



1933 INDUSTRIES INC.

CONSOLIDATED FINANCIAL STATEMENTS

For the years ended July 31, 2022 and 2021

(Expressed in Canadian dollars)

To the Shareholders of 1933 Industries Inc.:

Opinion

We have audited the consolidated financial statements of 1933 Industries Inc. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at July 31, 2022 and July 31, 2021, and the consolidated statements of loss, comprehensive loss, changes in equity and cash flows for the years then ended, and 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 consolidated financial position of the Company as at July 31, 2022 and July 31, 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

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 Auditor's Responsibilities for the Audit of the Consolidated 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.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company incurred a net loss during the year ended July 31, 2022 and, as of that date, the Company had an accumulated deficit. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

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 audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. 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.

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

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

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.

Auditor's 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 audit. 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 audit 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 consolidated 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 to 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 audit resulting in this independent auditor's report is Giacomo Angelini.

Burlington, Ontario

November 28, 2022

MNP LLP

Chartered Professional Accountants

Licensed Public Accountants

1933 INDUSTRIES INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian dollars)

| | Note | July 31, 2022 | As at July 31, 2021 |
|---|-------|-------------------|------------------------|
| | | \$ | \$ |
| ASSETS | | | |
| Current | | | |
| Cash | | 363,274 | 4,405,849 |
| Receivables | 4,19 | 1,343,273 | 934,109 |
| Inventory | 5 | 5,861,394 | 4,199,850 |
| Biological assets | 6 | 1,311,192 | 865,953 |
| Prepaid expenses and deposits | 8 | 396,546 | 743,455 |
| Assets held for sale | 11 | 3,071,337 | - |
| | | 12,347,016 | 11,149,216 |
| Property and equipment | 9 | 12,170,940 | 18,677,577 |
| Goodwill | 10 | 4,491,721 | 15,527,023 |
| Total assets | | 29,009,677 | 45,353,816 |
| LIABILITIES | | | |
| Current | | | |
| Accounts payable and accrued liabilities | | 2,755,626 | 1,381,208 |
| Income tax payable | 23 | 1,050,251 | 488,899 |
| Current portion of lease liability | 12 | 290,582 | 459,553 |
| Warrant liability | 13 | - | 380,146 |
| Current portion of convertible debentures | 14 | 4,574,279 | - |
| | | 8,670,738 | 2,709,806 |
| Lease liability | 12 | 12,816,214 | 13,176,655 |
| Convertible debentures | 14 | - | 4,234,819 |
| Total liabilities | | 21,486,952 | 20,121,280 |
| Shareholders' equity | | | |
| Share capital | 15 | 81,855,012 | 81,817,159 |
| Reserves | 15(d) | 10,157,141 | 10,145,449 |
| Accumulated other comprehensive loss | | (1,034,349) | (1,320,710) |
| Deficit | | (82,456,203) | (64,649,281) |
| Equity attributable to shareholders of the Company | | 8,521,601 | 25,992,617 |
| Non-controlling interest | 16 | (998,876) | (760,081) |
| Total shareholders' equity | | 7,522,725 | 25,232,536 |
| Total liabilities and shareholders' equity | | 29,009,677 | 45,353,816 |

Nature of operations and going concern (Note 1)
Events after the reporting period (Note 24)

Approved on behalf of the Board of Directors and authorized for issuance:

“Signed”

Brian Farrell, Director

“Signed”

Paul Rosen, Director

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

1933 INDUSTRIES INC.**CONSOLIDATED STATEMENTS OF LOSS**

For the years ended July 31, 2022 and 2021

(Expressed in Canadian dollars, except share numbers)

| | Note | 2022 | 2021 |
|---|-------|---------------------|-------------|
| | | \$ | \$ |
| Revenues | 19 | 12,537,937 | 11,975,021 |
| Cost of sales | 5 | 9,307,472 | 8,323,630 |
| Gross margin, excluding fair value adjustments | | 3,230,465 | 3,651,391 |
| Realized fair value adjustment on biological assets | 6 | (4,131,893) | (1,985,587) |
| Unrealized fair value adjustment on biological assets | 6 | 3,591,853 | 3,154,163 |
| Gross margin | | 2,690,425 | 4,819,967 |
| Expenses (income) | | | |
| Accretion expense | 14 | 10,434 | 107,194 |
| Depreciation | 9 | 499,846 | 498,471 |
| Foreign exchange loss (gain) | | 43,962 | (45,474) |
| Gain on change in fair value of warrant liability | 13 | (380,146) | (5,733) |
| Gain on disposal of property and equipment | 9 | (255,146) | - |
| General and administration | 19,21 | 2,017,108 | 1,354,453 |
| Goodwill impairment | 10 | 11,540,439 | - |
| Impairment of property and equipment | 9 | - | 427,459 |
| Interest expense | 12,14 | 1,749,132 | 1,999,514 |
| Interest income | 7 | (16,489) | - |
| License fees, taxes, and insurance | | 2,800,352 | 2,406,515 |
| Management and consulting fees | 19 | 377,653 | 417,064 |
| Other income | | (193,421) | (298,013) |
| Professional fees | 19 | 1,135,317 | 1,241,853 |
| Share-based compensation | 15(f) | 12,370 | 1,025,074 |
| Wages and benefits | 19 | 865,688 | 1,497,013 |
| | | 20,207,099 | 10,625,390 |
| Loss before income taxes | | (17,516,674) | (5,805,423) |
| Current income tax expense | 23 | (549,000) | (482,000) |
| Net loss for the year | | (18,065,674) | (6,287,423) |
| Net (loss) income attributable to: | | | |
| Shareholders of the Company | | (17,806,922) | (6,467,923) |
| Non-controlling interest | 16 | (258,752) | 182,993 |
| Net loss per share | | | |
| Basic and diluted | | (0.04) | (0.00) |
| Weighted average number of shares outstanding | | | |
| Basic and diluted | | 450,684,512 | 387,006,229 |

Segmented information (Note 22)

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

1933 INDUSTRIES INC.**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**

For the years ended July 31, 2022 and 2021

(Expressed in Canadian dollars)

| | 2022 | 2021 |
|--|---------------------|-------------|
| | \$ | \$ |
| Net loss for the year | (18,065,674) | (6,287,423) |
| Other comprehensive income (loss) | | |
| Foreign currency translation adjustment (Item that may be subsequently reclassified to profit or loss) | 306,318 | (2,170,836) |
| Comprehensive loss for the period | (17,759,356) | (8,458,259) |
| Comprehensive (loss) income attributable to: | | |
| Shareholders of the Company | (17,806,922) | (6,470,416) |
| Translation adjustment - Shareholders of the Company | 286,361 | (2,137,901) |
| Comprehensive loss attributable to shareholders of the Company | (17,520,561) | (8,608,317) |
| Non-controlling interest | (258,752) | 182,993 |
| Translation adjustment -non-controlling interest | 19,957 | (32,935) |
| Comprehensive (loss) income attributable to non-controlling interest | (238,795) | 150,058 |
| | (17,759,356) | (8,458,259) |

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

1933 INDUSTRIES INC.**CONSOLIDATED STATEMENTS OF CASH FLOWS**

For the years ended July 31, 2022 and 2021

(Expressed in Canadian dollars)

| | 2022 | 2021 |
|--|--------------------|--------------------|
| | \$ | \$ |
| Operating activities | | |
| Net loss for the year | (18,065,674) | (6,287,423) |
| Adjustments to non-cash items: | | |
| Accretion expense | 10,434 | 107,194 |
| Depreciation | 1,923,248 | 993,307 |
| Realized fair value adjustment on biological assets | 4,131,893 | 1,985,587 |
| Unrealized fair value adjustment on biological assets | (3,591,853) | (3,154,163) |
| Gain on change in fair value of warrant liability | (380,146) | (5,733) |
| Gain on lease termination | (12,723) | - |
| Gain on sale of property and equipment | (255,146) | - |
| Net realizable value adjustment on inventory | 887,972 | - |
| Impairment of property and equipment | - | 427,459 |
| Goodwill impairment | 11,540,439 | - |
| Interest expense on convertible debentures | 366,201 | 634,492 |
| Interest income | (16,489) | - |
| Loss on lease modification | (59,342) | - |
| Share-based compensation | 12,370 | 1,025,074 |
| Warrants issued for professional fees | - | 35,136 |
| Changes in non-cash working capital items: | | |
| Receivables | (340,631) | (32,252) |
| Inventory | (2,494,813) | (2,106,762) |
| Biological assets | (985,279) | 1,112,955 |
| Prepaid expenses and deposits | 368,871 | 57,315 |
| Accounts payable and accrued liabilities | 1,313,929 | 53,114 |
| Income taxes payable | 561,352 | 488,899 |
| Net cash used in operating activities | (5,085,387) | (4,665,801) |
| Investing activities | | |
| Purchase of property and equipment | (14,908) | (456,360) |
| Recovery of loan receivable | 16,489 | - |
| Net cash provided by (used in) investing activities | 1,581 | (456,360) |
| Financing activities | | |
| Common shares issued for cash - private placement | - | 6,662,025 |
| Share issue costs | - | (492,645) |
| Proceeds from sale of property and equipment | 1,938,008 | - |
| Repayment of lease obligation | (403,310) | (109,839) |
| Net cash provided by financing activities | 1,534,698 | 6,059,541 |
| Effect of exchange rate changes on cash | (493,467) | 706,927 |
| Change in cash | (4,042,575) | 1,644,307 |
| Cash, beginning of year | 4,405,849 | 2,761,542 |
| Cash, end of year | 363,274 | 4,405,849 |

Supplemental disclosure with respect to cash flows (Note 20)

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

1933 INDUSTRIES INC.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Expressed in Canadian dollars, except share numbers)

| | Note | Number | Share capital | Reserves | Accumulated other comprehensive income (loss) | Deficit | Non- controlling interest | Total shareholders' equity |
|---|-------|--------------------|-------------------|-------------------|--|---------------------|------------------------------|----------------------------------|
| | | # | \$ | \$ | \$ | \$ | \$ | \$ |
| Balance, July 31, 2020 | | 305,647,546 | 70,887,770 | 6,653,522 | 817,190 | (57,996,162) | (910,138) | 19,452,182 |
| Shares issued - conversion of convertible debentures \$0.10 | 14,15 | 75,203,138 | 7,574,521 | (144,483) | - | - | - | 7,430,038 |
| Shares issued - private placement | 15 | 69,475,969 | 4,029,351 | 2,246,795 | - | - | - | 6,276,146 |
| Share-based compensation | 15,19 | - | - | 1,025,074 | - | - | - | 1,025,074 |
| Share issue costs | 15 | - | (674,483) | 181,838 | - | - | - | (492,645) |
| Purchase of non-controlling interest | | - | - | 182,703 | - | (182,703) | - | - |
| Net income attributable to non-controlling interest | | - | - | - | - | - | 182,993 | 182,993 |
| Translation adjustment | | - | - | - | (2,137,900) | - | (32,936) | (2,170,836) |
| Net loss for the period | | - | - | - | - | (6,470,416) | - | (6,470,416) |
| Balance, July 31, 2021 | | 450,326,653 | 81,817,159 | 10,145,449 | (1,320,710) | (64,649,281) | (760,081) | 25,232,536 |
| Shares issued - conversion of convertible debentures \$0.10 | 14,15 | 372,666 | 37,853 | (678) | - | - | - | 37,175 |
| Share-based compensation | 15,19 | - | - | 12,370 | - | - | - | 12,370 |
| Net income attributable to non-controlling interest | | - | - | - | - | - | (258,752) | (258,752) |
| Translation adjustment | | - | - | - | 286,361 | - | 19,957 | 306,318 |
| Net loss for the period | | - | - | - | - | (17,806,922) | - | (17,806,922) |
| Balance, July 31, 2022 | | 450,699,319 | 81,855,012 | 10,157,141 | (1,034,349) | (82,456,203) | (998,876) | 7,522,725 |

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

1933 INDUSTRIES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

July 31, 2022 and 2021

(Expressed in Canadian dollars, except where noted)

1. NATURE OF OPERATIONS AND GOING CONCERN

1933 Industries Inc. (the "Company") was incorporated pursuant to the provisions of the Business Corporations Act of Alberta and later continued into the Province of British Columbia. The Company is a publicly traded corporation with its registered office located at 300 – 1055 West Hastings Street, Vancouver, British Columbia, Canada. The Company's common shares are listed under the symbol "TGIF" on the Canadian Securities Exchange and under the symbol "TGIF" on the OTCQX.

The Company operates in the medical and recreational cannabis sectors in Nevada, USA. Alternative Medicine Association ("AMA"), a 91% owned subsidiary of the Company is licensed in the State of Nevada as (i) a cultivation facility; and (ii) a production facility for edible, or cannabis-infused products. Infused Mfg ("Infused"), a 100% owned subsidiary of the Company, is focused on developing, and manufacturing hemp and cannabidiol ("CBD") infused products and brands for retail sale and use in jurisdictions where permitted.

While some states in the United States ("U.S.") have authorized the use and sale of cannabis, it remains illegal under federal law and the approach to enforcement of U.S. federal laws against cannabis is subject to change. Because the Company engages in cannabis related activities in the U.S., it assumes certain risks due to conflicting state and federal laws. The federal law relating to cannabis could be enforced at any time and this would put the Company at risk of being prosecuted and having its assets seized. The Company may be irreparably harmed by a change in enforcement policies of the federal government depending on the nature of such change.

Given the current illegality of cannabis under U.S. federal law, the Company's ability to access both public and private capital may be hindered by the fact that certain financial institutions are regulated by the U.S. federal government and are thus prohibited from providing financing to companies engaged in cannabis related activities. The Company's ability to access public capital markets in the U.S. is directly hindered as a result. The Company may, however, be able to access public and private capital markets in Canada in order to support continuing operations.

Going Concern

The Company has not yet achieved profitable operations and during the year ended July 31, 2022, the Company incurred a net loss of \$18,065,674 (2021 - \$6,287,423) and used cash in operating activities of \$5,085,387 (2021 - \$4,665,801). In addition, at July 31, 2022, the Company had an accumulated deficit of \$82,456,203 (July 31, 2021 - \$64,649,281) and convertible debentures of \$4,574,279 (July 31, 2021 - \$4,234,819). These factors represent a material uncertainty that may raise significant doubt regarding the Company's ability to continue as a going concern.

In response to these concerns, the Company has taken the following actions:

- On August 24, 2022, debenture holders approved the amendment of the conversion price applicable to the convertible debentures to \$0.05 per share and the extension of the maturity date for the Debentures from September 14, 2022 to December 31, 2023 (Note 24);
- September 9, 2022, the Company obtained a line of credit of up to \$1,282,400 (USD\$1,000,000) (the "Loan"), provided by Mr. Paul Rosen, Chairman and CEO of the Company (Note 24);
- On September 27, 2022, the Company completed the sale of the assets held for sale for net proceeds of \$3,119,719 (USD\$2,432,719); and
- No dividends were declared for the year ended July 31, 2022.

The Company will re-evaluate the going concern risk at each reporting period and will consider removing the going concern and uncertainty note when the Company can depend on the profitable operations or is confident of obtaining additional debt, equity or other financing to fund ongoing operations until profitability is achieved. These consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. Should the Company be unable to obtain additional capital in the future and the Company's ability to continue as a going concern be impaired, material adjustments may be necessary to these consolidated financial statements

These consolidated financial statements have been prepared using accounting principles applicable to a going concern and do not reflect adjustments, which could be material, to the carrying values of the assets and liabilities. See Note 24 for events after the reporting period.

1933 INDUSTRIES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

July 31, 2022 and 2021

(Expressed in Canadian dollars, except where noted)

2. BASIS OF PRESENTATION

a) Statement of compliance

These consolidated financial statements were approved by the Board of Directors and authorized for issue on November 28, 2022. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board and interpretations issued by the International Financial Reporting Interpretations Committee.

b) Basis of measurement

These consolidated financial statements have been prepared in Canadian dollars on a historical cost basis except for biological assets and warrant liability measured at fair value. Historical cost is generally based upon the fair value of the consideration given in exchange for assets. References to "USD" are to United States dollars.

c) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars. The functional currency of the Company is the Canadian dollar. See "Basis of consolidation" for the functional currency of the Company's subsidiaries.

d) Basis of consolidation

All intercompany balances, transactions, revenues and expenses have been eliminated on consolidation. These consolidated financial statements incorporate the accounts of the Company and the following subsidiaries:

| Name of subsidiary | Abbreviation | Country of Incorporation | Percentage Ownership | Functional Currency | Principal Activity |
|--------------------------------------|--------------|--------------------------|----------------------|---------------------|-------------------------------------|
| 1080034 B.C. Ltd. | 0034 BC | Canada | 100% | CAD | Holding company |
| 1933 Management Services Inc. | FNM | USA | 100% | USD | Holding company |
| 1933 Legacy Inc. | Legacy | USA | 100% | USD | Holding company |
| Infused Mfg LLC | Infused MFG | USA | 100% | USD | Hemp and CBD – Infused products |
| FN Pharmaceuticals LLC | FNP | USA | 100% | USD | Holding company |
| Alternative Medicine Association LLC | AMA | USA | 91% | USD | Cannabis cultivation and production |
| AMA Productions LLC ⁽¹⁾ | AMA Pro | USA | 100% | USD | Holding Company |
| Spire Secure Logistics Inc. | Spire | Canada | 100% | CAD | Inactive |

3. SIGNIFICANT ACCOUNTING POLICIES

a) Critical judgements and estimates

The preparation of consolidated financial statements in conformity with IFRS requires the Company's management to make judgements, estimates and assumptions about future events that affect the amounts reported in the consolidated financial statements and related notes to the financial statements. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may differ from those estimates. Estimates and judgements are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable.

Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. The information about significant areas of estimation uncertainty and judgment considered by management in preparing these consolidated financial statements is as follows:

1933 INDUSTRIES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

July 31, 2022 and 2021

(Expressed in Canadian dollars, except where noted)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

i. Determination of functional currency

In accordance with International Accounting Standard (“IAS”) 21, *The Effects of Changes in Foreign Exchange Rates*, the Company determined its functional currency, and its Canadian subsidiaries, to be the Canadian dollar, and the functional currency of its US subsidiaries to be the United States dollar. Such determination involves certain judgements to identify the primary economic environment. The Company reconsiders the functional currency of its subsidiaries if there is a change in events and/or conditions which determine the primary economic environment.

ii. Assessment of Cash Generating Units

For impairment assessment and testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash generating units (“CGU”). The Company applies judgement in assessing the smallest group of assets that comprise a single CGU.

iii. Impairment of long-lived assets

At the end of each reporting period, the Company assesses whether there are any indicators, from external and internal sources of information, that an asset or CGU may be impaired, thereby requiring adjustment to the carrying value. The Company has identified the continued operating losses of AMA and Infused as an indicator of impairment.

As a result of these impairment indicators, the Company assessed the goodwill associated with the AMA CGU and the Infused CGU for impairment. The Company concluded the recoverable value of the AMA CGU was more than its carrying value and no impairment was required. The Company concluded the recoverable value of the Infused CGU was less than its carrying value and an impairment charge was required as at April 30, 2022 (Note 10). The Company applies judgement in determining the discount rate, unit sales growth rates, selling prices, gross margin and operating costs.

iv. Estimated useful lives and depreciation of property and equipment

Depreciation of property and equipment is dependent upon estimates of useful lives, which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of assets.

v. Biological assets and inventory

In calculating the value of the biological assets and inventory, management is required to make a number of estimates, including estimating the stage of growth of cannabis up to the point of harvest, harvesting costs, selling costs, sales price, wastage and expected yields for the cannabis plant. In calculating final inventory values, management is required to determine an estimate of spoiled or expired inventory and compares the inventory cost to estimated net realizable value.

vi. Expected credit losses

In calculating the expected credit loss (“ECL”) on financial instruments, management is required to make a number of judgments including the probability of possible outcomes with regards to credit losses, the discount rate to use for time value of money and whether the financial instrument’s credit risk has increased significantly since initial recognition.

vii. Current and deferred taxes

The Company’s provision for income taxes is estimated based on the expected annual effective tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The current and deferred components of income taxes are estimated based on forecasted movements in temporary differences. Changes to the expected annual effective tax rate and differences between the actual and expected effective tax rate and between actual and forecasted movements in temporary differences will result in adjustments to the Company’s provision for income taxes in the period changes are made and/or differences are identified.

1933 INDUSTRIES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

July 31, 2022 and 2021

(Expressed in Canadian dollars, except where noted)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions of the Internal Revenue Code, Section 280E, are being applied by the Internal Revenue Service to businesses operating in the medical and adult-use marijuana industry. Section 280E of the Internal Revenue Code prohibits marijuana businesses from deducting their ordinary and necessary business expenses, forcing them to pay higher effective federal tax rates than similar companies in other industries. In addition, cases before the federal courts have resulted in the denial of the application of non-capital losses where Section 280E of the Tax Code applies. This is an uncertain tax position and management will review the applicable case law and make a final determination on the utilization of the non-capital losses. Changes in Section 280E or applicable case law related to the application of non-capital losses could significantly affect the current income tax expense.

In assessing the probability of realizing income tax assets recognized, management makes estimates related to expectations of future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. Forecasted cash flows from operations based on production and customer demand are internally developed and reviewed by management. Weight is attached to tax planning opportunities that are within the Company's control, and are feasible and implementable without significant obstacles.

The likelihood that tax positions taken will be sustained upon examination by applicable tax authorities is assessed based on individual facts and circumstances of the relevant tax position evaluated in light of all available evidence.

Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax assets recognized. At the end of each reporting period, the Company reassesses unrecognized income tax assets.

viii. Equity-settled share-based payments

The Company utilizes the Black-Scholes Option Pricing Model ("Black-Scholes") to estimate the fair value of stock options granted to directors, officers, employees, and consultants, warrants issued for services and warrants issued in private placements. The use of Black-Scholes requires management to make various estimates and assumptions that impact the value assigned to the stock options including the forecasted future volatility of the stock price, the risk-free interest rate, dividend yield and the expected life of the stock options. Changes in these input assumptions can significantly affect the fair value estimate.

ix. Warrant liability

Warrant liability is measured at fair value using Black-Scholes based on estimated fair values at the date of grant and revalued at period end with changes in fair value being charged or credited to the consolidated statement of loss and comprehensive loss. Black-Scholes utilizes subjective assumptions such as expected price volatility and expected life of the option. Changes in these input assumptions can significantly affect the fair value estimate.

x. Contingencies

Due to the nature of the Company's operations, various legal and tax matters can arise from time to time. In the event that management's estimate of the future resolution of these matters changes, the Company will recognize the effects of the changes in its consolidated financial statements for the period in which such changes occur.

In the ordinary course of business, from time to time the Company is involved in various claims related to operations, rights, commercial, employment or other claims. Although such matters cannot be predicted with certainty, management does not consider the Company's exposure to these claims to be material to these financial statements.

1933 INDUSTRIES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

July 31, 2022 and 2021

(Expressed in Canadian dollars, except where noted)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

xi. Convertible instruments

Convertible notes are compound financial instruments which are accounted for separately by their components: a financial liability and an equity instrument. The financial liability, which represents the obligation to pay the principal and coupon interest on the convertible notes in the future, is initially measured at its fair value and subsequently measured at amortized cost. The residual amount is accounted for as an equity instrument at issuance. The identification of convertible note components is based on interpretations of the substance of the contractual arrangement and therefore requires judgement from management. The separation of the components affects the initial recognition of the convertible debenture at issuance and the subsequent recognition of interest on the liability component. The determination of the fair value of the liability is also based on a number of assumptions, including contractual future cash flows, discount rates and the presence of any derivative financial instruments.

xii. Leases

Identifying whether a contract includes a lease

IFRS 16, *Leases*, applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset. The Company had to apply judgment on certain factors, including whether the supplier has substantive substitution rights, does the Company obtain substantially all of the economic benefits and who has the right to direct the use of that asset.

Estimate of lease term

When the Company recognizes a lease, it assesses the lease term based on the conditions of the lease and determines whether it will extend the lease at the end of the lease contract or exercise an early termination option. When it is reasonably certain that the extension or early termination options will be exercised, the Company determines that the term of its leases are the lesser of original lease term, the original lease term plus the extension option, or the remaining lease term assuming exercise of the early termination option. This significant estimate could affect future results if the Company extends the lease or exercises an early termination option.

Incremental borrowing rate

When the Company recognizes a lease, the future lease payments are discounted using the Company's incremental borrowing rate. This significant estimate impacts the carrying amount of the lease liabilities and the interest expense recorded on the consolidated statement of loss and comprehensive loss.

b) Foreign currencies

Functional and presentation currency

The functional currency is the currency of the primary economic environment in which the entity operates. The functional currency of the Company and its subsidiaries was determined by conducting an analysis of the consideration factors identified in IAS 21, *The Effects of Changes in Foreign Exchange Rates*. The functional currency of the Company and its subsidiaries is included within Note 2.

Translation of foreign transactions and balances into the functional currency

Foreign currency transactions are translated into the functional currency of the Company at rates of exchange prevailing on the dates of the transactions. At each financial position reporting date, all monetary assets and liabilities that are denominated in foreign currencies are translated to the functional currency of the Company at the rates prevailing at the date of the statement of financial position. Non-monetary assets and liabilities are translated at historic rates. Foreign exchange gains and losses resulting from the settlement of such transactions are recognized in profit or loss.

1933 INDUSTRIES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Translation of the functional currency into the presentation currency

The results of foreign operations which have a different functional currency than the Company are translated to Canadian dollars at appropriate average rates of exchange during the period. The assets and liabilities of foreign operations are translated to Canadian dollars at rates of exchange in effect at the end of the period. Gains or losses arising on translation of the foreign operation to Canadian dollars at period end are recognized in accumulated other comprehensive income (loss) as a translation adjustment.

c) Cash

Cash consists of cash held in reputable financial institutions and on hand.

d) Inventory

Inventories of harvested finished goods and packing materials are valued initially at cost and subsequently at the lower of cost and net realizable value. Inventories of harvested cannabis are transferred from biological assets at their fair value at harvest, which becomes the initial deemed cost. Any subsequent post-harvest costs are capitalized to inventory to the extent that cost is less than net realizable value. All direct and indirect costs related to inventory are capitalized as they are incurred and they are subsequently recorded within 'cost of sales' on the statements of loss and comprehensive loss at the time cannabis is sold, except for realized fair value amounts included in inventory sold which are recorded as a separate line on the consolidated statements of loss and comprehensive loss.

Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Cost is determined using the weighted average cost basis. Products for resale and supplies and consumables are valued at the lower of cost and net realizable value. The Company reviews inventory for obsolete and slow-moving goods and any such inventory is written down to net realizable value.

e) Biological assets

While the Company's biological assets are within the scope of IAS 41, *Agriculture*, the direct and indirect costs of biological assets are determined using an approach similar to the capitalization criteria outlined in IAS 2, *Inventories*. They include the direct cost of growing materials as well as other indirect costs such as utilities and supplies used in the growing process. Indirect labour for individuals involved in the growing and quality control process is also included, as well as facilities overhead costs, excluding depreciation, to the extent it is associated with the growing space. All direct and indirect costs of biological assets are capitalized as they are incurred and they are all subsequently recorded within the line item "cost of sales" on the statement of loss and comprehensive loss in the period that the related product is sold. Unrealized fair value gain/losses on growth of biological assets are recorded in a separate line on the face of the consolidated statements of loss and comprehensive loss. Biological assets are measured at fair value less costs to sell on the consolidated statement of financial position.

f) Property and equipment

Property and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Depreciation is calculated using the following terms and methods:

| | | |
|------------------------|---------------|--------------------------------------|
| Office equipment | Straight-line | 5-7 years |
| Production equipment | Straight-line | 7-20 years |
| Leasehold improvements | Straight-line | Shorter of asset life and lease term |
| Right of use | Straight-line | 5-20 years |

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising from derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying value of the asset) is included in the profit or loss in the period the asset is derecognized. The assets' residual values, useful lives and methods of depreciation are reviewed at each reporting date, and adjusted prospectively, if appropriate.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(Expressed in Canadian dollars, except where noted)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Goodwill

Goodwill represents the excess of the purchase price over the fair value of the net identifiable assets of an acquired business. The Company measures goodwill as the fair value of the consideration transferred including the recognized amount of any non-controlling interest acquired, less the fair value of the identifiable assets acquired, and liabilities assumed, all measured as at the acquisition date. When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss. Transaction costs, other than those associated with the issue of debt or equity securities, that the Company incurs in connection with a business combination are expensed as incurred.

h) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Constructive obligations are obligations that derive from the Company's actions where:

- by an established pattern of past practice, published policies or a sufficiently specific current statement, the Company has indicated to other parties that it will accept certain responsibilities; and
- as a result, the Company has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Provisions are reviewed at the end of each reporting period and adjusted to reflect management's current best estimate of the expenditure required to settle the present obligation at the end of the reporting period. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

Provisions are reduced by actual expenditures for which the provision was originally recognized. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability. The accretion of the discount is charged to the consolidated statement of loss and comprehensive loss.

i) Convertible debentures

The convertible debentures were determined to be compound instruments, comprising a financial liability (debt obligation) and an equity component (conversion option). The debt obligation is recognized at fair value by discounting the principal balance by the borrowing rate for a similar instrument without the conversion feature.

Using the residual method, the carrying amount of the conversion option represents the difference between the principal amount and the discounted debt obligation. The convertible debentures, net of the conversion option, is accreted to the principal balance using the effective interest rate method over the term of the convertible debentures, such that the carrying amount of the debt obligation will equal the principal balance at maturity.

Upon exercise of the convertible debentures, the conversion option and the carrying value of debt obligation is reclassified to share capital. Transaction costs are allocated on a pro-rata basis between the debt obligation and the conversion option.

j) Leases

A contract is a lease or contains a lease if it conveys the right to control the use of an asset for a time period in exchange for consideration.

To identify a lease, the Company (1) considers whether an explicit or implicit asset is specified in the contract and (2) determines whether the Company obtains substantially all the economic benefits from the use of the underlying asset by assessing numerous factors, including but not limited to substitution rights and the right to determine how and for what purpose the asset is used.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(Expressed in Canadian dollars, except where noted)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

When assessing the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option or to not exercise a termination option. This judgment is based on factors such as contract rates compared to market rates, economic reasons, significance of leasehold improvements, termination and relocation costs, installation of specialized assets, residual value guarantees, and any sublease term.

The Company has elected not to recognize right-of-use assets and lease liabilities for low-value assets or short-term leases with a term of 12 months or less. These lease payments are recognized in operating expenses over the lease term.

The lease liability is initially measured at the present value of the lease payments that are not paid. The Company elected to not separate non-lease components from lease components and to account for the non-lease and lease components as a single lease component. Lease payments generally include fixed payments less any lease incentives receivable. The lease liability is discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The Company estimates the incremental borrowing rate based on the lease term, collateral assumptions, and the economic environment in which the lease is denominated. The lease liability is subsequently measured at amortized cost using the effective interest method. The lease liability is remeasured when the expected lease payments change as a result of new assessments of contractual options and residual value guarantees.

The right-of-use asset is recognized at the present value of the liability at the commencement date of the lease less any incentives received from the lessor. Added to the right-of-use asset are initial direct costs, payments made before the commencement date, and estimated restoration costs. The right-of-use asset is subsequently depreciated on a straight-line basis from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

k) Share-based payments

The fair value of stock options granted to employees is recognized as a share-based compensation with a corresponding increase in reserves. The fair value is measured at grant date and each tranche is recognized on a graded-vesting basis over the period during which the options vest. The fair value of the stock options granted is measured using Black-Scholes considering the terms and conditions upon which the options were granted. The fair value of stock options granted to parties other than employees is recognized as an expense which is measured at the fair value of the goods or services received when they can be estimated reliably. If the goods or services received cannot be estimated reliably, the fair value of the stock options granted is measured using Black-Scholes considering the terms and conditions upon which the options were granted. The Company annually revises its estimates of the number of stock options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to reserves.

l) Share purchase warrants

Certain share purchase warrants are classified as a derivative liability under the principles of IFRS 9, *Financial Instruments* ("IFRS 9"). As the exercise price of the share purchase warrant is fixed in US dollars and the functional currency of the Company is the Canadian dollar, the share purchase warrants are considered a derivative liability in accordance with IAS 32 - *Financial Instruments: Presentation* as a variable amount of cash in the Company's functional currency will be received upon exercise.

These types of share purchase warrants are recognized at fair value using Black-Scholes. Share purchase warrants are initially recorded as a liability at fair value with any subsequent changes in fair value recognized in the consolidated statement of loss and comprehensive loss.

Upon exercise of the share purchase warrants with exercise prices in a currency other than the Company's functional currency, the share purchase warrants are revalued at the date of exercise with any gain or loss being charged to the consolidated statement of loss and comprehensive loss, and the total fair value of the exercised share purchase warrants is reallocated to equity. The proceeds generated from the payment of the exercise price are also allocated to equity.

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(Expressed in Canadian dollars, except where noted)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

m) Share capital

Common shares are classified as shareholders' equity. Incremental costs directly attributable to the issue of common shares and other equity instruments are recognized as a deduction from shareholders' equity. Common shares issued for consideration other than cash, are valued based on their market value at the date the shares are issued.

The Company has adopted a residual value method with respect to the measurement of warrants attached to private placement units. The residual value method first allocates value to the more easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component. The Company considers the fair value of warrants issued in the private placements to be the more easily measurable component and the warrants are valued at their fair value, as determined by Black-Scholes. The balance, if any, is allocated to share capital. Any fair value attributed to the warrants is recorded as reserves.

In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at fair value of the share-based compensation. Otherwise, share-based compensation is measured at the fair value of goods and services received.

n) Financial instruments

Classification of financial assets

Amortized cost:

Financial assets that meet the following conditions are measured subsequently at amortized cost:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The amortized cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortization using effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. Interest income is recognized using the effective interest method.

The Company has classified cash and receivables as amortized cost.

Fair value through other comprehensive income:

Financial assets that meet the following conditions are measured at fair value through other comprehensive income ("FVTOCI"):

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Company does not currently hold any financial instruments designated as FVTOCI.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Equity instruments designated as FVTOCI:

On initial recognition, the Company may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination. Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognized in other OCI. The cumulative gain or loss is not reclassified to profit or loss on disposal of the equity instrument, instead, it is transferred to retained earnings.

The Company does not currently hold any equity instruments designated as FVTOCI.

Financial assets measured subsequently at fair value through profit or loss:

By default, all other financial assets are measured subsequently at fair value through profit and loss ("FVTPL").

The Company, at initial recognition, may also irrevocably designate a financial asset as measured at FVTPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases.

Financial assets measured at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognized in profit or loss to the extent they are not part of a designated hedging relationship. The Company currently designated its warrant liability as FVTPL.

Classification of financial liabilities

Financial liabilities that are not contingent consideration of an acquirer in a business combination, held for trading or designated as at FVTPL, are measured at amortized cost using the effective interest method. The Company's financial liabilities measured at amortized cost are accounts payable and accrued liabilities and convertible debentures.

o. Equity

Equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs. Repurchase of the Company's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

p) Impairment of financial assets

The ECL applies to financial assets measured at amortized cost, contract assets and debt investments measured at FVOCI.

To assess credit losses, the Company considers a broad range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions and forecasts that affect the expected collectability of future cash flows of the instrument.

In applying this forward-looking approach, the Company separates instruments into the below categories:

1. financial instruments that have not deteriorated significantly since initial recognition or that have low credit risk;
2. financial instruments that have deteriorated significantly since initial recognition and whose credit loss is not low; or
3. financial instruments that have objective evidence of impairment at the reporting date.

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(Expressed in Canadian dollars, except where noted)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

12-month expected credit losses are recognized for the first category while 'lifetime expected credit losses' are recognized for the second category.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the financial asset's original effective interest rate.

Financial assets, other than those at FVTPL and amortized cost, are assessed for indicators of impairment at each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

q) Impairment of non-financial assets

At the end of each reporting period the carrying amounts of the Company's non-financial assets (property and equipment and goodwill) are reviewed to determine whether there is any indication that those assets may be impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a 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 inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Following the recognition of an impairment loss, the depreciation charge applicable to the asset is adjusted prospectively in order to systematically allocate the revised carrying amount, net of any residual value, over the remaining useful life. Where an impairment subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate and 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 periods. A reversal of an impairment loss is recognized immediately in profit or loss. Goodwill impairment losses are not reversed.

r) Revenue

The Company generates revenue from the sale of cannabis, infused pre-rolls, oils, distillates, terpenes, vaporizer products and boutique concentrates. In addition, the Company provides third party processing services.

Revenue is recognized in accordance with IFRS 15, *Revenue*, when a customer obtains control of promised goods or services. The amount of revenue reflects the consideration to which the Company expects to be entitled to receive in exchange for these goods or services. The Company applies the following five-step analysis to determine whether, how much and when revenue is recognized: (1) Identify the contract with the customer; (2) Identify the performance obligation in the contract; (3) Determine the transaction price; (4) Allocate the transaction price to the performance obligation in the contract; and (5) Recognize revenue when or as the Company satisfies a performance obligation. Revenue is shown net of returns and discounts.

Revenue from the sale of inventory is recognized when the Company has transferred the significant risks and rewards of ownership to the customer, the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, the amount of revenue can be reliably measured, it is probable that the economic benefits of the transaction will flow to the Company, and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Significant risks and rewards are generally considered to be transferred when the Company has shipped the product to customers. Revenue is recognized at the fair value of consideration received or receivable.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

s) Loss per share

Basic loss per common share is calculated by dividing the loss attributed to shareholders for the year by the weighted average number of common shares outstanding in the period. Diluted loss per common share is calculated by adjusting the weighted average number of common shares outstanding to assume conversion of all dilutive potential common shares. Diluted loss per share is equal to basic loss per share for the periods presented as the effect would be anti-dilutive.

Anti-dilutive securities include the convertible debentures (note 14), warrants (note 15(e)), stock options (note 15(f)) and agent options (note 15(g)).

t) Income taxes

Current tax is the expected tax payable or receivable on the taxable earnings or loss for the period. Current tax for each taxable entity in the Company is based on the local taxable income at the local statutory tax rate enacted or substantively enacted at the reporting date and includes adjustments to tax payable or recoverable in respect of previous periods. Provisions of the Internal Revenue Code, Section 280E, are being applied by the Internal Revenue Service to businesses operating in the medical and adult-use marijuana industry. Section 280E of the Internal Revenue Code prohibits marijuana businesses from deducting their ordinary and necessary business expenses, forcing them to pay higher effective federal tax rates than similar companies in other industries. In addition, cases before the federal courts have resulted in the denial of the application of non-capital losses where Section 280E of the Tax Code applies. This is an uncertain tax position and management will review the applicable case law and make a final determination on the utilization of the non-capital losses.

Deferred tax is recognized by providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously. A deferred tax asset is recognized to the extent that is probable that future taxable profits will be available against which the temporary difference 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.

4. RECEIVABLES

| | July 31, 2022 | July 31, 2021 |
|-------------------|------------------|------------------|
| | \$ | \$ |
| Trade receivables | 1,335,053 | 796,390 |
| GST receivable | - | 95,837 |
| Other | 8,220 | 41,882 |
| | 1,343,273 | 934,109 |

Goods and Services Tax ("GST") receivable include input tax credits receivable from the Government of Canada.

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5. INVENTORY

| | July 31, 2022 | July 31, 2021 |
|-----------------------------|------------------|------------------|
| | \$ | \$ |
| Harvested cannabis and trim | 3,636,954 | 2,466,382 |
| Cannabis oil and equivalent | 320,086 | 87,712 |
| Finished goods | 1,480,574 | 1,107,313 |
| Raw materials | 423,780 | 538,443 |
| | 5,861,394 | 4,199,850 |

Inventories expensed to cost of sales during the year ended July 31, 2022, were \$8,422,492 (2021 - \$8,323,630). Included cost of sales during the year ended July 31, 2022 was a net realizable value adjustment on inventory of \$884,980 (2021 - \$nil).

6. BIOLOGICAL ASSETS

| | July 31, 2022 | July 31, 2021 |
|--|------------------|------------------|
| | \$ | \$ |
| Balance, beginning of period | 865,953 | 810,332 |
| Production costs capitalized | 6,895,214 | 4,946,872 |
| Change in fair value less costs to sell due to biological transformation | 3,591,853 | 3,154,163 |
| Transferred to inventory upon harvest | (10,118,647) | (7,894,046) |
| Effects of movement in foreign exchange | 76,819 | (151,368) |
| Balance, end of period | 1,311,192 | 865,953 |

The fair value was determined using an expected cash flow model which assumes the biological assets will grow to maturity, be harvested and converted into finished goods inventory, and be sold in the retail cannabis market.

Biological assets are measured at fair value less costs to sell until harvest. All production costs are capitalized. As at July 31, 2022, the carrying value of biological assets consisted entirely of live cannabis plants. On average, the grow cycle is approximately 16 weeks (July 31, 2021 - 17 weeks).

The fair value measurements for biological assets have been categorized as Level 3 (as defined in the fair value hierarchy established in Note 17). These estimates are subject to volatility in market prices and several uncontrollable factors, which will be reflected in gain or loss on biological assets in future periods.

The following significant unobservable inputs, all of which are classified as Level 3 on the fair value hierarchy, were used by management as part of the model:

- Estimated Sales price per gram - calculated as the weighted average selling prices for all expected grades and strains of cannabis based on actual selling prices of the fair value of various cannabis forms on a per pound basis.
- Weighted average stage of growth - represents the weighted average number of weeks out of the expected 17 week growing cycle that cannabis plants have reached as of the measurement date.
- Expected yields by plant strain - represents the number of grams of finished cannabis that are expected to be obtained from each harvested cannabis plant.
- Wastage - represents the weighted average percentage of cannabis plants expected to fail to mature to the point of harvest based upon historical actual results.
- Post-harvest processing cost - calculated as the cost per gram of harvested cannabis to convert into finished dry bulk flower ready to be packaged into finished goods.

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6. BIOLOGICAL ASSETS (continued)

The following table quantifies each significant unobservable input used in the model to calculate fair value less costs to sell of cannabis plants:

| Assumption | July 31, 2022 | July 31, 2021 |
|---------------------------------------|--------------------|--------------------|
| Estimated sales price per gram | \$4.58 (USD\$3.57) | \$4.67 (USD\$3.65) |
| Weighted average stage of growth | 9 weeks | 9 weeks |
| Expected yields by plant strain | 140 grams | 116 grams |
| Wastage | 0.00% | 1.56% |
| Post-harvest processing cost per gram | \$1.91 (USD\$1.49) | \$1.06 (USD\$0.83) |

Increases in cost required up to the point of harvest, harvesting costs and selling costs will decrease the fair value of biological assets, while increases in sales price and expected yield for the cannabis plant will increase the fair value of biological assets.

The following table provides the impact that a 10% increase/decrease in each input would have on net loss and comprehensive loss.

| Assumption | July 31, 2022 | July 31, 2021 |
|---------------------------------------|------------------|------------------|
| | \$ | \$ |
| Estimated sales price per gram | 145,653 | 112,162 |
| Weighted average stage of growth | 85,087 | 102,569 |
| Expected yields by plant strain | 85,087 | 102,569 |
| Wastage | 3,690 | 4,417 |
| Post-harvest processing cost per gram | 60,566 | 9,594 |

7. LOAN RECEIVABLE

On December 9, 2021, the Company entered into a loan agreement (the "Agreement") where the Company has agreed to loan up to \$639,600 (USD\$500,000) through a line of credit. The line of credit is non-interest bearing until January 31, 2022. Subsequent to January 31, 2022, any borrowing will accrue interest at a rate of 10% per annum until paid in full. Any principal together with all accrued interest and fees thereon, is due and payable on or before December 31, 2022. Up until the principal, together with all accrued interest and fees thereon, is paid back in full, the Company has an absolute right to convert any or all of the principal balance, and any accrued amounts of interest and fees thereon, into shares of common stock of borrower.

On May 11, 2022, the Agreement was terminated. Pursuant to the termination, the loan receivable plus accrued interest in the amount of \$623,313 (USD\$484,370) was due and payable in full on or before June 30, 2022 (the "Loan Repayment"). In addition, on or before June 9, 2022, the Company will be reimbursed for costs incurred of \$38,193 (USD\$30,052). On June 28, 2022, the Company received the Loan Repayment and reimbursement for costs incurred.

During the year ended July 31, 2022, the Company earned \$16,489 (USD\$11,515) of interest income (2021 - \$nil) on the advance.

8. PREPAID EXPENSES AND DEPOSITS

| | July 31, 2022 | July 31, 2021 |
|------------------|------------------|------------------|
| | \$ | \$ |
| Prepaid expenses | 188,482 | 660,839 |
| Security deposit | 208,064 | 82,616 |
| | 396,546 | 743,455 |

1933 INDUSTRIES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(Expressed in Canadian dollars, except where noted)

9. PROPERTY AND EQUIPMENT

| | Land | Construction in progress | Leasehold improvements | Production equipment | Office equipment | Right of use | Total |
|---|--------------|--------------------------|------------------------|----------------------|------------------|-------------------|-------------------|
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Cost | | | | | | | |
| Balance, July 31, 2020 | 1,150,943 | 3,210,246 | 944,599 | 4,992,047 | 280,217 | 15,088,260 | 25,666,312 |
| Additions | - | - | - | 306,299 | 150,061 | - | 456,360 |
| Impairment | - | - | - | (427,459) | - | - | (427,459) |
| Effects of movement in foreign exchange | (80,885) | (225,608) | (66,384) | (350,829) | (16,385) | (1,060,365) | (1,800,456) |
| Balance, July 31, 2021 | 1,070,058 | 2,984,638 | 878,215 | 4,520,058 | 413,893 | 14,027,895 | 23,894,757 |
| Additions | - | - | - | 14,789 | 119 | - | 14,908 |
| Disposals | (1,097,293) | - | - | (585,569) | - | - | (1,682,862) |
| Termination of lease | - | - | - | - | - | (108,789) | (108,789) |
| Modification of lease | - | - | - | - | - | (716,420) | (716,420) |
| Transfer to assets held for sale | - | (3,071,337) | - | - | - | - | (3,071,337) |
| Effects of movement in foreign exchange | 31,083 | 86,699 | 25,511 | 131,300 | 10,656 | 407,487 | 692,736 |
| Balance, July 31, 2022 | 3,848 | - | 903,726 | 4,080,578 | 424,668 | 13,610,173 | 19,022,993 |
| Accumulated depreciation | | | | | | | |
| Balance, July 31, 2020 | - | - | 223,432 | 838,077 | 183,415 | 2,326,546 | 3,571,470 |
| Depreciation | - | - | 88,257 | 551,686 | 20,152 | 333,212 | 993,307 |
| Effects of movement in foreign exchange | - | - | 15,971 | 441,574 | 6,234 | 188,624 | 652,403 |
| Balance, July 31, 2021 | - | - | 327,660 | 1,831,337 | 209,801 | 2,848,382 | 5,217,180 |
| Depreciation | - | - | 120,057 | 832,766 | 80,244 | 890,181 | 1,923,248 |
| Termination of lease | - | - | - | - | - | (58,021) | (58,021) |
| Modification of lease | - | - | - | - | - | (381,906) | (381,906) |
| Effects of movement in foreign exchange | - | - | 13,378 | 63,808 | 6,115 | 68,251 | 151,552 |
| Balance, July 31, 2022 | - | - | 461,095 | 2,727,911 | 296,160 | 3,366,887 | 6,852,053 |
| Carrying amount | | | | | | | |
| Balance, July 31, 2021 | 1,070,058 | 2,984,638 | 550,555 | 2,688,721 | 204,092 | 11,179,513 | 18,677,577 |
| Balance, July 31, 2022 | 3,848 | - | 442,631 | 1,352,667 | 128,508 | 10,243,286 | 12,170,940 |

On February 22, 2022, the Company sold land with a carrying value of \$1,097,293 (USD\$835,000) for total net proceeds of \$1,624,739 (USD\$1,270,000) resulting in a \$527,446 (USD\$435,000) gain. The gain is included in gain on disposal of property and equipment on the consolidated statements of loss.

During the year ended July 31, 2022 the Company disposed of production equipment with carrying value of \$585,569 (USD\$465,620) for proceeds of \$313,269 (USD\$235,361), resulting a \$272,300 (USD\$230,259) loss. The loss is included in gain on disposal of property and equipment on the consolidated statements of loss.

During the year ended July 31, 2022, the Company terminated an Infused office lease. As a result of the lease termination, the Company derecognized the right-of-use asset with a cost of \$108,789, accumulated amortization of \$58,021 and lease liability of \$63,491 resulting in a gain on lease termination of \$12,723 representing the undepreciated portion of the right-of-use asset above the lease liability. The gain is included in general and administration expense on the condensed consolidated statements of loss.

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9. PROPERTY AND EQUIPMENT (continued)

During the year ended July 31, 2022, the Company determined that it would not exercise its extension option for an Infused facility lease. As a result of the lease modification, the Company derecognized the right-of-use asset with a cost of \$716,420, accumulated amortization of \$381,906 and lease liability of \$393,856 resulting in a gain on lease termination of \$59,342 representing the undepreciated portion of the right-of-use asset less than the lease liability. The loss is included in general and administration expense on the condensed consolidated statements of loss.

During the year ended July 31, 2022, the Company entered a letter of intent to sell a building with a cost of \$3,071,337 (USD\$2,394,991) which was included in construction in progress. Management has classified the balance to held for sale. The sale was completed on September 27, 2022 (Note 23).

Total depreciation expense for the year ended July 31, 2022 was \$1,821,733 (2021 - \$948,764). Of the total depreciation expense, \$1,423,402 was allocated to inventory (2021 - \$494,836).

During the year ended July 31, 2021, the Company recorded an impairment expense of \$427,459 related to production equipment that was not in use. Prior to recognizing the impairment expense, the Company had taken no depreciation against the production equipment.

10. GOODWILL

| | July 31, 2022 | July 31, 2021 |
|---|------------------|------------------|
| | \$ | \$ |
| Balance, beginning of period | 15,527,023 | 16,700,708 |
| Impairment | (11,540,439) | - |
| Effects of movement in foreign exchange | 505,137 | (1,173,685) |
| Balance, end of period | 4,491,721 | 15,527,023 |

The goodwill balance relates to the acquisition of AMA and Infused MFG on June 15, 2017. The transaction has been accounted for as a business combination under IFRS 3, *Business Combinations*. The goodwill recorded represents the fair value of consideration in excess of the net assets acquired. As at July 31, 2022, goodwill for AMA was \$4,491,721 (USD\$3,490,729) (July 31, 2021 - \$4,350,147 (USD\$3,490,729)) and Infused MFG was \$nil (USD\$nil) (July 31, 2021 - \$11,176,876 (USD\$12,021,734)).

The Company identified AMA and Infused MFG as distinct cash generating units. The Company identified an indicator of impairment as at April 30, 2022, as the market capitalization of the Company was less than net assets. As such, the Company assessed the goodwill recorded through each acquisition for impairment. The impairment tests were performed based on value in use calculation which uses cash flow projections covering a five-year period. The cash flow projections for AMA incorporated the following key assumptions: (1) discount rate - 15%; (2) income tax rate - 21%; (3) terminal growth rate - 2%; (4) working capital - 20% of sales; and (5) revenue growth - 15%- 30%. The Company noted that the recoverable amount of \$17,352,226 (USD\$13,531,056) was greater than the carrying value for AMA and that there was no impairment as at July 31, 2022. A 1% change in the discount rate used would not create any impairment.

The cash flow projections for Infused MFG incorporated the following key assumptions: (1) discount rate - 15%; (2) income tax rate - 21%; (3) terminal growth rate - 2%; (4) working capital - 15% of sales; and (5) revenue growth - 5%. The Company noted that the recoverable amount was less than the carrying amount for Infused MFG and recorded an impairment expense of \$11,540,439 (USD\$8,968,766) related to Infused MFG as sales have not recovered from the COVID-19 pandemic.

11. ASSETS HELD FOR SALE

During the year ended July 31, 2022, the Company had listed a building with a cost of \$3,071,337 (USD\$2,394,991) for sale. Prior to their classification as assets held for sale, the building was reported under construction in progress within property and equipment (Note 9). The assets held for sale are included at the lower of their carrying value and their fair value less cost to sell. The fair value was based on a sales agreement dated September 27, 2022 whereby the Company received net proceeds of \$3,119,719 (USD\$2,432,719) after selling costs. As the carrying amount is less than the fair value less cost to sell, the Company has transferred the balance at the carrying value.

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12. LEASE LIABILITY

| | July 31, 2022 | July 31, 2021 |
|---|------------------|------------------|
| | \$ | \$ |
| Balance, beginning of period | 13,636,208 | 14,821,569 |
| Repayment of lease obligation | (1,786,241) | (1,474,861) |
| Interest expense | 1,382,931 | 1,365,022 |
| Termination of lease | (63,491) | - |
| Modification of lease | (393,856) | - |
| Effects of movement in foreign exchange | 331,245 | (1,075,522) |
| Balance, end of period | 13,106,796 | 13,636,208 |
| Less: Non-current portion | 12,816,214 | 13,176,655 |
| Current portion of lease liability | 290,582 | 459,553 |

Total expense included in the general and administration expense relating to short-term leases and low-value leases for the year ended July 31, 2022, is \$18,282 (2021 - \$54,337).

The maturity of the lease liability by fiscal year is as follows:

| | \$ |
|------------------------------|-------------------|
| 2023 | 1,520,156 |
| 2024 | 1,376,603 |
| 2025 | 1,372,266 |
| 2026 | 1,413,434 |
| Thereafter | 22,294,599 |
| Total lease payments | 27,977,058 |
| Less: Unamortized interest | (14,870,262) |
| Total lease liability | 13,106,796 |

13. WARRANT LIABILITY

Certain warrants are classified as a financial instrument under the principles of IFRS 9, as the exercise price is in US dollars while the functional currency of the Company is the Canadian dollar. Accordingly, warrants are remeasured to fair value at each reporting date with the change in fair value charged to change in fair value of warrant liability in the consolidated statement of loss.

| | Exercise Price | Warrants | Warrant Liability |
|---|----------------|------------|-------------------|
| | \$ | # | \$ |
| Balance, July 31, 2020 | | - | - |
| Issued | 0.10 (USD0.08) | 13,920,000 | 385,879 |
| Gain on change in fair value of warrant liability | | - | (5,733) |
| Balance, July 31, 2021 | 0.10 (USD0.08) | 13,920,000 | 380,146 |
| Gain on change in fair value of warrant liability | | - | (380,146) |
| Balance, July 31, 2022 | | - | - |
| Less: Current portion of warrant liability | | - | - |
| Non-current portion of warrant liability | | - | - |

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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13. WARRANT LIABILITY (continued)

The fair value of warrants was calculated using Black-Scholes using the following weighted average assumptions:

| | 2022 | 2021 |
|---|------------|------------|
| Risk-free interest rate | 0.25% | 0.25% |
| Expected life of warrants | 0.01 years | 0.76 years |
| Annualized volatility | 100% | 100% |
| Dividend rate | 0% | 0% |
| Weighted average fair value per warrant | \$0.00 | \$0.027 |

14. CONVERTIBLE DEBENTURES

| | July 31, 2022 | July 31, 2021 |
|---|------------------|------------------|
| | \$ | \$ |
| Balance, beginning of period | 4,234,819 | 10,923,172 |
| Interest expense | 366,201 | 634,492 |
| Accretion expense | 10,434 | 107,194 |
| Converted to common shares | (31,909) | (6,733,724) |
| Interest paid – shares | (5,266) | (696,315) |
| Balance, end of period | 4,574,279 | 4,234,819 |
| Less: non-current portion | - | 4,234,819 |
| Current portion of convertible debentures | 4,574,279 | - |

On September 14, 2018, the Company closed a short form prospectus offering of convertible debenture units raising gross proceeds of \$17,250,000. Pursuant to the offering, the Company issued an aggregate of 17,250 debenture units at a price per debenture unit of \$1,000. Each debenture unit consisted of: (i) one 10.0% unsecured convertible debenture of the Company in the principal amount of \$1,000 convertible into common shares at a conversion price of \$0.45 per common share at the option of the holder, with interest payable semi-annually in arrears on June 30 and December 31 of each year and maturing on September 14, 2021; and (ii) 2,222 common share purchase warrants expiring September 14, 2021. Each warrant entitled the holder thereof to purchase one common share at an exercise price of \$0.65 per share until September 14, 2021, subject to adjustment in certain events.

The Company paid cash fees of \$1,668,014 in payment of the Agent's commission, corporate finance fees and other expenses of which \$45,000 was paid prior to July 31, 2020 and recorded as a transaction cost. In addition, the Agent received options (the "September 2018 Agent's Options") to acquire 3,066,666 units of the Company at an exercise price of \$0.45 per unit. Each unit is comprised of one common share and one common share purchase warrant exercisable at a price of \$0.65 per share subject to the same terms and conditions as the warrants. The fair value of the September 2018 Agent's Options was \$738,547 and was recorded as a transaction cost. The fair value of the September 2018 Agent's Options was determined using the Black-Scholes Valuation Model using the following assumptions: risk free interest rate 1.25%, expected life of 3 years, volatility of 75%.

The Company may force the conversion of the principal amount of the then outstanding convertible debentures at the conversion price on not less than 30 days' notice should the daily volume weighted average trading price of the common shares be greater than \$0.70 for any 10 consecutive trading days.

On June 28, 2020, the Company amended the terms of the convertible debentures. The following were the significant amendments:

- the conversion price applicable to the debentures was amended from \$0.45 per common share to \$0.10 per common share;
- the price at which the Company may require a forced conversion of the debentures is amended from \$0.70 per common share to \$0.15 per common share, with any such conversion to be made at the amended conversion price of \$0.10 per common share;

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14. CONVERTIBLE DEBENTURES (continued)

- the Company is authorized, at its discretion, to pay interest due on the debentures in cash or through the issuance of its common shares, at a price of \$0.10 per common share; and
- payment of interest is amended from being payable semi-annually in arrears on the last day of June and December in each year to being payable at the maturity date of the debentures.

The equity component of the \$17,250,000 convertible debenture was initially determined to be \$2,505,099 net of transaction costs of \$406,151. At June 28, 2020, the remaining equity component of the original convertible debenture was \$1,805,415. The Company determined that the June 28, 2020 modification was a substantial modification as defined by IFRS 9, and as a result derecognized the debt obligation and equity component (conversion option). The equity component of the remaining principal balance of the convertible debentures of \$12,432,007 was determined to be \$263,220. The Company did not incur any transaction costs associated with the amendment. As a result of the amendment, the Company recognized a gain on debt modification of \$185,327 which is the result of the amendment to the equity component of \$1,542,195 less the amendment to the debt obligation of \$1,356,868.

On April 14, 2021, debenture holders approved an extension of the maturity date of the debentures to from September 14, 2021 to September 14, 2022. On August 24, 2022, debenture holders approved the amendment of the conversion price applicable to the convertible debentures to \$0.05 per share and the extension of the maturity date for the Debentures from September 14, 2022 to December 31, 2023 (Note 24).

During the year ended July 31, 2022, convertible debentures with a principal balance of \$32,000 and interest payable of \$5,266 were converted into 372,666 common shares of the Company (Note 15(c)). The principal and interest balance outstanding as at July 31, 2022 was \$3,662,007 and \$912,272, respectively. Refer to Note 24 for conversions subsequent to July 31, 2022.

15. SHARE CAPITAL AND RESERVES

a) Authorized

Unlimited common shares with no par value and unlimited preferred shares issuable in series. As of July 31, 2022, there were 450,699,319 common shares outstanding (July 31, 2021 - 450,326,653).

b) Escrow shares

The Company does not have any shares subject to escrow restrictions.

c) Issued common shares

The Company had the following common share transactions during the year ended July 31, 2022:

- The Company issued 372,666 common shares pursuant to the conversion of \$32,000 of convertible debentures and interest payable on the convertible debentures of \$5,267.

The Company had the following common share transactions during the year ended July 31, 2021:

- On September 4, 2020, pursuant to the closing of its private placement, the Company issued 10,510,040 units at a price of \$0.075 per unit for gross proceeds of \$788,253. Each unit consists of one common share of the Company and one-half share purchase warrant. Each whole warrant entitles the holder to acquire one common share of the Company at an exercise price of \$0.125 per unit until September 4, 2022. Share issue costs included cash payment for finders' fees of \$6,037 and the issuance of 40,250 share purchase warrants valued at \$836 using the Black-Scholes option pricing model with the following assumptions: a two-year expected average life, share price of \$0.06; 100% volatility; risk-free interest rate of 0.25%; and an expected dividend yield of 0%. Consideration of \$109,106 was recorded to warrant reserve and the residual amount of \$679,147 was recorded to share capital.

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15. SHARE CAPITAL AND RESERVES (continued)

- On November 3, 2020, pursuant to a non-brokered private placement, the Company issued 13,920,000 units at a price of \$0.066 (US\$0.05) per unit for gross proceeds of \$918,720 (US\$696,000). All proceeds were raised and paid in US dollars. Each unit consists of one common share of the Company and one transferable share purchase warrant. Each warrant entitles the holder to acquire one common share of the Company at an exercise price of \$0.106 (US\$0.08) per unit for a period of 18 months from the closing date. The units shall be subject to a four month and one day hold period, expiring on March 4, 2021. Consideration of \$385,879 was recorded to warrant liability and the residual amount of \$532,841 was recorded to share capital.
- On March 4, 2021, pursuant to the closure of a brokered private placement, the Company issued 45,045,929 units at a price of \$0.11 per unit for gross proceeds of \$4,955,052. Each unit is comprised of one common share of the Company and one common share purchase warrant. Each common share purchase warrant will be exercisable to acquire one common share at an exercise price of \$0.16 per common share until March 4, 2023. The units will be subject to a four month and one day hold period expiring on July 5, 2021. Share issue costs included cash payments of \$467,444 comprised of 7% broker commission plus legal fees and the issuance of 3,153,214 Agent Options valued at \$181,002 using the Black-Scholes option pricing model with the following assumptions: a 2-year expected average life, share price of \$0.11; 100% volatility; risk-free interest rate of 0.28%; and an expected dividend yield of 0%. Consideration of \$2,137,689 was recorded to warrant reserve and the residual amount of \$2,817,363 was recorded to share capital.
- During the year ended July 31, 2021, the Company issued 75,203,138 common shares pursuant to the conversion of \$6,733,724 of convertible debentures and interest payable on the convertible debentures of \$696,315. In relation to the conversion \$144,483 was reallocated from reserves to share capital and \$7,574,521 was recorded as share capital representing the accreted balance of convertible debentures net of transaction costs.

d) Reserves

The following is a summary of changes in reserves:

| | Stock options | Convertible debentures | Warrants | Total |
|---|------------------|------------------------|------------------|-------------------|
| | \$ | \$ | \$ | \$ |
| Balance, July 31, 2020 | 5,028,636 | 222,695 | 1,402,191 | 6,653,522 |
| Share-based compensation | 1,025,074 | - | - | 1,025,074 |
| Purchase of non-controlling interest | - | - | 182,703 | 182,703 |
| Warrants issued for share issue costs | - | - | 836 | 836 |
| Warrants issued on private placement | - | - | 2,246,795 | 2,246,795 |
| Agent Options issued on private placement | 181,002 | - | - | 181,002 |
| Reclassified to share capital on conversion of convertible debentures | - | (144,483) | - | (144,483) |
| Balance, July 31, 2021 | 6,234,712 | 78,212 | 3,832,525 | 10,145,449 |
| Share-based compensation | 12,370 | - | - | 12,370 |
| Reclassified to share capital on conversion of convertible debentures | - | (678) | - | (678) |
| Balance, July 31, 2022 | 6,247,082 | 77,534 | 3,832,525 | 10,157,141 |

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15. SHARE CAPITAL AND RESERVES (continued)**e) Warrants**

A summary of share purchase warrant activity is as follows:

| | Number of warrants | Weighted average exercise Price |
|---|-----------------------|---------------------------------------|
| | # | \$ |
| Balance, July 31, 2020 | 50,870,566 | 0.61 |
| Issued - private placement | 64,220,949 | 0.15 |
| Issued - share issue cost | 40,250 | 0.13 |
| Issued - purchase of non-controlling interest | 3,700,000 | 0.08 |
| Expired | (11,670,900) | 0.50 |
| Balance, July 31, 2021 | 107,160,865 | 0.33 |
| Expired | (53,119,666) | 0.51 |
| Balance, July 31, 2022 | 54,041,199 | 0.15 |

The following table summarizes share purchase warrants outstanding as at July 31, 2022:

| | Number of warrants | Weighted average exercise price | Weighted average remaining years |
|-------------------|-----------------------|---------------------------------------|---|
| | # | \$ | |
| September 3, 2022 | 5,255,020 | 0.13 | 0.09 |
| September 3, 2022 | 40,250 | 0.13 | 0.09 |
| March 4, 2023 | 45,045,929 | 0.16 | 0.59 |
| June 13, 2024 | 3,700,000 | 0.08 | 1.87 |
| | 54,041,199 | 0.15 | 0.63 |

f) Stock options

The Company has adopted a stock option plan (the "Plan") for its directors, officers, employees and consultants to acquire common shares of the Company at a price determined by the fair market value of the shares at the date immediately preceding the date on which the option is granted. The terms and conditions of the stock options are determined by the Board of Directors.

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15. SHARE CAPITAL AND RESERVES (continued)

The aggregate number of stock options granted shall not exceed 10% of the issued and outstanding common shares of the Company at the time of shareholder approval of the Plan, with no one individual being granted more than 5% of the issued and outstanding common shares. In addition, the exercise price of stock options granted under the Plan shall not be lower than the exercise price permitted by the Canadian Securities Exchange, and all stock options granted under the Plan will have a maximum term of five years. A summary of stock option activity is as follows:

| | Number of options | Weighted average exercise price |
|-------------------------------|----------------------|---------------------------------------|
| | # | \$ |
| Balance, July 31, 2020 | 17,170,000 | 0.40 |
| Granted | 21,250,000 | 0.09 |
| Exercised | (50,000) | 0.50 |
| Cancelled | (21,190,000) | 0.25 |
| Balance, July 31, 2021 | 17,180,000 | 0.20 |
| Expired | (1,730,000) | 0.55 |
| Forfeited | (1,200,000) | 0.08 |
| Cancelled | (2,150,000) | 0.40 |
| Balance, July 31, 2022 | 12,100,000 | 0.11 |

The following table summarizes stock options outstanding and exercisable as at July 31, 2022:

| Expiry date | Number of options | Number of exercisable options | Weighted average exercise price | Weighted average remaining years |
|------------------|----------------------|-------------------------------------|---------------------------------------|---|
| | # | # | \$ | Years |
| August 15, 2022 | 750,000 | 750,000 | 0.35 | 0.04 |
| August 6, 2025 | 300,000 | 100,000 | 0.08 | 3.02 |
| November 8, 2025 | 11,050,000 | 7,366,667 | 0.10 | 3.28 |
| | 12,100,000 | 8,216,667 | 0.11 | 3.07 |

For the year ended July 31, 2022, the Company recognized a share-based compensation expense of \$12,370 (2021 - \$1,025,074). The Company granted no stock options during the year ended July 31, 2022 (2021 - 21,250,000). The fair value of stock options was calculated using Black-Scholes using the following weighted average assumptions:

| | 2022 | 2021 |
|--|------|---------|
| Risk-free interest rate | - | 0.38% |
| Expected life of options | - | 5 years |
| Annualized volatility | - | 100% |
| Dividend rate | - | 0% |
| Weighted average fair value per option | - | \$0.05 |

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15. SHARE CAPITAL AND RESERVES (continued)

The Company is utilizing an expected volatility figure based on a review of the historical volatilities, over a period of time, equivalent to the expected life of the instrument being valued, of similarly positioned public companies within its industry. The risk-free interest rate was determined from Canadian government zero-coupon bonds with a remaining term consistent with the expected term of the instrument being valued.

g) Agent options

A summary of agent option activity is as follows:

| | Number of options | Weighted average exercise price |
|-------------------------------|-------------------|---------------------------------|
| | # | \$ |
| Balance, July 31, 2020 | 2,191,112 | 0.45 |
| Granted | 3,153,214 | 0.11 |
| Balance, July 31, 2021 | 5,344,326 | 0.25 |
| Expired | (2,191,112) | 0.45 |
| Balance, July 31, 2022 | 3,153,214 | 0.11 |

The following table summarizes Agent Options outstanding and exercisable as at July 31, 2022:

| Expiry date | Number of options | Number of exercisable options | Weighted average exercise price | Weighted average remaining years |
|---------------|-------------------|-------------------------------|---------------------------------|----------------------------------|
| | # | # | \$ | |
| March 4, 2023 | 3,153,214 | 3,153,214 | 0.11 | 0.59 |

Each Agent Option entitles the holder to acquire one unit for \$0.11. Each unit is comprised of one common share and one share purchase warrant exercisable at \$0.16 until March 4, 2023. The Agent Option is exercisable on or after July 5, 2021.

16. NON-CONTROLLING INTEREST

On November 4, 2020, the Company acquired the remaining 9% interest in AMA Pro from the holders to make the Company's share in AMA Pro 100% through the issuance of 3,700,000 share purchase warrants (Note 15(e)). The share purchase warrants were valued at \$182,703 using the Black-Scholes option pricing model with the following assumptions: a 3.59 year expected average life, share price of \$0.075; 100% volatility; risk-free interest rate of 0.25%; and an expected dividend yield of 0%. The carrying value of non-controlling interest for AMA Pro on November 4, 2020 was \$nil. The excess of consideration above the value of consideration of \$182,703 was recorded as a direct charge to deficit.

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16. NON-CONTROLLING INTEREST (continued)

The following table presents summarized financial information for AMA as at July 31, 2022 and 2021:

| | July 31, 2022 | July 31, 2021 |
|--------------------------|------------------|------------------|
| | \$ | \$ |
| Assets | | |
| Current | 8,660,669 | 5,983,237 |
| Non-current | 16,244,129 | 18,246,417 |
| | 24,904,798 | 24,229,654 |
| Liabilities | | |
| Current | 2,175,761 | 771,719 |
| Non-current | 12,937,308 | 12,814,254 |
| | 15,113,069 | 13,585,973 |
| Net assets | 9,791,729 | 10,643,681 |
| Non-controlling interest | (998,876) | (760,081) |
| Revenues | 10,850,218 | 9,128,004 |
| Net loss | (2,335,317) | (669,039) |

17. FINANCIAL RISK MANAGEMENT

a) Fair value of financial assets and liabilities

IFRS 13, *Fair Value Measurement* establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The three levels of the fair value hierarchy are as follows:

- Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities,
- Level 2: Inputs other than quoted prices that are observable for the asset or liability either directly (i.e.: as prices) or indirectly (i.e.: derived from prices); and
- Level 3: Inputs that are not based on observable market data.

The carrying values of cash, receivables, accounts payable and accrued liabilities, and convertible debentures approximate their respective fair values due to the short-term nature of these instruments.

As at July 31, 2022 and July 31, 2021, there were no financial assets measured and recognized in the consolidated statements of financial position at fair value that would be categorized as Level 3 in the fair value hierarchy. The warrant liability is a financial liability measured at fair value and are categorized as a Level 2 fair value measurement.

b) Risk management

The Company is exposed in varying degrees to a number of risks arising from financial instruments. Management's close involvement in the operations allows for the identification of risks and variances from expectations. The Company does not participate in the use of financial instruments to mitigate these risks and has no designated hedging transactions. The Board approves and monitors the risk management processes. The Board's main objectives for managing risks are to ensure liquidity, the fulfillment of obligations, the continuation of the Company's exploration activities, and limited exposure to credit and market risks. There were no changes to the objectives or the process from the prior period.

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17. FINANCIAL RISK MANAGEMENT (continued)

The types of risk exposure and the way in which such exposures are managed are as follows:

i. Credit Risk

Credit risk is the risk of financial loss to the Company if a counterparty fails to meet an obligation under contract. Credit risk primarily arises from the Company's cash and receivables. The risk exposure is limited to their carrying amounts at the statement of financial position date.

Cash is held as cash deposits on hand and deposits with financial institutions. The Company does not invest in asset-backed deposits or investments and does not expect any credit losses. The Company periodically assesses the credit quality of its financial institutions and is satisfied with the credit ratings of its banks.

Receivable primarily consists of trade receivables and GST credits. The objective of managing counterparty credit risk is to minimize potential losses in trade receivables. The Company assesses the quality of its customers, taking into account their credit worthiness and reputation, past performance and other factors. The Company does not expect significant credit losses as the Company has not had bad debts in its history due to the regulated nature of the industry.

ii. 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 ensures there is sufficient capital to meet short term business requirements. One of management's goals is to maintain an optimal level of liquidity through the active management of assets, liabilities and cash flows.

The following table summarizes the maturity profile of the Company's financial liabilities as at July 31, 2022:

| | Total | Within 1 years | 1 - 5 years | Greater than 5 years |
|--|-------------------|------------------|------------------|----------------------|
| | \$ | \$ | \$ | \$ |
| Accounts payable and accrued liabilities | 2,755,626 | 2,755,626 | - | - |
| Lease liability | 27,977,058 | 1,520,156 | 4,162,303 | 22,294,599 |
| Convertible debentures | 4,574,279 | 4,574,279 | - | - |
| | 35,306,963 | 8,850,061 | 4,162,303 | 22,294,599 |

The Company's cash is deposited in major banks, which is available on demand to fund the Company's operating costs and other financial demands.

iii. Currency Risk

The Company has administration in Canada and operations in the U.S. and is exposed to foreign exchange risk due to fluctuations in the U.S. dollar and Canadian dollar. Foreign exchange risk arises from financial assets and liabilities denominated in currency other than the U.S. dollar.

The table below summarizes the net monetary assets and liabilities held in foreign currencies:

| | July 31, 2022 | July 31, 2021 |
|---|--------------------|---------------|
| | \$ | \$ |
| Canadian dollar net monetary (liabilities) assets | (4,497,124) | 527,391 |

A change of 1% in the CAD/USD exchange rate would impact loss and comprehensive loss by \$57,527. The Company has not entered into any agreements or purchased any foreign currency hedging instruments to hedge possible currency risks at this time. Management believes the foreign exchange risk derived from currency conversions is not significant, and therefore, does not hedge its foreign exchange risk.

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17. FINANCIAL RISK MANAGEMENT (continued)

iv. Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is not subject to any cash flow interest rate volatility as its and convertible debentures are carried at a fixed interest rate throughout their term.

18. CAPITAL RISK MANAGEMENT

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern in order to pursue the development of its business. The Company manages its capital structure and adjusts it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may issue new equity instruments, new debt, or acquire and/or dispose of assets. The Company's ability to continue as a going concern is uncertain and dependent upon the continued financial support of its shareholders, future profitable operations, the lack of adverse political developments in the United States with respect to cannabis legislation and securing additional financing.

19. RELATED PARTY TRANSACTIONS

Key management personnel include those persons having the authority and responsibility of planning, directing, and executing the activities of the Company. The Company has determined that its key management personnel consist of executive and non-executive members of the Company's Board of Directors and corporate officers.

Key management personnel compensation for the years ended July 31, 2022 and 2021, was as follows:

| | 2022 | 2021 |
|--|----------------|------------------|
| | \$ | \$ |
| Management and consulting fees | 348,020 | 295,200 |
| Wages and benefits | 48,350 | 419,795 |
| Directors' fees included in general and administration expense | 92,820 | 134,434 |
| Share-based compensation | 16,747 | 807,413 |
| | 505,937 | 1,656,842 |

Other related party transactions for the year ended July 31, 2022 and 2021, were as follows:

| | 2022 | 2021 |
|--|------|-------|
| | \$ | \$ |
| Legal fees included in professional fees | - | 5,092 |
| | - | 5,092 |

For the year ended July 31, 2022, the company earned revenues of \$649,355 (2021 - \$nil) from companies related to a Director of the Company. As at July 31, 2022, \$208,903 was included in receivables (July 31, 2021 - \$nil).

20. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

The significant non-cash transactions and supplemental disclosure for the year ended July 31, 2022 were as follows:

- Convertible debentures of \$32,000 and interest payable on the convertible debentures of \$5,267 were converted into 372,666 common shares of the Company (Notes 14 and 15(c)). In relation to the conversion \$37,853 was recorded to share capital and \$678 was reallocated from reserves to share capital.
- The Company made cash interest payments of \$nil. No income taxes were paid.

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20. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS (continued)

The significant non-cash transactions and supplemental disclosure for year ended July, 2021 were as follows:

- Convertible debentures of \$6,733,724 and interest payable on the convertible debentures of \$696,315 were converted into 75,203,138 common shares of the Company (Notes 14 and 15(c)). In relation to the conversion \$7,574,521 was recorded to share capital and \$144,483 was reallocated from reserves to share capital.
- Share issue costs included \$836 with respect to 40,250 warrants issued as finders fees (Note 15 (c)).
- Share issue costs included \$181,002 with respect to 3,153,214 Agent Options issued as finders fees (Note 15(c)).
- The Company made cash interest payments of \$nil. No income taxes were paid.

21. GENERAL AND ADMINISTRATION EXPENSE

General and administration expense information for the years ended July 31, 2022 and 2021 is as follows:

| | 2022 | 2021 |
|--|-----------|-----------|
| | \$ | \$ |
| Advertising, promotion and selling costs | 575,708 | 351,012 |
| Investor relations | 94,709 | 257,317 |
| Office expenses and general administration | 1,322,492 | 644,415 |
| Travel and entertainment | 24,199 | 101,709 |
| | 2,017,108 | 1,354,453 |

22. SEGMENTED INFORMATION

The Company operates in three segments, referred to as AMA, Infused MFG, and Corporate. AMA is focused on the cultivation and sale of medical and adult use cannabis products, and Infused MFG is focused on the manufacturing of Hemp derived CBD products. The corporate head office is located in Canada while the operations of AMA and Infused MFG are located in the United States. All revenues are earned in the United States. All long-lived assets are located or owned in the United States.

Segmented information for the year ended July 31, 2022 is as follows:

| | AMA | Infused MFG | Corporate | Total |
|--|--------------------|---------------------|--------------------|---------------------|
| | \$ | \$ | \$ | \$ |
| Revenue | 10,850,218 | 1,687,719 | - | 12,537,937 |
| Gross margin | 1,860,713 | 829,712 | - | 2,690,425 |
| Expenses | | | | |
| Depreciation | 39,801 | 238,373 | 221,672 | 499,846 |
| General and administration | 606,196 | 542,358 | 868,554 | 2,017,108 |
| License fees, taxes, and insurance | 2,008,119 | 45,567 | 746,666 | 2,800,352 |
| Goodwill impairment | - | 11,540,439 | - | 11,540,439 |
| Interest, accretion, and other | 1,541,914 | 157,805 | 1,649,635 | 3,349,354 |
| Loss from continuing operations before income taxes | (2,335,317) | (11,694,830) | (3,486,527) | (17,516,674) |
| As at July 31, 2022 | | | | |
| Property and equipment | 11,752,408 | 105,225 | 313,307 | 12,170,940 |
| Goodwill | 4,491,721 | - | - | 4,491,721 |
| Total assets | 24,904,798 | 1,030,043 | 3,074,836 | 29,009,677 |
| Total liabilities | 16,163,319 | 228,748 | 5,094,884 | 21,486,951 |

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22. SEGMENTED INFORMATION (continued)

Segmented information for the year ended July 31, 2021 is as follows:

| | AMA | Infused MFG | Corporate | Total |
|---|------------------|----------------|--------------------|--------------------|
| | \$ | \$ | \$ | \$ |
| Revenue | 9,128,004 | 2,847,017 | - | 11,975,021 |
| Gross margin | 3,058,148 | 1,761,819 | - | 4,819,967 |
| Expenses | | | | |
| Depreciation | 41,928 | 257,776 | 198,767 | 498,471 |
| General and administration | 405,733 | 595,739 | 352,981 | 1,354,453 |
| License fees, taxes, and insurance | 1,435,756 | 41,798 | 928,961 | 2,406,515 |
| Interest, accretion, and other | 1,361,510 | 728,405 | 4,276,036 | 6,365,951 |
| (Loss) income from continuing operations before income taxes | (186,779) | 138,101 | (5,756,745) | (5,805,423) |
| As at July 31, 2022 | | | | |
| Property and equipment | 13,898,851 | 1,950,293 | 2,828,433 | 18,677,577 |
| Goodwill | 4,347,566 | 11,179,457 | - | 15,527,023 |
| Total assets | 24,229,654 | 14,117,707 | 7,006,456 | 45,353,817 |
| Total liabilities | 14,074,872 | 689,059 | 5,357,349 | 20,121,280 |

23. INCOME TAXES

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

The U.S. federal income tax expense is due to the fact that Canadian and U.S. losses are not able to be consolidated for tax disclosure and reporting purposes.

| | 2022 | 2021 |
|---|---------------------|-------------|
| | \$ | \$ |
| Loss from continuing operations before income tax | (17,516,674) | (5,805,423) |
| Expected income tax recovery | (4,730,000) | (1,567,000) |
| Change in foreign exchange rates and other | (238,000) | 259,000 |
| Permanent differences | 4,372,000 | 1,171,000 |
| Adjustment to prior years provision versus statutory tax returns and expiry of non-capital losses | (410,000) | 904,000 |
| Change in unrecognized deductible temporary differences | 1,555,000 | (285,000) |
| Total tax expense | 549,000 | 482,000 |
| Income tax expense | 549,000 | 482,000 |
| Deferred tax recovery | - | - |

Tax attributes are subject to review, and potential adjustment, by tax authorities.

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23. INCOME TAXES (continued)

The significant components of the Company's temporary differences, unused tax credits and unused tax losses that have not been included on the consolidated statement of financial position are as follows:

| | July 31, 2022 | Expiry Date Range | July 31, 2021 | Expiry Date Range |
|--|---------------|----------------------|---------------|----------------------|
| | \$ | | \$ | |
| Temporary differences: | | | | |
| Property and equipment | 20,000 | No expiry date | 20,000 | No expiry date |
| Lease liability | 2,715,000 | No expiry date | 1,234,000 | No expiry date |
| Financing fees | 738,000 | 2041 to 2044 | 1,304,000 | 2041 to 2044 |
| Investments | 119,000 | No expiry date | 119,000 | No expiry date |
| Debt with accretion | - | No expiry date | 11,000 | No expiry date |
| Non-capital losses available for future period | 39,136,000 | 2028 to indefinite | 33,618,000 | 2035 to indefinite |
| Canada | 30,110,000 | 2028 to 2041 | 25,465,000 | 2035 to 2040 |
| USA | 9,026,000 | Indefinite | 8,153,000 | Indefinite |

Section 280E of the Tax Code prohibits businesses from taking deductions or credits in carrying on any trade or business consisting of trafficking in controlled substances which are prohibited by federal law. The IRS has invoked Section 280E in tax audits against various cannabis businesses in the U.S. that are authorized under state laws, seeking substantial sums in tax liabilities, interest and penalties resulting from underpayment of taxes due to the application of Section 280E. Under a number of cases, the United States Supreme Court has held that income means gross income (not gross receipts). Under this reasoning, the cost of goods sold is permitted as a reduction in determining gross income, notwithstanding Section 280E. Although proper reductions for cost of goods sold are generally allowed to determine gross income, the scope of such items has been the subject of debate, and deductions for significant costs may not be permitted. While there are currently several pending cases before various administrative and federal courts challenging these restrictions, there is no guarantee that these courts will issue an interpretation of Section 280E favorable to cannabis businesses. Thus, the Company, to the extent of its "trafficking" activities (if applicable), and/or key contract counterparties directly engaged in trafficking in cannabis, may be subject to United States federal tax, without the benefit of certain deductions or credits.

The Company recorded an income tax expense of \$549,000 related to AMA despite the existence of net operating losses. Cases before the federal courts have resulted in the denial of the application of net operating losses where Section 280E of the Tax Code applies. This is an uncertain tax position and management will review the applicable case law and make a final determination on the utilization of the net operating losses when filing the corporate income tax returns for the year ended July 31, 2022.

24. EVENTS AFTER THE REPORTING PERIOD

On August 15, 2022, 750,000 outstanding stock options expired unexercised.

On August 24, 2022, debenture holders approved the amendment of the conversion price applicable to the convertible debentures to \$0.05 per share being the lowest price at which the Company is permitted to amend the conversion price, the reduction of the price per share for interest payments on the Debentures from \$0.10 to \$0.05 per share, if the Company in its sole discretion elects to pay such interest through the issuance of its common shares, and the extension of the maturity date for the Debentures from September 14, 2022 to December 31, 2023.

On September 3, 2022, 5,295,270 outstanding warrants expired unexercised.

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24. EVENTS AFTER THE REPORTING PERIOD (continued)

September 9, 2022, the Company obtained a line of credit of up to \$1,282,400 (USD\$1,000,000) (the "Loan"), provided by Mr. Paul Rosen, Chairman and CEO of the Company. The Company has agreed to provide Mr. Rosen (the "Lender") senior first priority security interests in all of its assets as collateral for the Loan. Withdrawals from the line of credit must be approved by the Lender and must include the requested amount and the use of the funds (the "Principal"). Interest on the Principal will commence to accrue on the date of each withdrawal, with an interest rate of 11% per annum accrued until the Principal is paid in full. The Loan has a one-year term (the "Maturity Date"). The Principal, together with all accrued interest and fees is due and payable on or before the Maturity Date. However, a minimum interest rate of 2% of the Principal will be paid on the event that the Loan is paid back prior to the end of the term.

On September 27, 2022, the Company completed the sale of the assets held for sale with a cost of \$3,071,337 (USD\$2,394,991) for net proceeds of \$3,119,719 (USD\$2,432,719) after selling costs resulting in a gain on sale of \$48,382 (USD\$37,728).

Convertible debentures of \$127,007 and interest payable on the convertible debentures of \$47,762 were converted into 3,495,376 common shares of the Company.