Dated: November 30, 2020

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The following Management Discussion and Analysis ("MD&A") reports on the operating results, financial condition and business risks of Eden Empire Inc. (formerly Rosehearty Energy Inc.) ("Eden Empire" or the "Company") and is designed to help the reader understand the results of operations and financial condition of the Company as at and for the years ended July 31, 2020 and 2019. This MD&A should be read in conjunction with the Company's audited consolidated financial statements for the years ended July 31, 2020 and 2019 and the notes thereto which were prepared in accordance with IFRS as issued by the International Accounting Standard Board ("IASB") (the "Financial Statements"). Other information contained in these documents has also been prepared by management and is consistent with the data contained in the Financial Statements. All dollar amounts referred to in this MD&A are expressed in Canadian dollars except where indicated otherwise.

The Company's certifying officers, based on their knowledge, having exercised reasonable diligence, are also responsible to ensure that these filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by these filings. These Financial Statements together with the other financial information included in these filings fairly present in all material respects the financial condition, results of operations and cash flows of the Company, as of the date of and for the periods presented in this filing. The Board of Directors' approves the Financial Statements and MD&A and ensures that management has discharged its financial responsibilities. The Board's review is accomplished principally through the Audit Committee, which meets periodically to review all financial reports, prior to filing. The Board of Directors has approved the Financial Statements and MD&A, as well as ensured that management has discharged its financial responsibilities as at November 30, 2020.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION

This MD&A contains statements and information that, to the extent that they are not historical fact, may constitute "forward-looking information" within the meaning of applicable securities legislation. Forward-looking information may include financial and other projections, as well as statements regarding future plans, objectives or economic performance, or the assumptions underlying any of the foregoing. This MD&A uses words such as "may", "would", "could", "will", "likely", "except", "anticipate", "believe", "intend", "plan", "forecast", "project", "estimate", "outlook", "propose" and other similar expressions to identify forward-looking information. Examples of such statements include, but are not limited to, statements with respect to:

- the CSE and all matters relating to listing thereon;
- the proposed use of the net proceeds of any financing and available funds;
- the intended use of proceeds of any financing;
- the objectives and business plans of the Company;
- the share capital of the Company;
- the performance of the Company's business and operations;
- the Company's expectations regarding revenues, expenses and anticipated cash needs;
- the intention to grow the Company's business and operations;
- the Company's expectations to become a fully integrated cannabis product retailer company in Canada and the United States;
- the Company's ability to enter new markets in Canada, the United States and internationally;
- the regulation of the cannabis industry including, but not limited to, the federal, provincial, state and municipal laws and regulations relating to the sale of medical and recreational cannabis in Canada and the United States, including those relating to taxation, supply and distribution;
- the ability of the Company to attract qualified franchisees, and the ability of qualified franchisees to successfully finance, open (including obtaining a license and suitable location) and operate retail outlets;
- the competitive conditions of the industries in which the Company operates;
- the expected timing and completion of the Company's near-term objectives;
- laws and any amendments thereto applicable to the Company and its franchisees;
- the ability of the Company to obtain any required licenses or regulatory approvals;
- the competitive advantages, business strategies and future business plans of the Company;
- the Company's future product offerings;
- the ability of the Company to protect its intellectual property rights;
- the future exercise of the Michigan Option;

- the proposed opening of cannabis retail operations;
- the anticipated franchise fees and royalties to be received from franchises; and
- the use of traditional media marketing and the conducting of a public relations campaign by the Company and its subsidiaries.

Forward-looking information is based on the reasonable assumptions, estimates, analysis and opinions of management made in light of its experience and its perception of trends, current conditions and expected developments, as well as other factors that management believes to be relevant and reasonable in the circumstances at the date that such statements are made, but which may prove to be incorrect. The material factors and assumptions used to develop the forward-looking statements contained in this MD&A include the Company's ability to obtain regulatory approvals in a timely manner, the Company's ability to obtain listing approval from the CSE, key personnel and qualified employees continuing their employment with the Company, and the Company's ability to secure new financing.

Forward-looking information involves known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company to differ materially from any future results, performance or achievements expressed or implied by the forward-looking information, including risks relating to the future business plans of the Company. Accordingly, readers should not place undue reliance on any such forward-looking information. Further, any forward-looking statement speaks only as of the date on which such statement is made. New factors emerge from time to time, and it is not possible for the Company's management to predict all of such factors and to assess in advance the impact of each such factor on the Company's business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. The Company does not undertake any obligation to update any forward-looking information to reflect information or events after the date hereof or to reflect the occurrence of unanticipated events, except as required by law including securities laws.

CORPORATE OVERVIEW

Eden Empire Inc. (formerly Rosehearty Energy Inc.) ("Eden Empire" or the "Company") was incorporated in the Province of Ontario on September 1, 2000 under the name Phoenix Matachewan Mines Inc. Effective December 30, 2008, the Company changed its name to Galahad Metals Inc., effective July 31, 2014, changed its name to Rosehearty Energy Inc. and effective May 14, 2020, changed its name to Eden Empire Inc. and continued into the Province of British Columbia. The records office of the Company is located at 408 – 150 24th Street, West Vancouver, British Columbia, V7V 4G8.

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.

Reverse Takeovers

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 consolidated financial statements include its assets and liabilities and operations. The Company's results of operations are included from April 18, 2019 onwards.

On May 14, 2020, the Company completed a reverse takeover transaction ("Eden RTO") whereby the Company, amalgamated with a wholly-owned subsidiary of the Company ("Subco") and the shareholders and option holders of Eden Empire Inc.(predecessor) received corresponding securities of the Company (post amalgamated) on a 1:1 basis. Upon completion of the Eden RTO, the shareholders of Eden Empire Inc (predecessor) obtained control of the consolidated entity. In applying acquisition accounting to a reverse acquisition, Eden Empire Inc. (predecessor) was identified as the accounting acquirer, and, accordingly, Eden Empire Inc. (formerly Rosehearty Energy (Inc.) is considered to be a continuation of Eden Empire Inc. (predecessor), with the net assets of the Company at the date of the Eden RTO deemed to have been acquired by Eden Empire Inc. (predecessor). The Company continued under the name of Eden Empire Inc. following the completion of the Eden RTO.

As Eden Empire Inc.(predecessor) is deemed to be the acquirer for accounting purposes, these consolidated financial statements include its assets and liabilities and operations. The Company's results of operations are included from May 14, 2020 onwards.

B.C Dispensaries

On May 16, 2019, as amended March 13, 2020, the Company entered into an agreement to acquire 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 B.C."), a private company. Each lease holding company is identified individually as a "Retail Subsidiary" and, collectively, the "Retail Subsidiaries".

Pursuant to the agreement, the Company will acquire a Retail Subsidiary from 1175579 B.C. 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, per share at the option of 1175579 B.C. and an amount not exceeding $15,000 for expenses in connection with certain allowable expenses incurred by 1175579 B.C. 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.

Additionally, on execution of the agreement, the Company extended a bridge loan to 1175579 B.C. 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 $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 as at that date. The Bridge Loan is repayable in cash or in common shares of 1175579 B.C. Ltd. at the discretion of the 1175579 B.C. Ltd. The Bridge Loan is secured by a general security agreement over the assets of 1175579 B.C. Ltd.

In the event that 1175579 B.C. Ltd. requires further capital loans for the operations of the Retail Subsidiaries, 1175579 B.C. 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. will have the right to obtain external debt or capital financing.

As at July 31, 2020, the Company had advanced $842,065 (2019 - $457,712) under the Bridge Loan and accrued interest of $57,896 (2019 - $7,545). The Company has not acquired any Retail Subsidiary as at July 31, 2020. As at July 31, 2020, the Company has recorded an allowance for the interest receivable on the bridge loan of $57,896.

Subsequent to the year ended July 31, 2020, the Company entered into agreement with 1175579 which permitted a Retail Subsidiary to dispose of substantially all of its assets for proceeds of $750,000. The proceeds will be paid to the Company over the period of 10 months beginning at the earlier of receiving a retail license for the Retail Subsidiary or February 15, 2021. As party to the agreement, the Company will discharge associated legal fees, the payment of $65,000 and pay the cash consideration of $350,000 within 14 months of closing which would be due on the purchase of a Retail Subsidiary (Note 8).

1674 Davie Street, Vancouver, BC

On August 1, 2019, the Company entered into a lease agreement for retail space at 1674 Davie Street, Vancouver, BC through their wholly owned subsidiary, Peaceful Park Inc., contemplated to be a five-year term at an annual rent ranging from $180,000 in the first year to $228,000 in the fifth year.

King Edward & Cambie Operations Ltd.

On August 21, 2019, the Company incorporated its wholly-owned subsidiary King Edward & Cambie Operations Ltd. which in turn entered into a lease agreement for a retail space. 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.

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 Stronach facility in Michigan, USA. Pursuant to the Actium Option, the vendor 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 $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 an additional year at the cost of US$1,666.67 for each month extended.

As the purchase price for the Michigan Option, and until such time as the Company makes the Option Termination Payment, the Company shall make payments in an amount equal to 4% of the amount of all gross receipts actually received by Actium at the Battle Creek and Stronach facilities, due within 45 days after each calendar quarter, until payment of the Option Termination Payment. The "Option Termination Payment" is a one-time payment to the vendor 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 (the "Stronach Lease"). 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.

Battle Creek Investment Property Purchase

In the year ended July 31, 2020, the Company completed the purchase of a building and contiguous land in Battle Creek, Michigan, US for investment purposes. The Company paid US$995,000 and additional transaction costs of US$90,884.

Sale of 4317 Fraser Street Operations Ltd.

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 sole asset of 4317 Fraser was a right-of-use asset with respect to a lease agreement for retail space at 4317 Fraser Street, Vancouver, BC.

Promissory note

On March 1, 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. As at July 31, 2020, the Company recorded an allowance for the promissory note receivable of $392,830 to write down the fair value of the promissory note to $Nil.

Settlement of 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 31st 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 are convertible into common shares upon the filing of a prospectus in Canada, becoming a reporting issuer in British Columbia, or similar liquidity transaction.

During the year ended July 31, 2020, $5,904,000 of convertible debentures, plus interest accrued thereon in the amount of $330,212, were converted in exchange for 20,779,952 common shares of the Company.

OUTLOOK

The Company's current goal is to become one of the largest and most prominent cannabis companies in the world by expanding its cannabis business operations in Canada, the United States and internationally where permitted by law. The Company intends to accomplish this goal through organic growth and expansion, including acquisitions to allow it to grow vertically, horizontally and to increase market share. The Company intends to make acquisitions and investments in other entities for the strategic growth of its business operations.

The Company intends to grow domestically and potentially enter new markets such as the U.S. and Internationally. As of the date of this MD&A, the Company is assessing several jurisdictions in which it intends to pursue licencing for cannabis cultivation, processing and retail sales activities.

Given the rapidly evolving regulatory landscape in relation to the deregulation of cannabis for medical and adult recreational use, the Company's plans with respect to future acquisitions or investments are not definitive as the Company needs to maintain agility to quickly react to new opportunities if, as and when they become available.

Consequently, the Company will continue to evaluate such opportunities as the regulatory landscape evolves and will consider strategic investments in third parties or acquisitions that allow the Company to enter into new markets, and the direction that the Company takes with respect to such investments and acquisitions is partly dependent on the regulatory landscape and the opportunities available at that time.

COVID-19

In December 2019, a novel strain of coronavirus, COVID-19, was reported to have surfaced in Wuhan, China. Since then, COVID-19 has spread to multiple countries, including the United States, Canada, and all European countries. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. COVID-19 has had a broad adverse impact on the global economy across many industries and has resulted in significant governmental measures being implemented to control the spread of the virus, including quarantines, travel restrictions and business shutdowns, as well as significant volatility in global financial markets. Although COVID-19 has not yet had any material impact on our business, operations or financial condition, there can be no assurances that it will not have an impact on our business, operations or financial condition going forward.

SELECTED ANNUAL INFORMATION

The Company provides the following annual information for the historic periods to be presented pursuant to accounting for a Reverse Takeover. The financial information reflects the historic results of Eden Empire Inc. (formerly Rosehearthy Energy Inc.), and its predecessor entities Eden Empire Inc. (predecessor), as a continuing entity as if they had been operating as a consolidated entity from an inception date of September 1, 2000. The financial operations of Eden Empire Inc. (formerly Rosehearthy Energy Inc.) are consolidated as of the RTO date of May 14, 2020.

		July 31, 2020		**July 31, 2019**		**July 31, 2018**
						(Unaudited)
Loss and comprehensive loss	$	(4,798,343)	$	(1,573,960)	$	-
Loss per share	$	(0.07)	$	(0.08)	$	-
Total assets	$	4,766,750	$	5,842,293	$	18,002
Total liabilities	$	2,135,525	$	5,897,350	$	17,999

Summary of Quarterly Results

Prior to becoming a reporting issuer, the Company did not prepare quarterly financial statements; therefore, no quarterly financial information is available.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED JULY 31, 2020 and 2019 (Fourth Quarter)

		Three months ended July 31, 2020		Three months ended July 31, 2019
		(Unaudited)		(Unaudited)
Net loss	$	(2,818,726)	$	(1,024,498)
Comprehensive loss	$	(2,881,618)	$	(1,024,498)
Loss per share	$	0.03	$	-
Total assets	$	4,766,750	$	5,842,293
Total liabilities	$	2,135,525	$	5,897,350

The Company reported a net loss of $2,818,726 in the three months ended July 31, 2020 compared to a net loss of $1,024,498 for the three months ended July 30, 2019. The Company has been working to assemble a team capable of delivering its business model, identifying retail lease opportunities and moving its intended operations through the licensing process toward retail cannabis operations.

In the three months ended July 31, 2020, the Company worked to complete the Eden RTO with Rosehearty and Subco. In the three months ended July 31, 2019, the Company was working to assemble a team capable of delivering its business model, identifying retail lease opportunities and moving its intended operations through the licensing process toward retail cannabis operations. In the three months ended July 31, 2019, the Company began expenditures to structure and launch its intended operations.

Accounting and legal expense of $187,139 (2019 - $408,062) was incurred to perform due diligence and legal structuring on potential cannabis retail sites as well as the corporate affairs of the Company. Consulting fees of $179,998 (2019 - $102,492) relate to ongoing engaged personnel to pursue retail site opportunities and licensing applications. Investor relations expense of $15,816 (2019 - $135,299) was higher in the previous period as the Company initiated investor outreach work as well as brand management work to maintain and promote the Eden IP. Salaries of $201,351 (2019 - $115,264) were incurred for onboarded staff in the fourth quarter of fiscal 2019 to manage the licensing processes and future operations.

The Company incurred property costs of $150,621 (2019 - $Nil) to pursue and maintain potential operating locations, most significantly the Battle Creek property in Michigan.

Finance expense of $198,929 (2019 - $188,696) relates to the accretion of transaction costs on the convertible debentures and accrued coupon interest in the period which decreased following the settlement of the outstanding convertible debentures. Additionally, the Company incurred an allowance against amounts receivable of $450,726 for the promissory note and interest receivable on the Bridge Loan.

RESULTS OF OPERATIONS FOR THE YEARS ENDED JULY 31, 2020 AND 2019

In the year ended July 31, 2020, the Company built upon its foundations to expand investment opportunities and additional retail locations. Accounting and legal expense of $631,014 (2019 - $408,062) was incurred to perform due diligence and legal structuring on potential cannabis retail sites as well as the corporate affairs of the Company. Consulting fees of $342,738 (2019 - $351,992) includes regularly retained industry specialists to support and expand the Company’s locations and support services to location partners. In the prior period, the amount included the issuance of common shares valued at $262,500 to incentivize corporate advisors and additional cash amounts to compensate industry consultants. Management fees of $120,000 (2019 - $Nil) were paid to the CFO.

Investor relations expense of $352,994 (2019 - $135,299) included investor outreach work as well as brand management work to maintain and promote the Eden IP. Salaries of $714,714 (2019 - $115,264) were incurred for onboarded staff to manage the licensing processes and building operations and included CEO and President compensation.

The Company incurred prospective location costs of $382,282 (2019 - $150,017) in the due diligence and exploratory period for prospective cannabis retail spaces that will not be pursued in the future. The Company will continue to work to identify cannabis retail spaces which have a reasonable path to commercial success. In the current period, the Company expended $191,255 (2019 - $Nil) in licenses and applications for locations which are being actively pursued for licenses. The Company received $285,050 (2019 - $Nil) in recoveries in costs on prospective locations which had not been successful.

Interest, accretion and bank charges expense of $1,024,419 (2019 - $188,696) relates to the accretion of transaction costs on the convertible debentures and accrued coupon interest in the period.

In the year ended July 31, 2020, the Company recognized a gain on sale of $964,325 (2019 - $Nil) from the sale of its subsidiary 4317 Fraser for proceeds of $1,010,000.

In the year ended July 31, 2020, the Company recognized an RTO expense of $1,306,349 (2019 - $277,413) for non-cash valuations with respect to the reverse takeover transactions with Rosehearty and 1194360 BC Ltd. respectively. Additionally, the Company incurred an allowance against amounts receivable of $450,726 for the promissory note and interest receivable on the Bridge Loan.

LIQUIDITY AND CAPITAL RESOUCES

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 of $2,631,225 (2019 – deficiency of $54,427). 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.

As at July 31, 2020, the Company had cash and cash equivalent resources of $688,346 (2019 - $5,100,297). As the Company began significant operations in the fourth quarter of 2019, operating cash outflows increased to $2,623,373 (2019 - $873,254). Results of operations are discussed above.

In the year ended July 31, 2020, the Company had cash outflows of $1,373,965 (2019 -$95,029) with respect to investing activities. The Company continued to provide funds to 1175579 B.C. to maintain operations under the Bridge Loan as the potential retail locations work through the licensing process of $384,353 (2019 - $348,656). The Company purchased the Battle Creek property for $1,327,211, purchased property and equipment of $145,165, and lease inducements of $80,000. The Company also sold its Fraser Street subsidiary for $1,010,000 less a finder’s fee of $30,000 on the transaction. The Company received $825 (2019 - $389,862) for the RTO completed in the year.

In the year ended July 31, 2020, the Company used cash of $414,612 in financing activities. The Company paid $361,670 for interest on convertible debentures and paid $199,192 in lease payments. The Company received funds of $40,000 on a CEBA loan from the government of Canada, $5,000 on the issuance of common shares and $101,250 on the exercise of warrants. In the year ended July 31, 2019, the Company received proceeds of $5,604,000 for convertible debentures (transaction costs of $235,106), $182,500 for the issuance of common share units and $648,750 for the exercise of warrants. There were issuance costs of $131,564 for capital transactions.

The Company will need additional financing as it works toward a fully realized business model. Such financing may be made through the issuance of common shares and/or additional debt. There is no guarantee that financing will be available or available on reasonable terms.

OFF-BALANCE SHEET ARRANGEMENTS

The Company currently has no off-balance sheet arrangements.

RELATED PARTY TRANSACTION AND BALANCES

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 is as follows:

Payments to key management personnel		Year ended July 31, 2020		Year ended July 31, 2019
Consulting fees paid to a company controlled by the CFO	$	120,000	$	30,000
Salaries paid to directors and officers of the Company		240,000		47,141

During the year ended July 31, 2020, the Company issued 500,000 common shares valued at $150,000 (2019 - $Nil) as bonus compensation to an employee of the Company who is also a relative of an officer of the Company.

As at July 31, 2020, the Company had $17,999 (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.

PROPOSED TRANSACTIONS

The Company does not have any proposed transactions other than as disclosed elsewhere in this document.

COMMITMENTS

The Company has the following lease commitments:

Lease commitments		Fiscal year 2021		Fiscal year 2022		Fiscal year 2023		Fiscal year 2024		Fiscal year 2025 and beyond
1674 Davie St.	$	426,000	$	438,000	$	450,000	$	462,000	$	234,000
2230 McPhilips St.		41,339		55,118		55,118		55,118		68,898
	$	467,339	$	493,118	$	505,118	$	517,118	$	302,898

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.

On July 20, 2020, the Company signed a five year lease at McPhilips street in Winnipeg, Manitoba commencing September 1, 2020. The Company has the option to renew for two five year periods.

The Company has a five year lease at Cambie as detailed in Note 10 in the consolidated financial statements. The annual lease payments of $252,000 under the Cambie lease agreement will begin upon receipt of a conditional cannabis permit.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the consolidated 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 consolidated 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.

- 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 consolidated 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 has applied 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.

ADOPTION OF NEW ACCOUNTING STANDARDS

The consolidated financial statements for the year ended July 31, 2019 contain a detailed listing of the Company's standard accounting policies. The Company has adopted recent and prominent IFRS standards since inception, as applicable; specifically: IFRS 9 – *Financial instruments*; IFRS 15 – *Revenue from contracts with customers* and IFRS 16 – *Leases*.

FINANCIAL INSTRUMENTS

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 and Bridge Loan 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 July 31, 2020 is $Nil. Lease liabilities are carried at amortized cost. Undiscounted lease commitments are disclosed above.

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 July 31, 2020, the Company had cash equivalents of $Nil (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 July 31, 2020, the Company had a working capital of $7,257. The Company's financial liabilities mature within 30 days with the exception of the lease liabilities which are payable over several years.

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 currently holds the Battle Creek investment property and the Michigan Option agreement in the United States. The investment in the US could increase the Company's exposure to foreign currency risk in the future.

As at July 31, 2020, the Company's net foreign denominated financial assets and liabilities are as follows:

		US Dollars
Cash	$	11,363
Accounts payable		(146,982)
		(131,619)
Equivalent in Canadian Dollars	$	(176,422)

Based on the balances held as at July 31, 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 $17,642.

SHARE CAPITAL

Authorized:

Unlimited number of common shares without par value.
Unlimited number of preferred shares without par value.

Issued and outstanding:

The Company has 90,292,546 common shares outstanding as at the date of this MD&A.

The Company has 1,672,796 warrants outstanding and exercisable as at the date of this MD&A with a weighted average exercise price of $0.48 and subject to accelerated expiry provisions pursuant to a definitive agreement to a going public opportunity.

Share capital transactions in the years ended July 31, 2020 and 2019:

In the year ended July 31, 2020, the Company:

a) Issued 3,690,094 common shares for the Eden RTO.

b) Issued 20,779,952 common shares on the conversion of debentures.

c) Issued 500,000 common shares for consulting fees valued at $150,000.

d) Issued 100,000 common shares for proceeds of $5,000.

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

a) Issued 45,000,000 common shares for the Reverse Takeover transaction to acquire the Eden IP.

b) 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 $131,564 in connection with the financing.

c) Issued 472,500 common shares on the conversion of the Special Warrants. 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.

d) 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 subsequent to year end.

e) Issued 4,750,000 common shares for consulting fees valued at $262,500.

RISKS AND UNCERTAINTIES

Due to the nature of Eden Empire’s business, Eden Empire may be subject to significant risks. Readers should carefully consider all such risks, including those set out in the discussion below. Eden Empire’s actual performance and operating results may be very different from those expected as at the date of this MD&A. Furthermore, if Eden Empire is unable to adequately address these and other risks, Eden Empire’s business, financial condition, operating results or prospects may be adversely affected.

Cannabis remains illegal under U.S. federal law

Cannabis is a Schedule I controlled substance and is illegal under federal U.S. law. The United States federal government regulates drugs through the CSA, which places controlled substances, including marijuana, on one of five schedules. Marijuana is currently classified as a Schedule I controlled substance, which is viewed as having a high potential for abuse and having no currently accepted medical use in treatment in the United States. Since federal law criminalizing the use of marijuana pre-empts state laws that legalize its use, strict enforcement of federal law regarding marijuana would harm Eden Empire’s business, prospects, results of operation, and financial condition.

Federal regulation of cannabis in the United States

Unlike in Canada which has federal legislation uniformly governing the cultivation, distribution, sale and possession of medical cannabis under the Cannabis Act (Canada), investors are cautioned that in the United States, cannabis is illegal under federal law and is largely regulated at the state level. To date, a total of 33 states, plus the District of Columbia, have legalized cannabis in some form.

Notwithstanding the permissive regulatory environment of cannabis at the state level, cannabis continues to be categorized as a Schedule 1 controlled substance under the CSA in the United States and as such, remains illegal under federal law in the United States.

As a result of the conflicting provisions under state and federal laws and regulations regarding cannabis, investments in cannabis businesses in the United States are subject to inconsistent legislation and regulation. The response to this inconsistency was addressed in August 2013 when then Deputy Attorney General, James Cole, authored a memorandum (the “Cole Memorandum”) addressed to all United States district attorneys acknowledging that, notwithstanding the designation of cannabis as a controlled substance at the federal level in the United States, several states had enacted laws relating to cannabis for medical purposes.

The Cole Memorandum outlined the priorities for the Department of Justice relating to the prosecution of cannabis offenses. In particular, the Cole Memorandum noted that in jurisdictions that have enacted laws legalizing cannabis in some form and that have also implemented strong and effective regulatory and Furthermore, the Sessions Memorandum did not discuss the treatment of medical cannabis by federal prosecutors. Medical cannabis is currently protected against enforcement by enacted legislation from United States Congress in the form of the Leahy Amendment to H.R.1625 – a vehicle for the Consolidated Appropriations Act of 2018 which similarly prevents federal prosecutors from using federal funds to impede the implementation of medical cannabis laws enacted at the state level, subject to Congress restoring such funding. Due to the ambiguity of the Sessions Memorandum, and federal illegality of cannabis, there can be no assurance that the U.S. federal government will not seek to prosecute cases involving cannabis businesses that are otherwise compliant with state law.

Federal law pre-empts state law in these circumstances, so that the federal government can assert criminal violations of federal law despite contrary state law. The level of prosecutions of state-legal cannabis operations is entirely unknown, nonetheless the stated position of the current administration is hostile to legal cannabis, and furthermore may be changed at any time by the Department of Justice, to become even more aggressive. The Sessions Memorandum lays the groundwork for United States Attorneys to take their cues on enforcement priority directly from Mr. Sessions by referencing federal law enforcement priorities set by Mr. Sessions. If the Department of Justice policy was to aggressively pursue financiers or equity owners of cannabis-related business, and United States Attorneys followed such Department of Justice policies through pursuing prosecutions, then Eden Empire could face (i) seizure of its cash and other assets used to support or derived from its cannabis subsidiaries, (ii) the arrest of its employees, directors, Additionally, there can be no assurance as to the position any new administration may take on marijuana and a new administration could decide to enforce the federal laws strongly. Any enforcement of current federal laws could cause significant financial damage to Eden Empire and its shareholders. Further, future presidential administrations may want to treat marijuana differently and potentially enforce the federal laws more aggressively.

Violations of any federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from civil proceedings conducted by either the federal government or private citizens, or criminal charges, including, but not limited to, disgorgement of profits, cessation of business activities or divestiture. This could have a material adverse effect on Eden Empire, including its reputation and ability to conduct business, its holding (directly or indirectly) of cannabis licenses in the United States, the listing of its securities on various stock exchanges, its financial position, operating results, profitability or liquidity or the market price of Eden Empire’s Common Shares. In addition, it is difficult to estimate the time or resources that would be needed for the investigation of any such matters or its final resolution because, in part, the time and resources that may be needed are dependent on the nature and extent of any information requested by the applicable authorities involved, and such time or resources could be substantial.

Leahy Amendment

The Leahy Amendment, as discussed above, prohibits the Department of Justice from spending funds appropriated by Congress to enforce the tenets of the CSA against the medical cannabis industry in states which have legalized such activity. This amendment has historically been passed as an amendment to omnibus appropriations bills, which by their nature expire at the end of a fiscal year or other defined term. The Leahy Amendment will expire with the Fiscal Year 2018 on September 30, 2018. At such time, it may or may not be included in the Fiscal Year 2019 omnibus appropriations package or a continuing budget resolution, and its inclusion or non-inclusion, as applicable, is subject to political changes.

U.S. state regulatory uncertainty

The rulemaking process for cannabis operators at the state level in any state will be ongoing and result in frequent changes. As a result, a compliance program is essential to manage regulatory risk. All operating policies and procedures implemented in the operation will be compliance-based and derived from the state regulatory structure governing ancillary cannabis businesses and their relationships to state-licensed or permitted cannabis operators, if any. Notwithstanding Eden Empire’s efforts, regulatory compliance and the process of obtaining regulatory approvals can be costly and time-consuming. No assurance can be given that Eden Empire will receive the requisite licenses, permits or cards to operate its businesses.

In addition, local laws and ordinances could restrict Eden Empire’s business activity. Although legal under the laws of the states in which Eden Empire expects its business will operate, local governments have the ability to limit, restrict, and ban cannabis businesses from operating within their jurisdiction. Land use, zoning, local ordinances, and similar laws could be adopted or changed, and have a material adverse effect on the Eden Empire’s business.

Eden Empire is aware that multiple states are considering special taxes or fees on businesses in the marijuana industry. It is a potential yet unknown risk at this time that other states are in the process of reviewing such additional fees and taxation. This could have a material adverse effect upon Eden Empire’s business, results of operations, financial condition or prospects.

The legality of cannabis could be reversed in one or more states of operation

The voters or legislatures of states in which cannabis has been legalized could potentially repeal applicable laws which permit both the operation of medical and retail cannabis businesses. These actions might force Eden Empire to cease some or all of Eden Empire’s business.

If no additional states, U.S. territories or countries allow the legal use of cannabis, or if one or more jurisdictions which currently allow it were to reverse position, Eden Empire’s may not be able to grow, or the market for Eden Empire’s products and services may decline. There can be no assurance that the number of jurisdictions which allow the use of cannabis will grow, and if it does not, there can be no assurance that the existing jurisdictions will not reverse position and disallow such use. If either of these events were to occur, not only would the growth of Eden Empire’s business be materially impacted in an adverse manner, but Eden Empire may experience declining revenue as the market for Eden Empire’s products and services declines.

Restricted access to banking

In February 2014, the Financial Crimes Enforcement Network (“FinCEN”) bureau of the U.S. Treasury Department issued guidance (which is not law) with respect to financial institutions providing banking services to cannabis business, including burdensome due diligence expectations and reporting requirements. This guidance does not provide any safe harbors or legal defenses from examination or regulatory or criminal enforcement actions by the Department of Justice, FinCEN or other federal regulators. Thus, most banks and other financial institutions in the United States do not appear to be comfortable providing banking services to cannabis-related businesses, or relying on this guidance, which can be amended or revoked at any time by the Trump Administration. In addition to the foregoing, banks may refuse to process debit card payments and credit card companies generally refuse to process credit card payments for cannabis-related businesses. The few credit unions who have agreed to work with marijuana businesses are limiting those accounts to no more than 5% of their total deposits to avoid creating a liquidity risk. Since the U.S. federal government could enforce its banking laws as they relate to marijuana businesses at any time and without notice, these credit unions must keep sufficient cash on hand to be able to return the full value of all deposits from marijuana businesses in a single day, while also servicing the need of their other customers.

As a result, Eden Empire may have limited or no access to banking or other financial services in the United States. In addition, federal money laundering statutes and Bank Secrecy Act regulations discourage financial institutions from working with any organization that sells a controlled substance, regardless of whether the state it resides in permits cannabis sales. The inability or limitation in Eden Empire’s ability to open or maintain bank accounts, obtain other banking services and/or accept credit card and debit card payments may make it difficult for Eden Empire to operate and conduct its business as planned or to operate efficiently.

Heightened scrutiny by Canadian regulatory authorities

For the reasons set forth above, Eden Empire’s existing operations in the United States, and any future operations or investments, may become the subject of heightened scrutiny by regulators, stock exchanges and other authorities in Canada. As a result, Eden Empire may be subject to significant direct and indirect interaction with public officials. There can be no assurance that this heightened scrutiny will not in turn lead to the imposition of certain restrictions on Eden Empire’s ability to operate or invest in the United States or any other jurisdiction, in addition to those described herein. It had been reported in Canada that the Canadian Depository for Securities Limited is considering a policy shift that would see its subsidiary, CDS Clearing and Depository Services Inc. (“CDS”), refuse to settle trades for cannabis issuers that have investments in the United States. CDS is Canada’s central securities depository, clearing and settling trades in the Canadian equity, fixed income and money markets. The TMX Group, the owner and operator of CDS, subsequently issued a statement on August 17, 2017 reaffirming that there is no CDS ban on the clearing of securities of issuers with cannabis-related activities in the United States, despite media reports to the contrary and that the TMX Group was working with regulators to arrive at a solution that will clarify this matter, which would be communicated at a later time.

On February 8, 2018, following discussions with the Canadian Securities Administrators and recognized Canadian securities exchanges, the TMX Group announced the signing of a Memorandum of Understanding (“MOU”) with

Aequitas NEO Exchange Inc., the CSE, the Toronto Stock Exchange, and the TSXV.41 The MOU outlines the parties' understanding of Canada's regulatory framework applicable to the rules, procedures, and regulatory oversight of the exchanges and CDS as it relates to issuers with cannabis-related activities in the United States. The MOU confirms, with respect to the clearing of listed securities, that CDS relies on the exchanges to review the conduct of listed issuers. As a result, there is no CDS ban on the clearing of securities of issuers with cannabis-related activities in the United States. However, there can be no guarantee that this approach to regulation will continue in the future. If such a ban were to be implemented at a time when the Common Shares are listed on a stock exchange, it would have a material adverse effect on the ability of holders of Common Shares to make and settle trades. In particular, the Common Shares would become highly illiquid until an alternative was implemented, investors would have no ability to effect a trade of the Common Shares through the facilities of the applicable stock exchange.

Regulatory scrutiny of Eden Empire's interests in the United States

For the reasons set forth above, Eden Empire's interests in the United States cannabis market, and future licensing arrangements, may become the subject of heightened scrutiny by regulators, stock exchanges, clearing agencies and other authorities in Canada. As a result, Eden Empire may be subject to significant direct and indirect interaction with public officials. There can be no assurance that this heightened scrutiny will not in turn lead to the imposition of certain restrictions on Eden Empire's ability to carry on its business in the United States.

Risks associated with travelling across the borders

News media have reported that U.S. immigration authorities have increased scrutiny of Canadian citizens who are crossing the U.S.-Canada border with respect to persons involved in cannabis businesses in the U.S. There have been a number of Canadians barred from entering the U.S. as a result of an investment in or act related to U.S. cannabis businesses. In some cases, entry has been barred for extended periods of time. Employees, including management, of Eden Empire traveling from Canada to the U.S. for the benefit of Eden Empire may encounter enhanced scrutiny by U.S. immigration authorities that may result in the employee not being permitted to enter the U.S. for a specified period of time. If this occurs, it may reduce Eden Empire's ability to manage effectively its business in the U.S.

Risks associated with young industries

The cannabis industries in those states which have legalized such activity are not yet well developed, and many aspects of these industries' development and evolution cannot be accurately predicted. While Eden Empire has attempted to identify many risks specific to the cannabis industry, prospective investors should carefully consider that there are probably other risks that Eden Empire has not foreseen or not mentioned in this document, which may cause prospective investors to lose some, or all, of such prospective investor's investment. Given the limited history, it is difficult to predict whether this market will continue to grow or whether it can be maintained. For example, as a result of Eden Empire's limited operating history in a new industry, it is difficult to discern meaningful or established trends with respect to the purchase activity of Eden Empire's customers.

Eden Empire expects that the market will evolve in ways which may be difficult to predict. For example, Eden Empire anticipates that over time it will reach a point in most markets where Eden Empire has achieved a market penetration such that investments in new customer acquisition are less productive and the continued growth of Eden Empire's revenue will require more focus on increasing the rate at which Eden Empire's existing customers purchase products. In the event of these or any other changes to the market, Eden Empire's continued success will depend on Eden Empire's ability to successfully adjust Eden Empire's strategy to meet the changing market dynamics. If Eden Empire is unable to successfully adapt to changes in Eden Empire's markets, Eden Empire's business, financial condition and results of operations could suffer a material negative impact.

Eden Empire's management team or other owners could be disqualified from ownership in Eden Empire

Eden Empire's business is in a highly regulated industry in which many states have enacted extensive rules for ownership of a participant company. Eden Empire's owners (which could include the investors in Eden Empire) could become disqualified from having an ownership stake in Eden Empire under relevant laws and regulations of applicable state and/or local regulators, if the applicable owner is convicted of a certain type of felony or fails to meet the requirements for owning equity in a company like Eden Empire.

Section 280E of the U.S. Tax Code provides that, with respect to any taxpayer, no deduction or credit is allowed for expenses incurred during a taxable year "in carrying on any trade or business if such trade or business (or the activities which comprise such trade or business) consists of trafficking in controlled substances (within the meaning of Schedule

I and II of the CSA) which is prohibited by federal law or the law of any state in which such trade or business is conducted." Because cannabis is a Schedule I controlled substance under the CSA, Section 280E by its terms applies to the purchase and sale of medical-use cannabis products. It is possible that the IRS may seek to apply the provisions of Section 280E to Eden Empire's US operations and their operating entities and disallow certain tax deductions, including for employee salaries, depreciation or interest expense. If such tax deductions are disallowed, this would result in a material adverse effect to our financial results. As Eden Empire may become engaged in the purchase and/or sale of a controlled substance through the operations of subsidiaries which they may acquire that are operating dispensaries and a cultivation facility, its potential subsidiaries may be subject to the disallowance provisions of Section 280E. In addition, there is no assurance that the IRS will not take a position that the entire business is subject to Section 280E limitations in the future.

Risk of civil asset forfeiture

Because the cannabis industry remains illegal under U.S. federal law, any property owned by participants in the cannabis industry which are either used in the course of conducting such business, or are the proceeds of such business, could be subject to seizure by law enforcement and subsequent civil asset forfeiture. Even if the owner of the property were never charged with a crime, the property in question could still be seized and subject to an administrative proceeding by which, with minimal due process, it could be subject to forfeiture.
Risk of RICO prosecution or civil liability

The Racketeer Influenced Corrupt Organizations Act ("RICO") criminalizes the use of any profits from certain defined "racketeering" activities in interstate commerce. While intended to provide an additional cause of action against organized crime, due to the fact that marijuana is illegal under U.S. federal law, the production and sale of marijuana qualifies marijuana-related businesses as "racketeering" as defined by RICO. As such, all officers, managers and owners in Eden Empire could be subject to criminal prosecution under RICO, which carries substantial criminal penalties. RICO can create civil liability as well: persons harmed in their business or property by actions which would constitute racketeering under RICO often have a civil cause of action against such "racketeers," and can claim triple their amount of estimated damages in attendant court proceedings. Eden Empire as well as its officers, managers and owners could all be subject to civil claims under RICO.

Proceeds of crime statutes

Eden Empire will be subject to a variety of laws and regulations domestically and in the United States that involve money laundering, financial recordkeeping and proceeds of crime, including the Currency and Foreign Transactions Reporting Act of 1970 (commonly known as the Bank Secrecy Act), as amended by Title III of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (USA PATRIOT Act), the Proceeds of Crime (Money Laundering) and Terrorist Financing Act (Canada), as amended and the rules and regulations thereunder, the Criminal Code (Canada) and any related or similar rules, regulations or guidelines, issued, administered or enforced by governmental authorities in the United States and Canada.

In the event that any of Eden Empire's revenue in the United States were found to be in violation of money laundering legislation or otherwise, such transactions may be viewed as proceeds of crime under one or more of the statutes noted above or any other applicable legislation. This could be materially adverse to Eden Empire and, among other things, could restrict or otherwise jeopardize the ability of Eden Empire to declare or pay dividends, effect other distributions or subsequently repatriate such funds back to Canada.

Security risks

The business premises of Eden Empire's operating locations are targets for theft. While Eden Empire will implement security measures at each location and will continue to monitor and improve its security measures, its retail facilities, as well as any cultivation, processing or extraction facilities, could be subject to break-ins, robberies and other breaches in security. If there was a breach in security and Eden Empire fell victim to a robbery or theft, the loss of cannabis plants, cannabis oils, cannabis flowers and cultivation and processing equipment could have a material adverse impact on the business, financial condition and results of operation of Eden Empire.

As Eden Empire's business involves the movement and transfer of cash which is collected from retail stores and deposited into its bank, there is a risk of theft or robbery during the transport of cash. Eden Empire has engaged a security firm to provide security in the transport and movement of large amounts of cash. While Eden Empire will take robust steps to prevent theft or robbery of cash during transport, there can be no assurance that there will not be a security breach during the transport and the movement of cash involving the theft of product or cash.

Eden Empire has previously provided medical marijuana to patients and maintains patient records. Due to the sensitive nature of this information, Eden Empire could be found liable if a breach of security at its facility resulted in the theft, loss, or mishandling of electronic data. If such a breach did occur, Eden Empire could be liable for fines, penalties and for any third-party liability which could result in a material adverse effects to the financial condition of Eden Empire.

Limited trademark protection

Eden Empire will not be able to register any United States federal trademarks for its cannabis products. Because producing, manufacturing, processing, possessing, distributing, selling, and using cannabis is a crime under the CSA, the United States Patent and Trademark Office will not permit the registration of any trademark that identifies cannabis products. As a result, Eden Empire likely will be unable to protect its cannabis product trademarks beyond the geographic areas in which it conducts business. The use of its trademarks outside the states in which it operates by one or more other persons could have a material adverse effect on the value of such trademarks.

Enforcement of proprietary rights

Eden Empire may be unable to adequately protect or enforce its proprietary rights. Its continuing success will likely depend, in part, on its ability to protect internally developed or acquired, intellectual property and maintain the proprietary nature of its technology through a combination of licenses and other intellectual property arrangements, without infringing the proprietary rights of third parties. Eden Empire cannot prove assurance that its intellectual property owned by Eden Empire will be held valid at the state or federal level if challenged, or that other parties will not claim rights in or ownership of its proprietary rights. Moreover, because marijuana is a Schedule I controlled substance under federal law, and because the United States Patent and Trademark Office will not issue federal trademark registrations if the applicant cannot show lawful use of the mark in commerce, it may not be able to adequately protect its intellectual property.

Infringement or misappropriation claims

Eden Empire may be exposed to infringement or misappropriation claims by third parties, which, if determined adversely to the resulting issuer, could subject Eden Empire to significant liabilities and other costs.

Currency fluctuations

Due to Eden Empire's expected operations in the United States, and its intention to continue future operations outside Canada, Eden Empire is expected to be exposed to significant currency fluctuations. Recent events in the global financial markets have been coupled with increased volatility in the currency markets. All or substantially all of Eden Empire's revenue will be earned in US dollars, but a portion of its operating expenses are incurred in Canadian dollars. Eden Empire does not have currency hedging arrangements in place and there is no expectation that Eden Empire will put any currency hedging arrangements in place in the future. Fluctuations in the exchange rate between the US dollar and the Canadian dollar, may have a material adverse effect on Eden Empire's business, financial position or results of operations.

Lack of access to U.S. bankruptcy protections

Because the use of cannabis is illegal under federal law, many courts have denied cannabis businesses bankruptcy protections, thus making it very difficult for lenders to recoup their investments in the cannabis industry in the event of a bankruptcy. If Eden Empire were to experience a bankruptcy, there is no guarantee that U.S. federal bankruptcy protections would be available to Eden Empire, which would have a material adverse effect.

Potential FDA regulation

Should the federal government legalize cannabis, it is possible that the U.S. Food and Drug Administration (the "FDA"), would seek to regulate it under the Food, Drug and Cosmetics Act of 1938. Additionally, the FDA may issue rules and regulations including good manufacturing practices, related to the growth, cultivation, harvesting and processing of medical cannabis. Clinical trials may be needed to verify efficacy and safety. It is also possible that the FDA would require that facilities where medical-use cannabis is grown register with the FDA and comply with certain federally prescribed regulations. In the event that some or all of these regulations are imposed, the impact would be on the cannabis industry is unknown, including what costs, requirements and possible prohibitions may be enforced. If Eden

Empire is unable to comply with the regulations or registration as prescribed by the FDA it may have an adverse effect on Eden Empire's business, operating results and financial condition.

Legality of contracts

Because Eden Empire's contracts involve cannabis and other activities that are not legal under U.S. federal law and in some jurisdictions, Eden Empire may face difficulties in enforcing its contracts in U.S. federal and certain state courts. More specifically, some courts have determined that contracts relating to state legal cultivation and sale of cannabis are unenforceable on the grounds that they are illegal under federal law and therefore void as a matter of public policy. This could substantially impact the rights of parties making or defending claims involving Eden Empire and any lender or member of Eden Empire.

It is a fundamental principle of law that a contract will not be enforced if it involves a violation of law or public policy. Notwithstanding that cannabis related businesses operate pursuant to the laws of states in which such activity is legal under state law, judges have on a number of occasions refused to enforce contracts for the repayment of money when the loan was used in connection with activities that violate federal law, even if there is no violation of state law. There remains doubt and uncertainty that Eden Empire will be able to legally enforce contracts it enters into if necessary. As Eden Empire cannot be assured that it will have a remedy for breach of contract, investors must bear the risk of the uncertainty in the law. If borrowers fail or refuse to repay loans and Eden Empire is unable to legally enforce its contracts, Eden Empire may suffer substantial losses for which it has no legal remedy.

No Existing Market and Uncertain Regulatory Framework

On October 17, 2018, the Cannabis Act came into force as law with the effect of legalizing adult recreational use of cannabis across Canada. No legal market previously existed for adult recreational use cannabis in Canada. For this reason, projections for both short and long-term market conditions for the retail of cannabis remain uncertain.
Furthermore, there is no assurance that provincial and territorial legislation enacted for the purpose of regulating recreational cannabis will allow, or be conducive to, Eden Empire's proposed cannabis franchise and retail business model. The legislation framework pertaining to the Canadian recreational cannabis market is subject to significant provincial and territorial regulation, which varies across provinces and territories and could result in an asymmetric regulatory and market environment, different competitive pressures and significant additional compliance and other costs and/or limitations on Eden Empire's ability to participate in such market. Additionally, differences in provincial and territorial regulatory frameworks could result in Eden Empire's franchise model being financially prohibitive or unfeasible. In particular, some provinces do not allow private retailers of cannabis products, and in provinces that allow private retailers of cannabis products, obtaining a provincial license for such sales of cannabis may be unduly expensive or burdensome. Municipal and regional governments may also choose to impose additional requirements and regulations on the sale of recreational cannabis, adding further uncertainty and risk to Eden Empire's proposed cannabis franchise and retail model.

Municipal by-laws could restrict the number of recreational cannabis retail outlets that are permitted in a certain geographical area, or restrict the geographical locations wherein such retail outlets may be operated. There is no assurance that if and when provincial, territorial, regional and municipal regulatory frameworks are enacted, Eden Empire will be able to navigate such regulatory frameworks or conduct its intended business thereunder. While the impact of any new legislative framework for the regulation of the Canadian recreational cannabis market is uncertain, any of the foregoing could result in a material adverse effect on Eden Empire's proposed business, financial condition and operating results.

Regulatory Risks

Successful execution of Eden Empire's strategy is contingent, in part, upon compliance with regulatory requirements that have yet to be enacted by governmental authorities, and obtaining all regulatory approvals, where necessary, for the sale of Eden Empire's products and other products expected to be distributed by Eden Empire.

Eden Empire will incur ongoing costs and obligations related to regulatory compliance. Failure to comply with regulations may result in additional costs for corrective measures, penalties or in restrictions on Eden Empire's proposed operations. In addition, changes in regulations, more vigorous enforcement thereof or other unanticipated events could require extensive changes to Eden Empire's proposed operations, increased compliance costs or give rise to material liabilities, which could have a material adverse effect on the proposed business, financial condition and operating results of Eden Empire.

Reliance on Key Inputs

Eden Empire’s proposed business is dependent on a number of key inputs and their related costs including authorized sources of cannabis. Any inability to establish such supply inputs, significant interruption or negative change in the availability or economics of the supply chain for key inputs could materially impact the proposed business, financial condition and operating results of Eden Empire. Any inability to secure required supplies and services or to do so on appropriate terms could have a materially adverse impact on the proposed business, financial condition and operating results of Eden Empire.

Tax Risks

The Government of Canada has provided guidance that it intends to provide regulated and restricted access to cannabis beginning on October 17, 2018. The Government of Canada has indicated that in conjunction with any legislative framework governing recreational cannabis the government will incorporate appropriate federal taxes on cannabis products, which will be shared with provinces. The level of taxation that will eventually apply to cannabis products and sales is unknown at this time, and depends on various factors including federal, provincial and municipal tax policies. There is no assurance that taxes applicable to recreational cannabis will be conducive to the sale of recreational cannabis. In the event that taxes on recreational cannabis are too high, consumers may be deterred from participating in the legal recreational cannabis market, or be driven into the illegal recreational cannabis market. Furthermore, differences in tax levels across geographical regions may limit the number of feasible retail locations which Eden Empire could franchise, thus limiting Eden Empire’s proposed business, revenue and operational potential and brand name.

Political Risks

Eden Empire’s prospective operations will be subject to various anticipated laws, regulations and guidelines relating to the manufacture, management, packaging/labelling, advertising, sale, transportation, storage and disposal of cannabis but also including laws and regulations relating to drugs, controlled substances, health and safety, the conduct of operations and the protection of the environment.

While Eden Empire intends to comply with all such laws, changes to such laws, regulations and guidelines due to matters beyond the control of Eden Empire may cause adverse effects to its operations. Eden Empire may also incur significant costs in complying with such changes or it may be unable to comply therewith, which in turn may result in a material adverse effect on Eden Empire’s proposed business, financial condition and results of operation.

Moreover, the deregulation of cannabis for adult use in Canada has been politically driven by the Federal Liberal Government, and there is no assurance that other political parties, if elected to government, will not reverse the steps taken by the Liberal Government towards the deregulation of cannabis for adult use or impose more stringent and prohibitive regulatory frameworks. Such actions could have a material adverse effect on the proposed business or financial condition of Eden Empire, or the viability of its prospective business model. Furthermore, future changes in provincial or municipal governments may also result in similar unfavourable changes to laws, regulations and guidelines pertaining to recreational cannabis.

Competition

There is potential that Eden Empire will face intense competition from numerous independent dispensaries and other franchise dispensary companies, some of which can be expected to have greater financial resources, market access and manufacturing and marketing experience than Eden Empire.

Increased competition by larger and better financed competitors could materially and adversely affect the proposed business, financial condition and results of operations of Eden Empire. Because of the preliminary stage of the recreational marijuana market in which Eden Empire intends to operate, Eden Empire expects to face additional competition from new entrants. To remain competitive, Eden Empire will require a continued high level of investment in research and development, marketing, sales and client support. Eden Empire may not have sufficient resources to maintain research and development, marketing, sales and client support efforts on a competitive basis which could materially and adversely affect the proposed business, financial condition and operating results of Eden Empire.

Canada Free Trade Agreement

Article 1206 of the Canadian Free Trade Agreement specifically excludes the application of the agreement to cannabis for non-medical purposes. Article 1206 states that the provinces and territories of Canada shall commence negotiations regarding the application of the Canada Free Trade Agreement to cannabis for non-medical purposes following Royal assent of federal legislation legalizing cannabis for non-medical purposes. There is a risk that the outcome of the negotiations to apply the Canada Free Trade Agreement to cannabis for non-medical purposes will result in the interprovincial and inter-territorial trade of cannabis for non-medical purposes in Canada being entirely restricted or subject to conditions that will negatively affect Eden Empire.

Supply Risks

Eden Empire currently has no binding agreements for the supply of cannabis, as Eden Empire is awaiting further details of the relevant federal, provincial and municipal regulations relating to the growth, supply and distribution of deregulated cannabis for recreational use in Canada. Companies operating in other jurisdictions in North America where cannabis was recently deregulated, such as Nevada, have experienced severe temporary supply constraints which have materially affected the profitability of distributors in such jurisdictions.

Shelf Life Inventory

Eden Empire intends to carry comestible finished goods in their inventory and such inventory will have a shelf life. Comestible finished goods in inventory may include herbal cannabis and cannabis oil products. Even though it is the intention of Eden Empire’s management to review the amount of inventory on hand in the future, write-down of inventory may still be required from time to time. Any such write-down of inventory could have a material adverse effect on Eden Empire’s proposed business, financial condition, and results of operations.

Transportation Risks

Due to the perishable and premium nature of the cannabis products Eden Empire intends to carry in its inventory, Eden Empire will depend on fast and efficient third-party transportation services to distribute its cannabis products. Any prolonged disruption of third party transportation services could have an adverse effect on the financial condition and results of operations of Eden Empire. Rising costs associated with the third-party transportation services used by Eden Empire to ship its cannabis products may also adversely impact the business of Eden Empire and its ability to operate profitably. Due to the nature of Eden Empire’s cannabis products, security of the cannabis products during transportation to and from Eden Empire’s stores and facilities is of the utmost concern. A breach of security during transport or delivery could have a material and adverse effect on the proposed business, financial condition and operating results of Eden Empire. Any breach of the security measures during transport or delivery, including any failure to comply with potential future regulations and requirements with respect thereof, could also have an impact on Eden Empire’s ability to continue operating.

Product Liability

Due to the proposed operations of Eden Empire, a distributor of products designed to be ingested by humans, Eden Empire faces an inherent risk of exposure to product liability claims, regulatory action and litigation if its products are alleged to have caused significant loss or injury. In addition, the manufacture and sale of cannabis products involve the risk of injury to consumers due to tampering by unauthorized third parties or product contamination. Previously unknown adverse reactions resulting from human consumption of cannabis products alone or in combination with other medications or substances could occur. Eden Empire may be subject to various product liability claims, including, among others, that the products produced or distributed (but not produced) by Eden Empire caused injury or illness, include inadequate instructions for use or include inadequate warnings concerning possible side effects or interactions with other substances. A product liability claim or regulatory action against Eden Empire could result in increased costs, could adversely affect Eden Empire’s reputation with its clients and consumers generally, and could have a material adverse effect on the proposed business, financial condition and operating results of Eden Empire. There can be no assurances that Eden Empire will be able to obtain or maintain product liability insurance on acceptable terms or with adequate coverage against potential liabilities. Such insurance is expensive and may not be available in the future on acceptable terms, or at all. The inability to obtain sufficient insurance coverage on reasonable terms or to otherwise protect against potential product liability claims could prevent or inhibit the commercialization of products.

Product Recalls of Products Purchased by Eden Empire

Manufacturers and distributors of products are sometimes subject to the recall or return of their products for a variety of reasons, including product defects, such as contamination, unintended harmful side effects or interactions with other substances, packaging safety and inadequate or inaccurate labeling disclosure. If any of the products produced by Eden Empire are recalled due to an alleged product defect or for any other reason, Eden Empire could be required to incur the unexpected expense of the recall and any legal proceedings that might arise in connection with the recall. Eden Empire may lose a significant amount of sales and may not be able to replace those sales at an acceptable margin or at all. In addition, a product recall may require significant attention of the management of Eden Empire. Although Eden Empire has detailed procedures in place for testing finished products, there can be no assurance that any quality, potency or contamination problems will be detected in time to avoid unforeseen product recalls, regulatory action or lawsuits. Additionally, if one of the products produced or distributed by Eden Empire were subject to recall, the image of that product and Eden Empire could be harmed. A recall for any of the foregoing reasons could lead to decreased demand for products produced by Eden Empire and could have a material adverse effect on the results of operations and financial condition of Eden Empire. Additionally, product recalls may lead to increased scrutiny of the proposed operations of Eden Empire by Health Canada or other regulatory agencies, requiring further management attention and potential legal fees and other expenses.

Product Recalls of Product Sold by Eden Empire

Individuals have asserted claims, and may in the future assert claims, that they have sustained injuries from Eden Empire's products, and particularly the products of the Retail Subsidiaries, and Eden Empire may be subject to lawsuits relating to these claims. There is a risk that these claims or liabilities may exceed, or fall outside of the scope of, Eden Empire's insurance coverage as Eden Empire does not maintain separate product recall insurance. Eden Empire may record future charges and incremental costs relating to recalls, withdrawals or replacements of its products, based on Eden Empire's most recent estimates of retailer inventory returns, consumer product replacement costs, associated legal and other professional fees, and costs associated with advertising and administration of product recalls. As these current and expected future charges are based on estimates, they may increase as a result of numerous factors, many of which are beyond Eden Empire's control, including the amount of products that may be returned by consumers and retailers, the number and type of legal, regulatory, or legislative proceedings relating to product recalls, withdrawals or replacements or product safety proceedings in Canada, the U.S. and elsewhere that may involve Eden Empire, as well as regulatory or judicial orders or decrees in Canada, the U.S. and elsewhere that may require Eden Empire to take certain actions in connection with product recalls.

Moreover, Eden Empire may be unable to obtain adequate liability insurance in the future. Any of these issues could result in damage to Eden Empire's reputation, diversion of development and management resources, reduced sales, and increased costs, any of which could materially and adversely harm its business, financial condition and performance. Product recalls, withdrawals, or replacements may also increase the competition that Eden Empire faces. Some competitors may attempt to differentiate themselves by claiming that their products are produced in a manner or geographic area that is insulated from the issues that preceded recalls, withdrawals or replacements of Eden Empire's products. In addition, to the extent that Eden Empire's competitors choose not to implement enhanced safety and testing protocols comparable to those that Eden Empire and its third-party manufacturers have adopted, such competitors could enjoy a cost advantage that could enable them to offer products at lower prices than Eden Empire. Additionally, product recalls relating to Eden Empire's competitors' products, post-manufacture repairs of their products and product liability claims against Eden Empire's competitors may indirectly impact Eden Empire's product sales even if its products are not subject to the same recalls, repairs or claims.

Negative Publicity

There has been a marked increase in the use of social media platforms and similar channels, including weblogs (blogs), social media websites and other forms of internet-based communications that provide individuals with access to a broad audience of consumers and other interested persons. The availability and impact of information on social media platforms is virtually immediate and the accuracy of such information is not independently verified. The opportunity for dissemination of information, including inaccurate information, is seemingly limitless and readily available. Information concerning Eden Empire or one or more of its products may be posted on such platforms at any time. Information posted may be adverse to Eden Empire's interests or may be inaccurate, each of which may harm Eden Empire's reputation and business. The harm may be immediate without affording Eden Empire an opportunity for redress or correction. Ultimately, the risks associated with any such negative publicity or incorrect information cannot be completely eliminated or mitigated and may materially and adversely impact its business, financial condition and performance.

Difficulty to Forecast

Eden Empire must rely largely on its own market research to forecast sales as detailed forecasts are not generally obtainable from other sources at this preliminary stage of the recreational cannabis industry in Canada. A failure in the demand for its products to materialize as a result of the prohibition on recreational marijuana consumption not being removed, competition, technological change or other factors could have a material adverse effect on the proposed business, results of operations and financial condition of Eden Empire.

Third Party Reputational Risk

The parties with which Eden Empire does business may perceive that they are exposed to reputational risk as a result of Eden Empire's proposed cannabis business activities. This may impact Eden Empire's ability to retain current partners, such as its banking relationship, or source future partners as required for growth or future expansion in Canada, the U.S. or other markets. Failure to establish or maintain business relationships could have a material adverse effect on Eden Empire.

Profitability of Cannabis Retail Subsidiaries

Company-owned and franchise stores may not be profitable due to a number of factors, including the expectation that provincial cannabis regulatory bodies will initially set standard pricing levels, and their pricing will have an impact in determining the margin on sales of cannabis products. As well, edible cannabis products are not yet permitted for sale in Canada through cannabis dispensaries, and unless and until that occurs, the product range available for sale is limited. If any stores remain unprofitable for a prolonged period of time, Eden Empire and its franchisees may decide to close these stores. Eden Empire cannot assure that new stores opened by Eden Empire or its franchisees will not fail. The closures of these stores could have a negative impact on Eden Empire's proposed business and operating results.

Moreover, Eden Empire may broaden new store activity to incorporate trade areas or store sites in which it will have little or no prior experience. The risks relating to building a customer base, managing franchise development and operating costs may be more significant in some or all of these types of trade areas or store sites, which could have an unexpected negative impact on Eden Empire's proposed business. Opening stores in such areas or sites may expose Eden Empire and its franchisees to new challenges, including reliance on the strength of other companies, the potential that its stores are a poor fit for the non-traditional markets into which they enter and possible negative publicity regarding the retail stores or other locations in which they operate, each of which may cause a downturn in their business and in turn may have a negative impact on Eden Empire's proposed business and operating results.

Consumer Preference, Demand and Trends

The retail industry is subject to sudden shifts in consumer trends. Eden Empire's results will continue to depend in part on its ability to predict and respond to changes in trends and consumer preferences in a timely manner. To the extent Eden Empire's predictions differ from its customers' preferences, it may be faced with excess inventories for some products and/or missed opportunities for others. Excess inventories can result in lower gross margins due to greater than anticipated discounts and markdowns that might be necessary to reduce inventory levels. Low inventory levels can adversely affect Eden Empire's ability to meet customer demand, which may lead to lost sales and diminished brand loyalty. Any sustained failure to anticipate, identify and respond to emerging trends in consumer preferences could have a material adverse effect on Eden Empire's business and any significant misjudgements regarding inventory levels could adversely impact Eden Empire's results of operations.

Furthermore, Eden Empire's ability to continue to attract and retain popular brands that are favoured by consumers is critical to its ability to respond to consumer preferences. If vendors of popular brands cease doing business with Eden Empire, or the terms and conditions with such vendors (including vendor allowances and merchandise cost) change materially, including Eden Empire's ability to be an exclusive seller of certain brands, Eden Empire's results could be adversely affected. Eden Empire does not have long term contracts with vendors and therefore its ability to continue to sell brands that are popular with consumers and, if applicable, to have exclusivity of certain brands, are dependent on ongoing positive relationships with Eden Empire's vendors. There can be no assurance that Eden Empire's existing vendors will continue to provide Eden Empire with a sufficient assortment and quantity of inventory to satisfy Eden Empire's demands.

Discretionary Spending of Consumers

Current economic conditions or a further deterioration in the Canadian economy may adversely affect the discretionary spending of consumers, which would likely result in lower sales than expected on a quarterly or annual basis, as well as the potential for higher markdowns and increased promotional spending in response to lower demand. Future economic conditions affecting disposable consumer income, such as employment levels, consumer debt levels, lack of available credit, business conditions, fuel and energy costs, interest rates, tax rates and policies, and consumer confidence in future economic conditions could also adversely affect Eden Empire's business and financial results by reducing consumer spending or causing customers to shift their spending to other products.

Unfavourable domestic or regional economic or political conditions and other developments and risks may have an unfavourable impact on Eden Empire's operations. For example, unfavorable changes related to interest rates, rates of economic growth, fiscal and monetary policies of governments, inflation, deflation, consumer credit availability, consumer debt levels, tax rates and policy, unemployment trends, oil prices, and other matters that influence the availability and cost of merchandise, consumer confidence, spending and tourism could adversely impact Eden Empire's businesses and results of operations. During times of unfavourable economic or political conditions, consumers may shop less frequently, limit the amount of their purchases and/or shift their spending to other products or retailers, which would likely result in lower sales, as well as the potential for higher markdowns and increased promotional spending in response to lower demand.

General Risks

Limited Operating History

Eden Empire, specifically the business operated by the Retail Subsidiaries, has a very limited history of operations. Eden Empire is in the early stage of development and must be considered a startup. As such, Eden Empire will be subject to many risks common to such enterprises, including undercapitalization, cash shortages, limitations with respect to personnel, financial and other resources and lack of revenues. There is no assurance that Eden Empire will be successful in achieving a return on shareholders' investment and the likelihood of success must be considered in light of its expected early stage of operations. Because Eden Empire will have a limited operating history in an emerging area of business, you should consider and evaluate its operating prospects in light of the risks and uncertainties frequently encountered by early-stage companies in rapidly evolving markets. These risks may include:

- risks that it may not have sufficient capital to achieve its growth strategy;
- risks that it may not develop its product and service offerings in a manner that enables it to be profitable and meet its customers' requirements;
- risks that its growth strategy may not be successful;
- risks that fluctuations in its operating results will be significant relative to its revenues; and
- risks relating to an evolving regulatory regime.

Eden Empire's future growth will depend substantially on its ability to address these and the other risks described in this section. If it does not successfully address these risks, its business may be significantly harmed.

Eden Empire is a holding company

Eden Empire is a holding company and essentially all of its assets are the capital stock of its subsidiaries in each of the markets the company operates in. As a result, investors in Eden Empire are subject to the risks attributable to its subsidiaries. As a holding company, Eden Empire conducts substantially all of its business through its subsidiaries, which generate substantially all of its revenues. Consequently, Eden Empire's cash flows and ability to complete current or desirable future enhancement opportunities are dependent on the earnings of its subsidiaries and the distribution of those earnings to Eden Empire. The ability of these entities to pay dividends and other distributions will depend on their operating results and will be subject to applicable laws and regulations which require that solvency and capital standards be maintained by such companies and contractual restrictions contained in the instruments governing their debt. In the event of a bankruptcy, liquidation or reorganization of any of Eden Empire's material subsidiaries, holders of indebtedness and trade creditors may be entitled to payment of their claims from the assets of those subsidiaries before Eden Empire.

Reliance on Founders and Management

The success of Eden Empire is dependent upon the ability, expertise, judgment, discretion and good faith of its senior management. Eden Empire's future success depends on its continuing ability to attract, develop, motivate and retain highly qualified and skilled employees. Qualified individuals are in high demand, and Eden Empire may incur significant costs to attract and retain them. In addition, the loss of any of Eden Empire's senior management or key employees could materially adversely affect its ability to execute its business plan and strategy, and it may not be able to find adequate replacements on a timely basis, or at all.

Illegal Activity by Employees

Eden Empire is exposed to the risk that its employees, independent contractors and consultants may engage in fraudulent or other illegal activity. Misconduct by these parties could include intentional, reckless and/or negligent conduct or disclosure of unauthorized activities to Eden Empire that violate government regulations. It is not always possible for Eden Empire to identify and deter misconduct by its employees and other third parties, and the precautions taken by Eden Empire to detect and prevent this activity may not be effective in controlling unknown or unmanaged risks or losses or in protecting Eden Empire from governmental investigations or other actions or lawsuits stemming from a failure to be in compliance with such laws or regulations. If any such actions are instituted against Eden Empire, and it is not successful in defending itself or asserting its rights, those actions could have a significant impact on Eden Empire's business, including the imposition of civil, criminal and administrative penalties, damages, monetary fines, contractual damages, reputational harm, diminished profits and future earnings, and curtailment of Eden Empire's operations, any of which could have a material adverse effect on Eden Empire's business, financial condition and results of operations.

Negative Cash Flow from Operations

Eden Empire has had negative cash flow from operating activities since their incorporation in 2018. Although Eden Empire anticipates it will have positive cash flow from operating activities in future periods, Eden Empire cannot guarantee it will have a cash flow positive status in the future due to significant expansion plans which will require large and long-term investments. To the extent that Eden Empire has negative cash flow in any future period, Eden Empire may be required to raise additional funds through further financings, see Item 4 – Narrative Description of the Business.

Additional Financing

There is no guarantee that Eden Empire will be able to execute on its strategy. The continued development of Eden Empire may require additional financing. The failure to raise such capital could result in the delay or indefinite postponement of current business strategy or Eden Empire ceasing to carry on business. There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, the terms of such financing will be favourable to Eden Empire. If additional funds are raised through issuances of equity or convertible debt securities, existing shareholders could suffer significant dilution, and any new equity securities issued could have rights, preferences and privileges superior to those of holders of Common Shares. In addition, from time to time, Eden Empire may enter into transactions to acquire assets or the shares of other companies. These transactions may be financed wholly or partially with debt, which may temporarily increase Eden Empire's debt levels above industry standards. Any debt financing secured in the future could involve restrictive covenants relating to capital raising activities and other financial and operational matters, which may make it more difficult for Eden Empire to obtain additional capital and to pursue business opportunities, including potential acquisitions. Debt financings may contain provisions, which, if breached, may entitle lenders to accelerate repayment of loans and there is no assurance that Eden Empire would be able to repay such loans in such an event or prevent the enforcement of security granted pursuant to such debt financing. Eden Empire may require additional financing to fund its operations to the point where it is generating positive cash flows. Negative cash flow may restrict Eden Empire's ability to pursue its business objectives.

Operating Risk and Insurance Coverage

Eden Empire has insurance to protect its assets, operations and employees. While Eden Empire believes its insurance coverage addresses all material risks to which it is exposed and is adequate and customary in its current state of operations, such insurance is subject to coverage limits and exclusions and may not be available for the risks and hazards to which Eden Empire is exposed. In addition, no assurance can be given that such insurance will be adequate to cover Eden Empire's liabilities or will be generally available in the future or, if available, that premiums will be commercially justifiable. If Eden Empire were to incur substantial liability and such damages were not covered by insurance or were in excess of policy limits, or if Eden Empire were to incur such liability at a time when it is not able to obtain liability insurance, its business, results of operations and financial condition could be materially adversely affected.

Management of Growth

Eden Empire may be subject to growth-related risks, including capacity constraints and pressure on its internal systems and controls. The ability of Eden Empire to manage growth effectively will require it to implement and improve its operational and financial systems and to expand, train and manage its employee base. The inability of Eden Empire to deal with this growth may have a material adverse effect on Eden Empire's business, financial condition, results of operations and prospects.

Conflicts of Interest

Eden Empire may be subject to various potential conflicts of interest because of the fact that some of its officers and directors may be engaged in a range of business activities. In addition, Eden Empire's executive officers and directors may devote time to their outside business interests, so long as such activities do not materially or adversely interfere with their duties to Eden Empire. In some cases, Eden Empire's executive officers and directors may have fiduciary obligations associated with these business interests that interfere with their ability to devote time to Eden Empire's business and affairs and that could adversely affect Eden Empire's operations. These business interests could require significant time and attention of Eden Empire's executive officers and directors.

In addition, Eden Empire may also become involved in other transactions which conflict with the interests of its directors and the officers who may from time to time deal with persons, firms, institutions or companies with which Eden Empire may be dealing, or which may be seeking investments similar to those desired by it. The interests of these persons could conflict with those of Eden Empire. In addition, from time to time, these persons may be competing with Eden Empire for available investment opportunities. Conflicts of interest, if any, will be subject to the procedures and remedies provided under applicable laws. In particular, in the event that such a conflict of interest arises at a meeting of Eden Empire's directors, a director who has such a conflict will abstain from voting for or against the approval of such participation or such terms. In accordance with applicable laws, the directors of Eden Empire will be required to act honestly, in good faith and in the best interests of Eden Empire.

Intellectual Property

We may be subject to risks related to the protection and enforcement of Eden Empire's intellectual property rights, or intellectual property Eden Empire license from others, and may become subject to allegations that Eden Empire or Eden Empire's licensors are in violation of intellectual property rights of third parties.

The ownership, licensing and protection of trademarks and other intellectual property rights are significant aspects of Eden Empire's future success.

It is possible that Eden Empire will not be able to make non-provisional applications, register, maintain registration for or enforce all of Eden Empire's intellectual property, including trademarks, in all key jurisdictions. The intellectual property registration process can be expensive and time-consuming, and Eden Empire may not be able to file and prosecute all necessary or desirable intellectual property applications at a reasonable cost or in a timely manner, or may obtain intellectual property registrations which are invalid. It is also possible that Eden Empire will fail to identify patentable aspects of inventions made in the course of their development and commercialization activities before it is too late to obtain patent protection for them. Further, changes in either intellectual property laws or interpretation of intellectual property laws in Canada and other countries may diminish the value of Eden Empire's intellectual property rights or narrow the scope of Eden Empire's intellectual property protection. As a result, Eden Empire's current or future intellectual property portfolio may not provide Eden Empire with sufficient rights to protect Eden Empire's business, including Eden Empire's products, processes and brands.

Termination or limitation of the scope of any intellectual property license may restrict or delay or eliminate Eden Empire's ability to develop and commercialize Eden Empire's products, which could adversely affect Eden Empire's business. We cannot guarantee that any third-party technology Eden Empire licenses will not be unenforceable or licensed to Eden Empire's competitors or used by others. In the future, Eden Empire may need to obtain licenses, renew existing license agreements in place at such time or otherwise replace existing technology. We are unable to predict whether these license agreements can be obtained or renewed or the technology can be replaced on acceptable terms, or at all.

Unauthorized parties may attempt to replicate or otherwise obtain and use Eden Empire's products, brands and technology. Policing the unauthorized use of Eden Empire's current or future trademarks, patents or other intellectual property rights could be difficult, expensive, time consuming and unpredictable, as may be enforcing these rights against unauthorized use by others. Identifying the unauthorized use of intellectual property rights is difficult as Eden Empire may be unable to effectively monitor and evaluate the products being distributed by Eden Empire's competitors, including parties such as unlicensed dispensaries and black market participants, and the processes used to produce such products. In addition, in any infringement proceeding, some or all of Eden Empire's trademarks or other intellectual property rights or other proprietary know-how, or those Eden Empire licenses from others, or arrangements or agreements seeking to protect the same for Eden Empire's benefit, may be found invalid, unenforceable, anti-competitive or not infringed; may be interpreted narrowly; or could put existing intellectual property applications at risk of not being issued.

In addition, other parties may claim that Eden Empire's products, or those Eden Empire license from others, infringe on their intellectual property, including their proprietary or patent protected rights. Such claims, whether or not meritorious, may result in the expenditure of significant financial and managerial resources and legal fees, resulting injunctions or temporary restraining orders or require the payment of damages. As well, Eden Empire may need to obtain licenses from third parties who allege that Eden Empire infringed on their lawful rights. Such licenses may not be available on terms acceptable to Eden Empire, or at all. In addition, Eden Empire may not be able to obtain or utilize on terms that are favorable to Eden Empire, or at all, licenses or other rights with respect to intellectual property that Eden Empire does not own. In the event that Eden Empire licenses its intellectual property to a third party, including a third party manufacturer, such third party could misappropriate its intellectual property or otherwise violate the terms of Eden Empire's license. If any of the foregoing events were to occur, it could have a material adverse effect on Eden Empire's business, results of operations and financial condition.

We also rely on certain trade secrets, technical know-how and proprietary information that are not protected by patents to maintain Eden Empire's competitive position. Eden Empire's trade secrets, technical know-how and proprietary information, which are not protected by patents, may become known to or be independently developed by competitors.

Information Technology

Eden Empire anticipates relying on computer systems and network infrastructures across its operations, including point of sales systems, payment processing and financial reporting. Furthermore, Eden Empire, and particularly the Retail Subsidiaries, expect to collect personal information of cannabis consumers, which may be of a particularly sensitive nature. Although Eden Empire anticipates that it will put forward significant efforts to protect these systems, it is likely that they will remain vulnerable to damage, viruses, security breaches and other harmful incidents. The occurrence of any such problem could potentially impact Eden Empire and Eden Empire's franchisees adversely.

Potential Litigation and Other Complaints

Eden Empire, through its owned stores and franchisees may be the subject of complaints or litigation from customers, due to injuries suffered on the premises or other health or operational concerns. Additionally, products sold may be subject to product liability litigation from consumers. Adverse publicity resulting from such allegations may materially affect the sales, regardless of whether such allegations are true or whether Eden Empire or franchisee are ultimately held liable.

Acquisitions

Eden Empire expects that in the future it will further expand its operations, brands, and product offerings through the acquisition of additional businesses, products or technologies. However, Eden Empire may not be able to identify suitable acquisition targets or merger partners and Eden Empire's ability to efficiently integrate large acquisitions may be limited by its lack of experience with them. If Eden Empire is able to identify suitable targets or merger partners, it may not be able to acquire these targets on acceptable terms or agree to terms with merger partners. Also, Eden Empire may not be able to integrate or profitably manage acquired businesses and may experience substantial expenses, delays or other operational or financial problems associated with the integration of acquired businesses. Eden Empire may also face substantial expenses, delays or other operational or financial problems if it is unable to sustain the distribution channels and other relationships currently in place at an acquired business. The businesses, products, brands or properties Eden Empire acquires may not achieve or maintain popularity with consumers, and other anticipated benefits may not be realized immediately or at all. Furthermore, integration of an acquired business may divert the attention of Eden Empire's management from its core business. In cases where Eden Empire acquires businesses that have key talented individuals, it cannot be certain that those persons will continue to work for it after the acquisition or that they will continue to develop popular and profitable products. Loss of such individuals could materially and adversely affect the value of businesses that Eden Empire acquires. Acquisitions also entail numerous other risks including, but not limited to, the following:

- unanticipated costs and legal liabilities;
- adverse effects on Eden Empire’s existing business relationships with its suppliers and customers;
- risk of entering markets in which Eden Empire has limited or no prior experience;
- and amortizing any acquired intangible assets; and
- difficulties in maintaining uniform standards, procedures, controls and policies.

Consistent with Eden Empire and the Subsidiaries’ past practice and in the normal course of business, Eden Empire has entered into multiple non-binding and confidential memoranda of understanding. There is no certainty that future investments or acquisitions will be made, whether in relation to each individual memorandum of understanding, or otherwise. Eden Empire expects to continue to actively pursue other acquisition and investment opportunities on an ongoing basis.

Ability to obtain and retain licenses and permits

Eden Empire may not be able to obtain and/or retain all necessary licenses and permits, which could, among other things, delay or prevent Eden Empire from becoming profitable. Eden Empire’s line of business is reliant on the issuance of required licenses. Failure to acquire necessary licenses required to operate new business expansion could have a material adverse effect on its financial condition. Due to the nature of licensing, which is at the discretion of state and local governments, it is outside of Eden Empire’s control and therefore ability to ensure that Eden Empire will receive the licenses it seeks.

Construction delays

Eden Empire may not be able to complete timely construction of its facilities, which could, among other things, delay or prevent Eden Empire from becoming profitable. Expansion of Eden Empire’s business will likely be achieved through the construction of new facilities. As with any construction project there is a possibility of cost overruns, and delays. Failure to be approved for licensing, and complications with construction projects could delay or otherwise harm Eden Empire’s future financial performance.

Public Health Crises, including the COVID-19 Pandemic

Eden Empire’s business, operations and financial condition could be materially adversely affected by public health crises, including epidemics, pandemics and/or other health crises, such as the outbreak of COVID-19. The current COVID-19 global health pandemic is significantly impacting the global economy and commodity and financial markets. The full extent and impact of the COVID-19 pandemic is unknown and to date has included extreme volatility in financial markets, a slowdown in economic activity and has raised the prospect of a global recession. The international response to COVID-19 has led to significant restrictions on travel, temporary business closures, quarantines, global stock market volatility and a general reduction in consumer activity, globally. Public health crises, such as the COVID-19 outbreak, can result in operating, supply chain and project development delays that can materially adversely affect the operations the Company.

Risks Related to The Listing

No Prior Public Market for Common Shares

Common Shares have not been listed or quoted on any stock exchange or market. The Company is currently applying to list on the CSE but has not received approval as of the date hereof.

An active and liquid market for Common Shares might not develop following the completion of a listing on the CSE, if the listing occurs, or, if developed, might not be maintained. If an active public market does not develop or is not maintained, investors might have difficulty selling their Common Shares.

Additional Regulatory Burden

Prior to the listing, if the listing occurs, Eden Empire has not been subject to the continuous and timely disclosure requirements of Canadian securities laws or other rules, regulations and policies of the CSE. Eden Empire is working with its legal, accounting and financial advisors to identify those areas in which changes should be made to its financial management control systems to manage Eden Empire's obligations as a public company. These areas include corporate governance, corporate controls, disclosure controls and procedures and financial reporting and accounting systems. Eden Empire has made, and will continue to make, changes in these and other areas, including its internal controls over financial reporting. In addition, compliance with reporting and other requirements applicable to public companies will create additional costs for Eden Empire and will require the time and attention of management. Eden Empire cannot predict the amount of the additional costs that it might incur, the timing of such costs or the impact that management's attention to these matters will have on its business.

Unpredictable and Volatile Market Price for Common Shares

The market price of Common Shares may be volatile and subject to wide fluctuations in response to numerous factors, many of which are beyond Eden Empire's control. This volatility may affect the ability of holders of Common Shares to sell their securities at an advantageous price. Market price fluctuations in Common Shares may be due to Eden Empire's operating results failing to meet expectations of securities analysts or investors in any period, downward revision in securities analysts' estimates, adverse changes in general market conditions or economic trends, acquisitions, dispositions or other material public announcements by Eden Empire or its competitors, along with a variety of additional factors. These broad market fluctuations may adversely affect the market price of Common Shares.

Financial markets historically at times experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities of companies and that have often been unrelated to the operating performance, underlying asset values or prospects of such companies. Accordingly, the market price of Common Shares may decline even if Eden Empire's operating results, underlying asset values or prospects have not changed. Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. There can be no assurance that continuing fluctuations in price and volume will not occur. If such increased levels of volatility and market turmoil continue, Eden Empire's operations could be adversely impacted and the trading price of Common Shares may be materially adversely affected.

No Dividends

Eden Empire has not paid dividends on its Common Shares and does not anticipate paying dividends on its Common Shares in the foreseeable future. The Board has sole authority to declare dividends payable to shareholders. The fact that Eden Empire has not, and does not plan to pay dividends indicates that Eden Empire uses its funds generated by operations for reinvestment in its operating activities. Investors also must evaluate an investment in Eden Empire solely on the basis of anticipated capital gains.

Use of Proceeds

Eden Empire's management will have broad discretion to use the funds available to it, and shareholders will be relying on management's judgment regarding the application of these funds. There may be circumstances where, for business reasons, a reallocation of funds may be necessary as may be determined at the discretion of Eden Empire. There can be no assurance as to how those funds may be reallocated.

Dilution and Future Sales of Common Shares

Eden Empire may issue additional Common Shares in the future, which may dilute a shareholder's holdings in Eden Empire. Eden Empire's articles permit the issuance of an unlimited number of Common Shares, and shareholders will have no pre-emptive rights in connection with such further issuance. The directors of Eden Empire have discretion to determine the price and the terms of issue of further issuances. Moreover, if Eden Empire issues stock options to purchase Common Shares, and such stock options are exercised, an investor will incur additional dilution.

Tax

Canadian federal and provincial tax issues should be taken into consideration prior to investing in the Special Warrants or any other offered securities, as applicable. The return on an investor's investment is subject to taxes and to changes in Canadian tax laws. There can be no assurance that tax laws, regulations or judicial or administrative interpretations of these laws and regulations will not change in a manner that fundamentally alters the tax consequences to investors holding or disposing of offered securities.

ADDITIONAL INFORMATION

Additional information relating to the Company can be found on SEDAR at www.sedar.com.