

EDEN EMPIRE INC.

CONSOLIDATED FINANCIAL STATEMENTS **(Expressed in Canadian Dollars)**

FOR THE YEARS ENDED JULY 31, 2020 AND 2019

INDEPENDENT AUDITORS' REPORT

To the Directors of
Eden Empire Inc.

Opinion

We have audited the consolidated financial statements of Eden Empire Inc. (the "Company"), which comprise the consolidated statements of financial position as at July 31, 2020 and 2019, the consolidated statements of loss and comprehensive loss, cash flows and changes in equity (deficiency) for the years ended July 31, 2020 and 2019, and the related notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as at July 31, 2020 and 2019 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditors Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information, which comprises the information included in the Company's Management Discussion & Analysis to be filed with the relevant Canadian securities commissions.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 of the accompanying consolidated financial statements, which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audits. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audits in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audits resulting in this independent auditors' report is Fernando J. Costa.

Manning Elliott LLP

CHARTERED PROFESSIONAL ACCOUNTANTS
Vancouver, British Columbia
November 30, 2020

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

(Expressed in Canadian Dollars)

AS AT JULY 31, 2020 AND 2019

	July 31, 2020	July 31, 2019
ASSETS		
Current		
Cash and cash equivalents	\$ 688,346	\$ 5,100,297
Amounts receivable	67,128	68,389
Prepaid expenses and deposits	48,977	59,500
Inventory (Note 6)	27,312	-
	<u>831,763</u>	<u>5,228,186</u>
Bridge loan (Note 8)	842,065	465,257
Option agreement (Note 9)	26,808	-
Lease inducements (Note 10)	80,000	-
Property and equipment (Note 11)	2,968,114	131,480
Intangible assets (Note 13)	18,000	18,000
	<u>\$ 4,766,750</u>	<u>\$ 5,842,923</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities (Note 18)	\$ 532,491	\$ 374,901
Lease liabilities (Note 14)	306,529	-
	<u>839,020</u>	<u>374,901</u>
Lease liabilities (Note 14)	1,256,505	-
Loan payable (Note 15)	40,000	-
Convertible debentures (Note 16)	-	5,522,449
	<u>2,135,525</u>	<u>5,897,350</u>
Shareholders' equity (deficiency)		
Share capital (Note 17)	8,873,458	1,404,564
Subscriptions receivable (Note 17)	-	(101,250)
Reserves (Note 17)	130,070	44,293
Equity component of convertible debentures	-	171,926
Accumulated other comprehensive loss	(3,289)	-
Deficit	(6,369,014)	(1,573,960)
	<u>2,631,225</u>	<u>(54,427)</u>
	<u>\$ 4,766,750</u>	<u>\$ 5,842,923</u>

NATURE OF OPERATIONS AND GOING CONCERN (Note 1)

SUBSEQUENT EVENT (Note 23)

Approved and authorized by the Board on November 30, 2020

_____/s/ Gerry Trapasso_____/ Director _____/s/ Kolten Taekema_____/ Director

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

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

(Expressed in Canadian Dollars)

FOR THE YEARS ENDED JULY 31, 2020 AND 2019

	2020	2019
EXPENSES		
Accounting and legal	\$ 631,014	\$ 408,062
Consulting	342,738	351,992
Depreciation (Note 11)	242,146	-
Filing and transfer agent fees	3,940	-
Interest, accretion and bank charges	1,024,419	188,696
Investor relations	352,994	135,299
Licenses and applications	191,255	-
Management fees	120,000	-
Office and administration	37,872	47,657
Property operating costs	204,866	-
Prospective location costs	382,282	150,017
Salaries	714,714	115,264
Share-based payments	-	35,045
Travel and meals	112,838	35,422
Total operating expenses	(4,361,078)	(1,467,454)
Other items:		
Allowance for amounts receivables (Notes 7 and 8)	(450,726)	-
Expense recoveries	285,950	-
Gain on sale of subsidiary (Note 12)	964,325	-
Interest and other income	72,824	16,940
Reverse takeover expense (Notes 4 and 5)	(1,306,349)	(277,413)
	(433,976)	(260,473)
Loss before income taxes	(4,795,054)	(1,727,927)
Deferred income tax recovery (Note 19)	-	153,967
Loss for the year	(4,795,054)	(1,573,960)
OTHER COMPREHENSIVE INCOME		
Foreign exchange on translating foreign operations	(3,289)	-
Loss and comprehensive loss for the year	\$ (4,798,343)	\$ (1,573,960)
Basic and diluted loss per common share		
	\$ (0.07)	\$ (0.08)
Weighted average number of common shares outstanding		
	67,050,821	20,374,273

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

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

(Expressed in Canadian Dollars)

FOR THE YEARS ENDED JULY 31, 2020 AND 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the year	\$ (4,795,054)	\$ (1,573,960)
Non-cash items:		
Accrued interest	(52,044)	(7,545)
Allowance for amounts receivables	450,726	-
Consulting fees issued in shares	150,000	262,500
Deferred income tax recovery	-	(153,967)
Depreciation	242,146	-
Finance expense	1,021,363	188,696
Gain on sale of subsidiary	(964,325)	-
Reverse takeover expense	1,249,936	204,637
Share-based payments	-	35,045
Unrealized foreign exchange	-	4,755
Changes in non-cash working capital items:		
Amounts receivable	9,249	(56,832)
Prepaid expenses and deposits	4,198	(59,500)
Inventory	(27,312)	-
Accounts payable and accrued liabilities	87,743	282,917
	<u>(2,623,374)</u>	<u>(873,254)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Bridge loan – funds provided	(384,353)	(348,656)
Promissory note – funds provided	(391,137)	-
Investment property	(1,327,211)	-
Property and equipment	(145,165)	-
Lease inducements	(80,000)	-
Cash received upon sale of subsidiary	1,010,000	-
Finder's fee paid on sale of subsidiary	(30,000)	-
Cash received upon completion of reverse take over	825	389,862
Option agreement payment	(26,924)	-
Deposit	-	(136,235)
	<u>(1,373,965)</u>	<u>(95,029)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from convertible debentures	-	5,604,000
Issuance costs on convertible debentures	-	(235,106)
Interest paid on convertible debentures	(361,670)	-
Funds received from loan	40,000	-
Lease payments	(199,192)	-
Proceeds on issuance of common shares	5,000	182,500
Issuance costs on common shares	-	(131,564)
Warrants exercised	-	648,750
Subscriptions received	101,250	-
	<u>(414,612)</u>	<u>6,068,580</u>
Change in cash and cash equivalents during the year	(4,411,951)	5,100,297
Cash and cash equivalents, beginning of year	5,100,297	-
Cash and cash equivalents, end of year	\$ 688,346	\$ 5,100,297
Supplementary cash flow information:		
Interest paid	\$ 361,670	\$ -
Debt conversion	6,034,940	-
Consulting fees issued in shares	150,000	-
Brokers' warrants for transaction costs	-	9,248

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

EDEN EMPIRE INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (DEFICIENCY)

(Expressed in Canadian Dollars)

FOR THE YEARS ENDED JULY 31, 2020 AND 2019

	Share capital		Subscriptions receivable	Reserves	Equity component of convertible debentures	Accumulated other comprehensive loss	Deficit	Total
	Number	Amount						
Balance, July 31, 2018	300	\$ 3	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3
Acquisition of 11943630 B.C. Ltd. (Note 4)	45,000,000	-	-	23,625	-	-	-	23,625
Cancellation of incorporation shares	(300)	-	-	-	-	-	-	-
Conversion of special warrants	472,500	23,625	-	(23,625)	-	-	-	-
Private placement, net of share issue costs	10,000,000	368,436	-	-	-	-	-	368,436
Shares issued for warrants exercised	5,000,000	750,000	(101,250)	-	-	-	-	648,750
Shares issued for consulting fees	4,750,000	262,500	-	-	-	-	-	262,500
Brokers' and consultant warrants	-	-	-	44,293	-	-	-	44,293
Issuance of convertible debentures	-	-	-	-	171,926	-	-	171,926
Loss and comprehensive loss for the year	-	-	-	-	-	-	(1,573,960)	(1,573,960)
Balance July 31, 2019	65,222,500	1,404,564	(101,250)	44,293	171,926	-	(1,573,960)	(54,427)
Subscriptions received	-	-	101,250	-	-	-	-	101,250
Shares issued upon completion of reverse takeover (Note 5)	3,690,094	1,107,028	-	-	-	-	-	1,107,028
Warrants issued upon completion of reverse takeover (Note 5)	-	-	-	85,777	-	-	-	85,777
Shares issued for convertible debt	20,779,952	6,206,866	-	-	(171,926)	-	-	6,034,940
Shares issued for consulting fees	500,000	150,000	-	-	-	-	-	150,000
Shares issued for cash	100,000	5,000	-	-	-	-	-	5,000
Loss and comprehensive loss for the year	-	-	-	-	-	(3,289)	(4,795,054)	(4,798,343)
Balance, July 31, 2020	90,292,546	\$ 8,873,458	\$ -	\$ 130,070	\$ -	\$ (3,289)	\$ (6,369,014)	\$ 2,631,225

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

EDEN EMPIRE INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian Dollars)

FOR THE YEARS ENDED JULY 31, 2020 AND 2019

1. NATURE OF OPERATIONS AND GOING CONCERN

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 (Note 8).

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

The Company reported a loss of \$4,795,054 for the year ended July 31, 2020 and had an accumulated deficit of \$6,369,014 as at July 31, 2020. The Company's ability to continue as a going concern is dependent upon its ability to raise funds primarily through the issuance of shares or achieve profitable operations. The achievement of profitable operations is dependent on successful licensing of its storefront operations. The outcome of these matters cannot be predicted at this time. If the Company is unable to obtain additional financing, management may be required to curtail certain expenses. These material uncertainties cast significant doubt about the Company's ability to continue as a going concern.

In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. The pandemic has not had a drastic impact on the Company's operations. Management continues to monitor the situation.

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 Eden Empire Inc. (predecessor), amalgamated with a wholly-owned subsidiary of the Company and the shareholders of Eden Empire Inc. (predecessor) received corresponding securities of the Company 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, the Company 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.

2. BASIS OF PREPARATION

Statement of compliance

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

Basis of consolidation and presentation

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

The accounting policies set out in Note 3 have been applied consistently by the Company and its subsidiaries to all periods presented.

Use of judgments and estimates

The preparation of these 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.

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

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

The key areas of estimates applied in the preparation of the condensed 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 is estimated using a discount rate similar to the Company's specific borrowing rate. This rate represents the rate that the Company would incur to obtain the funds necessary to purchase the asset of a similar value, with similar payment terms and security in a similar environment.

- Convertible debentures

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

- Share-based payments and compensation

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

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

EDEN EMPIRE INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in Canadian Dollars)

FOR THE YEARS ENDED JULY 31, 2020 AND 2019**3. SIGNIFICANT ACCOUNTING POLICIES****Basis of consolidation**

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries as follows:

Subsidiary	Date of Incorporation	Location
Eden Empire Inc. (formerly Rosehearty)	September 1, 2000	Canada
1194360 B.C. Ltd.	January 17, 2019	Canada
King Edward & Cambie Operations Ltd.	January 9, 2019	Canada
Peaceful Park Inc.	August 12, 2018	Canada
Eden Empire Ontario One Ltd.	April 28, 2020	Canada
Eden Empire Manitoba One Ltd.	June 3, 2020	Canada
Eden Empire US, Inc.	August 7, 2019	United States
Eden Empire Michigan, LLC	August 7, 2019	United States
Eden Empire Battle Creek RE, LLC	August 7, 2019	United States

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

Cash equivalents

Cash equivalents consist of a cashable guaranteed investment certificate that is readily convertible into a known amount of cash within 90 days or less.

Currency Translation

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

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

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

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

EDEN EMPIRE INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian Dollars)

FOR THE YEARS ENDED JULY 31, 2020 AND 2019

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

Financial instruments

Financial assets

The Company classifies its financial assets in the following categories: fair value through profit or loss, amortized cost or fair value through other comprehensive income. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at initial recognition.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss ("FVPL") are initially recognized at fair value with changes in fair value recorded in profit or loss. The Company classifies its promissory note (Note 7) and bridge loan (Note 8) as FVPL.

Amortized cost

Financial assets are classified at amortized cost if both of the following criteria are met and the financial assets are not classified or designated as at fair value through profit and loss: 1) the Company's objective for these financial assets is to collect their contractual cash flows and 2) the asset's contractual cash flows represent 'solely payments of principal and interest'. The Company's cash and cash equivalents are recorded at amortized cost as they meet the required criteria.

Fair value through other comprehensive income ("OCI")

For financial assets that are not held for trading, the Company can make an irrevocable election at initial recognition to classify the instruments at fair value through other comprehensive income ("FVOCI"), with all subsequent changes in fair value being recognized in other comprehensive income. This election is available for each separate investment. Under this new FVOCI category, fair value changes are recognized in OCI while dividends are recognized in profit or loss. On disposal of the investment the cumulative change in fair value is not recycled to profit or loss, rather transferred to deficit. The Company does not have any financial assets designated as FVOCI.

Financial liabilities

Financial liabilities are non-derivatives and are recognized initially at fair value, net of transaction costs, and are subsequently stated at amortized cost. Any difference between the amounts originally received, net of transaction costs, and the redemption value is recognized in profit or loss over the period to maturity using the effective interest method.

Financial liabilities are classified as current or non-current based on their maturity date. Financial liabilities include accounts payable, lease liabilities, loan payable and convertible debentures.

Fair value hierarchy

Fair value measurements of financial instruments are required to be classified using a fair value hierarchy that reflects the significance of inputs in making the measurements. The levels of the fair value hierarchy are defined as follows.

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 – Inputs for the asset or liability that are not based on observable market data.

Inventory

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

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

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

Property and equipment

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

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

Investment property

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

Leases

During the year ended July 31, 2020, the Company adopted IFRS 16 *Leases*. The adoption of IFRS 16 did not have any impact on the Company's consolidated financial statements as the Company was not a party to any leases at the time of adoption. At inception of a contract, we assess whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. We assess whether the contract involves the use of an identified asset, whether we have the right to obtain substantially all of the economic benefits from use of the asset during the term of the arrangement and if we have the right to direct the use of the asset.

As a lessee, the Company recognizes a right-of-use asset, and a lease liability at the commencement date of a lease. The right-of-use asset is initially measured at cost, which is comprised of the initial amount of the lease liability adjusted for any payments made at or before the commencement date, plus any decommissioning and restoration costs, less any lease incentives received.

The right-of-use asset is subsequently depreciated from the commencement date to the earlier of the end of the lease term, or the end of the useful life of the asset. In addition, the right-of-use asset may be reduced due to impairment losses, if any, and adjusted for certain measurements of the lease liability.

A lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by the interest rate implicit in the lease, or if that rate cannot be readily determined, the incremental borrowing rate. Lease payments included in the measurement of the lease liability are comprised of:

- fixed payments, including in-substance fixed payments, less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee;
- exercise prices of purchase options if we are reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, or if there is a change in our estimate or assessment of the expected amount payable under a residual value guarantee, purchase, extension or termination option. Variable lease payments not included in the initial measurement of the lease liability are charged directly to profit.

The Company does not recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases are charged directly to profit on a straight-line basis over the lease term.

EDEN EMPIRE INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in Canadian Dollars)

FOR THE YEARS ENDED JULY 31, 2020 AND 2019

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**Intangible assets**

The Company owns intangible assets consisting of trademarks. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets with indefinite lives are carried at cost less any accumulated impairment losses and are not amortized. Subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in profit or loss as incurred.

Impairment of non-current assets

At the end of each reporting period, the Company's assets are reviewed to determine whether there is any indication that those assets may be impaired. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. Indefinite life intangible assets are tested for annually, or more frequently, if events or changes indicate that the asset may be impaired. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the period. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash-generating unit ("CGU") to which the asset belongs.

When an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or CGU) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Share capital

Proceeds received on the issuance of units, consisting of common shares and warrants, are allocated first to common shares based on the market trading price of the common shares at the time the units are priced, and any excess is allocated to warrants.

Shares issued as consideration for goods or services provided by to those other than employees or others providing similar services are measured at the fair value of the goods or services received, except where the fair value cannot be measured reliably, in which case they are measured at the fair value of the equity instruments granted.

Share-based payments

Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of the goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The amount recognized as an expense is adjusted to reflect the number of awards expected to vest. The offset to the recorded cost is to reserve.

Consideration received on the exercise of stock options is recorded as share capital and the related reserve is transferred to share capital. Charges for options that are forfeited before vesting are reversed from reserve. For those unexercised options that expire, the recorded value is transferred to deficit.

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

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. At the acquisition date the identifiable assets acquired and the liabilities assumed are recognized at their fair value, except deferred tax assets or liabilities, which are recognized and measured in accordance with IAS 12 – Income Taxes. Subsequent changes in fair values are adjusted against the cost of acquisition if they qualify as measurement period adjustments. The measurement period is the period between the date of the acquisition and the date where all significant information necessary to determine the fair values is available and cannot exceed 12 months. All other subsequent changes are recognized in the consolidated statements of comprehensive loss.

The purchase price allocation process resulting from a business combination requires management to estimate the fair value of identifiable assets acquired including intangible assets and liabilities assumed including any contingently payable purchase price obligation due over time. The Company uses valuation techniques, which are generally based on forecasted future net cash flows discounted to present value. These valuations are closely linked to the assumptions used by management on the future performance of the related assets and the discount rates applied. The determination of fair value involves making estimates relating to acquired intangibles assets, property and equipment and contingent consideration.

Acquisition related costs are recognized in the consolidated statements of comprehensive loss as incurred.

Management determines whether assets acquired and liabilities assumed constitute a business. A business consists of inputs and processes applied to those inputs that have the ability to create outputs.

The Company acquired 1194360 B.C. Ltd., as described in Note 4 and concluded that the transaction did not qualify as a business combination under IFRS 3, "Business Combinations". The Company acquired Eden Empire Inc. (predecessor) as described in Note 5 and concluded that the transaction did not qualify as a business combination under IFRS 3, "Business Combinations".

Loss per share

Basic loss per share is calculated by dividing the loss available to common shareholders by the weighted average number of shares outstanding in the period. For all periods presented, the loss available to common shareholders equals the reported loss. Diluted loss per share is calculated by the treasury stock method. Under the treasury stock method, the weighted average number of shares outstanding for the calculation of diluted loss per share assumes that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the period. In the Company's case, diluted loss per share is the same as basic loss per share, as the effects of including all outstanding options and warrants would be anti-dilutive.

Income taxes

The Company uses the liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred income tax assets also result from unused loss carry-forwards, resource related pools and other deductions. A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is possible that future taxable profits will be available against which they can be utilized.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Upcoming accounting pronouncements

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended July 31, 2020, and have not been applied in preparing these consolidated financial statements. Management does not expect the impact of any such new standards and amendments to have any significant impact on its consolidated financial statements

EDEN EMPIRE INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in Canadian Dollars)

FOR THE YEARS ENDED JULY 31, 2020 AND 2019**4. ACQUISITION OF 1194360 B.C. LTD.**

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

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

In accordance with reverse acquisition accounting:

- i) The assets and liabilities of 1194360 are included in the statement of financial position at their carrying values.
- ii) The net liabilities of the Company are included at their fair value of \$181,011.

Fair value of share-based consideration allocated:

Deemed issuance of 1 common share	\$	1
Special warrants		23,625
		23,626
Identifiable net assets acquired:		
Cash and cash equivalent		389,862
Amounts receivable		11,555
Bridge loan		109,056
Accounts payable		(73,984)
Convertible debentures		(300,000)
Share subscriptions received		(317,500)
		(181,011)
Transaction costs		(72,776)
Total RTO expense	\$	277,413

5. REVERSE TAKEOVER TRANSACTION

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

As a result, a reverse takeover transaction cost of \$1,306,349 has been recorded. This reflects the difference between the estimated fair value of the Eden Empire's shares deemed to have been issued to the Company's shareholders, plus transaction costs incurred, less the net fair value of the assets acquired.

In accordance with reverse acquisition accounting:

- i) The assets and liabilities of Rosehearty are included in the statement of financial position at their carrying values
- ii) The net liabilities of the Company are included at their fair value of \$57,131.

EDEN EMPIRE INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in Canadian Dollars)

FOR THE YEARS ENDED JULY 31, 2020 AND 2019**5. REVERSE TAKEOVER TRANSACTION (cont'd...)**

Fair value of consideration allocated:		
Fair value of 3,690,094 shares issued at \$0.30 per share	\$	1,107,028
Fair value of 1,011,166 warrants ⁽¹⁾		85,777
		1,192,805
Identifiable net assets acquired:		
Cash		825
Amounts receivable		7,988
Prepays		3,675
Accounts payable		(69,618)
		(57,131)
Transaction costs		(56,413)
Total RTO expense	\$	1,306,349

(1) The fair value of the warrants was determined using the following weighted average Black-Scholes assumptions:

Grant date share price	\$	0.60
Risk-free interest rate		0.27%
Expected life of warrants		0.8 years
Expected annualized volatility		120.00%
Dividend rate		-

6. INVENTORY

Inventory	July 31, 2020	July 31, 2019
Finished goods	\$ 27,312	\$ -
Balance, end of year	\$ 27,312	\$ -

Inventory consists of branded promotional materials for sale.

7. PROMISSORY NOTE

In the year ended July 31, 2020, the Company provided a promissory note ("Promissory Note") of \$391,137 to a private entity in St. Vincent & the Grenadines for the purpose of applying for one or more licenses in that jurisdiction. The Promissory Note is unsecured, accrues interest at a rate of 1% per annum and is payable on demand after March 1, 2021. The Company recognized interest income of \$1,693 in the year ended July 31, 2020. 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.

8. ACQUISITION OF B.C. DISPENSARIES

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

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

EDEN EMPIRE INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian Dollars)

FOR THE YEARS ENDED JULY 31, 2020 AND 2019

8. ACQUISITION OF B.C. DISPENSARIES (cont'd...)

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

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

As at 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.

9. OPTION AGREEMENT

Option Agreement for the Acquisition of Actium Botanicals

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

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

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

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

10. LEASE INDUCEMENTS

King Edward & Cambie Operations Ltd.

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

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

As at July 31, 2020, the Company does not have use of the premise and accordingly has not recognized a right-of-use asset. Furthermore, payments under the lease agreement have not begun pending receipt of the conditional cannabis permit. Payments totaling \$80,000 to hold the lease agreement are recorded as lease inducements as at July 31, 2020.

EDEN EMPIRE INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian Dollars)

FOR THE YEARS ENDED JULY 31, 2020 AND 2019
11. PROPERTY AND EQUIPMENT

	Office equipment	Investment property	Right-of-use assets	Leasehold improvements	Total
Cost					
Balance, July 31, 2018	\$ -	\$ -	\$ -	\$ -	\$ -
Additions	-	131,480	-	-	131,480
Balance, July 31, 2019	-	131,480	-	-	131,480
Additions	61,336	1,327,211	1,723,900	15,451	3,127,898
Disposal (Note 12)	-	-	(66,046)	-	(66,046)
Foreign exchange	-	(3,173)	-	-	(3,173)
Balance, July 31, 2020	\$ 61,336	\$ 1,455,518	\$ 1,657,854	\$ 15,451	\$ 3,190,159
Accumulated Depreciation					
Balance, July 31, 2019 and 2018	\$ -	\$ -	\$ -	\$ -	\$ -
Depreciation expense	6,134	-	234,018	1,994	242,146
Disposal (Note 12)	-	-	(20,101)	-	(20,101)
Foreign exchange	-	-	-	-	-
Balance, July 31, 2020	\$ 6,134	\$ -	\$ 213,917	\$ 1,994	\$ 222,045
Net Book Value					
Balance, July 31, 2019	\$ -	\$ 131,480	\$ -	\$ -	\$ 131,480
Balance, July 31, 2020	\$ 55,202	\$ 1,455,518	\$ 1,443,937	\$ 13,457	\$ 2,968,114

Investment property

In the year ended July 31, 2020, the Company completed the purchase of a building and contiguous land in Battle Creek, Michigan, US. The Company paid US\$995,000 and additional transaction costs of US\$90,884. The Company has a lease agreement on the property with Actium for the period of one year after which the Company will grant a month to month tenancy. Actium may use the property only for the operation of a provisioning center and/or cannabis retailer once Actium has received all requisite licenses and permits from all relevant regulatory or governmental authorities and for no other purpose. No income was recognized with respect to the lease agreement in the year ended July 31, 2020. Actium will be required to pay rent once the premise is opened for operations.

12. SALE OF SUBSIDIARY

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

Disposal of 4317 Fraser

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

EDEN EMPIRE INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in Canadian Dollars)

FOR THE YEARS ENDED JULY 31, 2020 AND 2019**13. INTANGIBLE ASSETS**

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

Cost	
Balance, July 31, 2020 and July 31, 2019	\$ 18,000

14. LEASE LIABILITIES

Balance, July 31, 2019 and 2018	\$ -
Additions	1,655,523
Accrued finance expense	146,973
Lease payments	(199,192)
Disposal (Note 12)	(40,270)
Balance, July 31, 2020	\$ 1,563,034
Current	\$ 306,529
Long term	\$ 1,256,505

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

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 McPhillips 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 McPhillips street in Winnipeg, Manitoba commencing October 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. The annual lease payments of \$252,000 under the Cambie lease agreement will begin upon receipt of a conditional cannabis permit.

15. LOAN PAYABLE

The Company received a \$40,000 revolving line of credit as part of the Canada Emergency Business Account (CEBA) program due to COVID-19. The loan is interest free and requires no principal payments until December 2022 ("Initial Term Date"). The loan can be extended to December 2025 and 25% will be forgiven if the principal is repaid before the Initial Term Date.

EDEN EMPIRE INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in Canadian Dollars)

FOR THE YEARS ENDED JULY 31, 2020 AND 2019**16. 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 will be convertible upon the filing of a prospectus in Canada, becoming a reporting issuer in British Columbia, or similar liquidity transaction.

The Company estimated that a similar borrowing without a conversion feature would be available to the Company at an interest rate of 14% per annum. The Company discounted the convertible debentures to recognize the value of the conversion feature as \$325,893, reduced by a deferred income tax impact of \$153,967. The Company incurred other transaction costs of \$235,106 and issued brokers' warrants valued at \$9,248 (Note 17(d)) which are being accreted over the term of the debentures.

During the year ended July 31, 2020, the convertible debentures with a carrying value of \$5,704,956 were converted in exchange for 19,680,000 common shares of the Company. The Company also issued 1,099,952 common shares in exchange for accrued interest of \$330,212 on the convertible debentures.

Convertible debentures	July 31, 2020	July 31, 2019
Balance, beginning of year	\$ 5,522,449	\$ -
Proceeds on issuance	-	5,904,000
Equity feature	-	(325,893)
Transaction costs	-	(244,354)
Finance expense	874,389	188,696
Interest paid	(361,670)	-
Debt conversion	<u>(6,035,168)</u>	<u>747</u>
	<u>314</u>	-
Balance, end of year	\$ -	\$ 5,522,449

17. SHARE CAPITAL AND RESERVES**a) Authorized share capital**

Unlimited number of common shares without par value.

Unlimited number of preferred shares without par value.

b) Issued share capital

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

- i. Issued 3,690,094 common shares for the Eden RTO (Note 5).
- ii. Issued 20,779,952 common shares upon conversion of debentures (Note 16).
- iii. Issued 500,000 common shares for consulting fees valued at \$150,000.
- iv. Issued 100,000 common shares for proceeds of \$5,000.

EDEN EMPIRE INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in Canadian Dollars)

FOR THE YEARS ENDED JULY 31, 2020 AND 2019**17. SHARE CAPITAL AND RESERVES (cont'd...)****b) Issued share capital (cont'd...)**

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

- i. Issued 45,000,000 common shares for the reverse takeover transaction to acquire the Eden IP (Note 4).
- ii. Completed a private placement of 10,000,000 units at a price of \$0.05 per unit for gross proceeds of \$500,000. Each unit is comprised of one common share and one-half of one share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share of the Company at an exercise price of \$0.15 for a period of two years. The Company incurred issuance costs of \$131,564 in connection with the financing.
- iii. Issued 472,500 common shares upon the conversion of the special warrants (Note 17(c)).
- iv. Issued 5,000,000 common shares pursuant to the exercise of warrants for gross proceeds of \$750,000, of which \$101,250 was included in subscriptions receivable as at July 31, 2019 and received subsequent to year end.
- v. Issued 4,750,000 common shares for consulting fees valued at \$262,500.

c) Special Warrants

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

d) Warrants

Warrant transactions are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, July 31, 2018	-	\$ -
Issued	5,661,630	0.17
Exercised	(5,000,000)	0.15
Balance outstanding, July 31, 2019	661,630	\$ 0.30
Issued	1,011,166	0.06
Balance outstanding, July 31, 2020	1,672,796	\$ 0.48

Warrants outstanding as at July 31, 2020:

	Number outstanding	Exercise price	Expiry date
Warrants	161,630	\$ 0.30	November 17, 2020
	500,000	0.30	May 31, 2021
	844,500	0.60	February 1, 2021
	166,666	0.60	August 19, 2021
	<u>1,672,796</u>		

As at July 31, 2020, the weighted average outstanding life of the Company's outstanding warrants is 0.64 years (2019 – 1.71 years).

EDEN EMPIRE INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in Canadian Dollars)

FOR THE YEARS ENDED JULY 31, 2020 AND 2019**17. SHARE CAPITAL AND RESERVES (cont'd...)**

d) Warrants (cont'd...)

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

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

During the year ended July 31, 2020, the Company issued 1,011,666 warrants with a weighted average fair value of \$0.60 per warrant as part of the RTO (Note 5). The Company recognized \$85,777 with respect to these warrants in reserves.

18. RELATED PARTY TRANSACTIONS 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 during the year ended July 31, 2020 and 2019 is as follows:

Payments to key management personnel	2020		2019	
Consulting fees paid to a company controlled by an officer	\$	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.

19. INCOME TAXES

Income tax expense differs from the amount that would be computed by applying the Canadian statutory income tax rate of 27.00% (2019 - 27.00%) to income before income taxes. The reasons for the differences are as follows:

	2020		2019	
Income before income tax	\$	(4,795,054)	\$	(1,727,927)
Statutory income tax rate		27.00%		27.00%
Income tax expense computed at Canadian statutory rates		(1,296,000)		(467,000)
Items not deductible for tax purposes and other		462,000		(4,967)
Unused tax losses and balances acquired upon Eden RTO		(4,280,000)		-
Unused tax losses and tax offsets not recognized in tax assets		5,114,000		318,000
Income tax recovery	\$	-	\$	(153,967)

EDEN EMPIRE INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in Canadian Dollars)

FOR THE YEARS ENDED JULY 31, 2020 AND 2019**19. INCOME TAXES (cont'd...)**

The Company recognizes tax benefits on losses or other deductible amounts where the probable criteria for the recognition of deferred tax assets have been met. The Company's unrecognized deductible temporary differences and unused tax losses for which no deferred tax asset is recognized consist of the following amounts:

	2020		2019	
	Temporary Difference	Tax Asset (Liability)	Temporary Difference	Tax Asset (Liability)
Non-capital losses	\$ 13,746,000	\$ 3,712,000	\$ 1,237,000	\$ 334,000
Exploration and evaluation costs	6,051,000	1,631,000	-	-
Convertible debentures	-	-	(411,000)	(111,000)
Share issue costs	79,000	21,000	352,000	95,000
Property and equipment	8,000	2,000	-	-
Capital losses	153,000	41,000	-	-
Input tax credits	35,000	25,000	-	-
Unrecognized deductible temporary differences	\$ 20,072,000	\$ 5,432,000	\$ 1,178,000	\$ 318,000

As at July 31, 2020, the Company has Canadian non-capital losses of \$13,746,000 that may be applied to reduce future taxable income. If these losses are not used to offset future income, they will expire through fiscal years 2026 to 2040.

20. SEGMENTED INFORMATION

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

Non-current assets	Canada	United States	Total
Option agreement	\$ -	\$ 26,808	\$ 26,808
Lease inducements	80,000	-	80,000
Property and equipment			
Office equipment	55,202	-	55,202
Investment property	-	1,455,518	1,455,518
Right-of-use assets	1,443,937	-	1,443,937
Leasehold improvements	13,457	-	13,457
Intangible assets	18,000	-	18,000
Balance, July 31, 2020	\$ 1,610,596	\$ 1,482,326	\$ 3,092,922

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

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

Cash and cash equivalents, accounts payable and loan payable are carried at amortized cost. The Company considers that the carrying amount of these financial assets and liabilities measured at amortized cost to approximate their fair value due to the short-term nature of the financial instruments. The Company's Promissory Note (Note 7) and Bridge Loan (Note 8) are carried at fair value using level 3 inputs. The Company's convertible debentures are carried at amortized cost. Lease liabilities are carried at amortized cost. Undiscounted lease commitments are disclosed in Note 14.

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. Although the Company believes its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. For fair value measurements in level 3, the impact of a 10% increase or decrease in the underlying fair value would result in an increase or decrease of \$84,207 in the fair value of the Bridge Loan.

EDEN EMPIRE INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in Canadian Dollars)

FOR THE YEARS ENDED JULY 31, 2020 AND 2019

21. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd...)**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 (Note 14).

Market risk

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

a) Interest rate risk

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

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

b) Foreign currency risk

The Company holds an investment property (Note 11) and an option agreement (Note 9) in the United States ("US"). 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		<u>(146,982)</u>
		(131,619)
Equivalent in Canadian Dollars	\$	<u>(176,422)</u>

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.

EDEN EMPIRE INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in Canadian Dollars)

FOR THE YEARS ENDED JULY 31, 2020 AND 2019

22. CAPITAL MANAGEMENT

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

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

23. SUBSEQUENT EVENT

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 a period of 10 months beginning the earlier of receiving a retail license for the Retail Subsidiary or February 15, 2021. As party to the agreement, the Company will reimburse 1175579 for the associated legal fees, make a payment of \$65,000 in cash or common shares and pay the additional cash consideration of \$350,000 within 14 months (Note 8).