAPITAL AND RESERVES (cont'd...)**

## d) Warrants

Warrant transactions are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, July 31, 2018	-	\$ -
Issued	5,661,630	0.17
Exercised	(5,000,000)	0.15
<b>Balance outstanding, April 30, 2020 and July 31, 2019</b>	<b>661,630</b>	<b>\$ 0.30</b>

Warrants outstanding as at April 30, 2020:

	Number outstanding	Exercise price	Expiry date
<b>Warrants</b>	161,630	\$ 0.30	November 17, 2020
	500,000	0.30	May 31, 2021
	<u>661,630</u>		

As at April 30, 2020, the weighted average outstanding life of the Company's outstanding warrants is 0.95 years (July 31, 2019 – 1.71 years).

During the year ended July 31, 2019, the Company issued 661,630 brokers' and consultants' warrants with a weighted average fair value of \$0.07 per warrant. The Company recognized \$44,293 with respect to these warrants in reserves, of which \$9,248 was allocated to transaction costs for convertible debentures and \$35,045 was included in consulting fees in the statement of loss and comprehensive loss.

The following weighted average assumptions were used for the Black-Scholes option-pricing model valuation of brokers' warrants granted during the period:

	2020	2019
Grant date share price	\$ -	\$ 0.15
Risk-free interest rate	-	1.46%
Expected life of options	-	1.88 years
Expected annualized volatility	-	120.00%
Dividend rate	-	-

**16. RELATED PARTY TRANSACTIONS****Management Compensation**

Key management personnel comprise the Chairman, Chief Executive Officer, President & Chief Business Officer, Chief Financial Officer, and directors of the Company. The remuneration of the key management personnel during the nine months ended April 30, 2020 and 2019 is as follows:

<b>Payments to key management personnel</b>	<b>2020</b>	<b>2019</b>
Consulting fees paid to a company controlled by an officer	\$ 90,000	\$ -
Salaries paid to directors and officers of the Company	180,000	-

As at April 30, 2020, the Company had \$17,999 (July 31, 2019 - \$17,999) due to a significant shareholder included in accounts payable. All balances are unsecured, non-interest-bearing, have no fixed repayment terms and are due on demand.



**EDEN EMPIRE INC.**

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited)

(Expressed in Canadian Dollars)

**FOR THE NINE MONTHS ENDED APRIL 30, 2020 AND 2019****17. SEGMENTED INFORMATION**

The Company operates in one segment, being cannabis retail investment. The Company's non-current assets, other than financial instruments are located as follows:

Non-current assets	Canada	United States	Total
Option agreement	\$ -	\$ 27,820	\$ 27,820
Lease inducements	80,000	-	80,000
Property and equipment			
Office equipment	55,202	-	55,202
Investment property	-	1,510,463	1,510,463
Right-of-use assets	1,524,156	-	1,524,156
Leasehold improvements	14,205	-	14,205
Intangible assets	18,000	-	18,000
<b>Balance, April 30, 2020</b>	<b>\$ 1,691,563</b>	<b>\$ 1,538,283</b>	<b>\$ 3,229,846</b>

As at July 31, 2019, the Company's non-current assets were located in Canada.

**18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT****Financial instruments**

Cash and cash equivalents and accounts payable are carried at amortized cost. The Company considers that the carrying amount of these financial assets and liabilities measured at amortized cost to approximate their fair value due to the short-term nature of the financial instruments. The Company's Promissory Note (Note 6) and Bridge Loan (Note 7) are carried at fair value using level 3 inputs. The Company's convertible debentures are carried at amortized cost. The total principal and accrued interest outstanding to settle the convertible debentures as at April 30, 2020 is \$6,097,944. Lease liabilities are carried at amortized cost. Undiscounted lease commitments are disclosed in Note 13.

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

**Financial risk factors***Credit risk*

Credit risk is the risk of potential loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its liquid financial assets, including cash and cash equivalents and receivables. The Company limits exposure to credit risk on liquid financial assets through maintaining its cash and cash equivalents with high-credit quality financial institutions. As at April 30, 2020, the Company had cash equivalents of \$Nil (July 31, 2019 - \$200,000) in term deposits. The Company considers the risk of financial loss on cash and cash equivalents to be remote. The Company's receivables consist materially of GST input tax credits recoverable from the government of Canada. The Company considers credit risk with respect to these amounts to be low.

The Company's ability to collect on the Promissory Note and Bridge Loan is assessed on an ongoing basis by management. The Bridge Loan is secured by a general security agreement against the assets of 1175579 B.C. Ltd.

*Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at April 30, 2020, the Company had a working capital deficiency of \$5,103,261. The Company's financial liabilities mature within 30 days with the exception of the lease liabilities which are payable over several years (Note 13) and convertible debentures which are payable in periods ranging from seven to nine months (Note 14).

**EDEN EMPIRE INC.**

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited)

(Expressed in Canadian Dollars)

**FOR THE NINE MONTHS ENDED APRIL 30, 2020 AND 2019****18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd...)***Market risk*

Market risk is the risk of loss that may arise from changes in market factors, such as interest rates, foreign exchange rates, and commodity and equity prices. The Company does not have a practice of trading derivatives.

## a) Interest rate risk

The Company's financial asset exposed to interest rate risk consists of cash and cash equivalents. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. Management believes the interest rate risk is low given the current low global interest rate environment.

The interest rate applied to the Company's convertible debentures is fixed and reduces interest rate liability risk.

## b) Foreign currency risk

The Company holds an investment property (Note 10) and an option agreement (Note 8) in the United States. The investment in the US could increase the Company's exposure to foreign currency risk in the future.

As at April 30, 2020, the Company's net foreign denominated financial assets and liabilities are as follows:

	US Dollars
Cash	\$ 130,093
Accounts payable	<u>(146,204)</u>
	(16,111)
Equivalent in Canadian Dollars	<u>\$ (22,410)</u>

Based on the balances held as at April 30, 2020, a 10% increase (decrease) in the Canadian dollar to US dollar exchange rate on this date would have resulted in a decrease (increase) in the net loss for the period of approximately \$2,241.

**19. CAPITAL MANAGEMENT**

The Company's capital management policy is to maintain a strong but flexible capital structure that optimizes the cost of capital, creditor and market confidence while sustaining the future development of the business.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. The Company's capital structure includes shareholders' equity. In order to maintain or adjust the capital structure, the Company may from time to time issue shares, seek debt financing and adjust its capital spending to manage current and working capital requirements. The Company is not subject to externally imposed capital requirements.

## **EDEN EMPIRE INC.**

### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited)

(Expressed in Canadian Dollars)

**FOR THE NINE MONTHS ENDED APRIL 30, 2020 AND 2019**

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#### **20. SUBSEQUENT EVENTS**

##### *Amalgamation with Rosehearty Energy Inc.*

On May 14, 2020, Rosehearty Energy Inc. ("Rosehearty") acquired all issued and outstanding common shares of the Company by way of a three-cornered amalgamation, whereby a wholly-owned subsidiary of Rosehearty amalgamated with the Company ("Resulting Issuer") and the resulting issuer became a subsidiary of Rosehearty (the "Transaction"). Pursuant to the terms of the Transaction, all issued and outstanding common shares and share purchase warrants of the Company were exchanged for common shares and share purchase warrants of the Resulting Issuer on a one-for-one basis.

Rosehearty has applied to list (the "Listing") its common shares on the Canadian Securities Exchange (the "CSE") under the ticker symbol "EDEN", subject to meeting listing requirements and obtaining approval of the CSE. Upon obtaining conditional approval of the CSE for the Listing, the principal amount of the approximately \$5.9 million outstanding convertible debentures will be converted into common shares of the Company at a conversion price of \$0.30 resulting in 19,679,985 common shares being issued.

In connection with the Transaction, Rosehearty changed its name to Eden Empire Inc. The Transaction is an arm's length amalgamation and constituted a "reverse takeover" pursuant to the policies of the CSE.