



1933 INDUSTRIES INC.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended April 30, 2020 and 2019

(Expressed in Canadian Dollars)

(Unaudited)

Notice of Disclosure of Non-auditor Review of the Condensed Interim Consolidated Financial Statements for the three and nine months ended April 30, 2020 and 2019.

Pursuant to National Instrument 51-102, Part 4, subsection 4.3(3)(a) issued by the Canadian Securities administrators, if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim consolidated financial statements of 1933 Industries Inc. (“the Company” or “1933 Industries”) for the interim period ended April 30, 2020, have been prepared in accordance with the International Accounting Standard 34 – *Interim Financial Reporting* as issued by the International Accounting Standards Board and are the responsibility of the Company’s management.

The Company’s independent auditors, Davidson & Company LLP, have not performed a review of these interim financial statements

June 25, 2020

1933 INDUSTRIES INC.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Expressed in Canadian dollars) - Unaudited

	Note	April 30, 2020	July 31, 2019
ASSETS			
Current			
Cash		\$ 4,853,403	\$ 17,613,900
Receivables		1,766,112	1,726,060
Inventory	4	2,705,909	2,512,283
Biological assets	5	1,057,203	168,400
Prepaid expenses and deposits	6,11(e)	1,324,739	1,945,780
Total current assets		11,707,366	23,966,423
Property and equipment	7	25,578,611	21,320,793
Goodwill	8	17,331,158	16,366,878
Total assets		\$ 54,617,135	\$ 61,654,094
LIABILITIES AND EQUITY			
Current			
Accounts payable and accrued liabilities	15	\$ 1,305,265	\$ 1,383,774
Current portion of lease liability	9	257,332	45,665
Total current liabilities		1,562,597	1,429,439
Lease liability	9	15,086,050	13,032,126
Convertible debentures	10	11,026,898	9,879,125
Deferred income tax liability		134,375	125,000
Total liabilities		27,809,920	24,465,690
EQUITY			
Share capital	11	68,870,869	67,467,929
Reserves	11(d)	7,598,624	6,329,323
Accumulated other comprehensive income (loss)		2,004,705	(8,444)
Deficit		(50,983,820)	(36,310,938)
Equity attributable to shareholders of the Company		27,490,378	37,477,870
Non-controlling interest	12	(683,163)	(289,466)
Total equity		26,807,215	37,188,404
Total liabilities and equity		\$ 54,617,135	\$ 61,654,094

Events after the reporting period (note 20)

Approved on behalf of the Board of Directors and authorized for issuance on June 25, 2020:

“Signed”
 Brian Farrell, Director

“Signed”
 Terry Taouss, Director

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

1933 INDUSTRIES INC.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF LOSS

For the three and six months ended April 30, 2020 and 2019

(Expressed in Canadian dollars, except share numbers) - Unaudited

	Note	Three months ended		Nine months ended	
		2020	2019	2020	2019
Revenues		\$ 2,554,067	\$ 4,597,361	\$ 9,574,515	\$ 12,814,828
Cost of sales	5	2,527,136	3,434,248	8,350,902	7,988,419
Gross margin, excluding fair value adjustments		26,931	1,163,113	1,223,613	4,826,409
Fair value adjustment on sale of inventory		(47,876)	-	(2,157)	(148,597)
Fair value adjustment on biological assets	5	933,255	(24,671)	1,000,041	188,462
Gross margin		912,310	1,138,442	2,221,497	4,866,274
Expenses					
General and administration	18	2,154,614	2,205,905	6,641,355	4,801,854
Management and consulting fees	15	60,488	369,436	837,355	1,058,650
Wages and benefits	15	1,306,911	1,150,475	3,358,271	3,027,011
Professional fees	11(e)	388,767	158,863	1,039,383	772,624
Share-based compensation	11,15	256,685	234,075	1,041,321	1,850,842
Interest expense	9,10	691,525	381,265	1,993,665	1,137,108
Accretion expense	10	292,255	476,944	852,988	913,025
Depreciation	7	483,515	121,932	1,424,448	346,462
Foreign exchange loss		7,237	21,524	56	12,700
		5,641,997	5,120,419	17,188,842	13,920,276
Goodwill impairment		-	3,044,866	-	5,044,866
Loss from continuing operations before income tax		(4,729,687)	(7,026,843)	(14,967,345)	(14,098,868)
Current income tax expense		-	70	-	(1,185,265)
Net loss from continuing operations		(4,729,687)	(7,026,913)	(14,967,345)	(12,913,603)
Net loss from discontinued operations	19	-	(250,107)	-	(509,966)
Net loss for the period		\$ (4,729,687)	\$ (7,277,020)	\$ (14,967,345)	\$ (13,423,569)
Net loss from continuing operations attributable to:					
Shareholders of the Company		\$ (4,634,504)	\$ (6,815,005)	\$ (14,529,503)	\$ (12,812,127)
Non-controlling interest		\$ (95,183)	\$ (211,908)	\$ (437,842)	\$ (101,476)
Net loss attributable to:					
Shareholders of the Company		\$ (4,634,504)	\$ (7,065,112)	\$ (14,529,503)	\$ (13,322,093)
Non-controlling interest		\$ (95,183)	\$ (211,908)	\$ (437,842)	\$ (101,476)
Net loss from continuing operations per share					
Basic and Diluted		\$ (0.02)	(0.03)	(0.05)	(0.05)
Net loss per share					
Basic and Diluted		\$ (0.02)	(0.03)	(0.05)	(0.06)
Weighted average number of shares outstanding					
Basic and Diluted		285,478,539	245,861,993	285,243,979	242,994,582

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

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

For the three and nine months ended April 30, 2020 and 2019

(Expressed in Canadian dollars) - Unaudited

	Three months ended		Nine months ended	
	2020	2019	2020	2019
Net loss for the period	\$ (4,729,687)	\$ (7,277,020)	\$ (14,967,345)	\$ (13,423,569)
Other comprehensive income				
Foreign currency translation adjustment	1,813,764	844,612	2,057,294	1,001,676
Comprehensive loss for the period	(2,915,923)	(6,432,408)	(12,910,051)	(12,421,893)
Comprehensive loss attributable to:				
Shareholders of the Company	(4,634,504)	(7,065,112)	(14,529,503)	(13,322,093)
Non-controlling interest	(95,183)	(211,908)	(437,842)	(101,476)
Translation adjustment – Shareholders of the Company	1,778,900	852,064	2,013,149	982,074
Translation adjustment – Non-controlling interest	34,864	(7,452)	44,145	19,602
	\$ (2,915,923)	\$ (6,432,408)	\$ (12,910,051)	\$ (12,421,893)

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

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

For the nine months ended April 30, 2020 and 2019

(Expressed in Canadian dollars) - Unaudited

	Note	2020	2019
Operating Activities			
Net loss from continuing operations		\$ (14,967,345)	\$ (12,913,603)
Adjustments to non-cash items:			
Fair value adjustment on growth of biological assets	5	(1,000,041)	(188,462)
Share-based compensation	11(f)	1,041,321	1,850,842
Accretion	10	852,988	913,025
Depreciation	7	1,424,448	346,462
Accrued interest	10	310,633	478,264
Warrants issued for professional fees	11(e)	41,229	-
Shares issued for compensation	11(c)	170,752	-
Shares issued for interest		-	5,044,866
Goodwill impairment		-	59,650
Changes in non-cash working capital items:			
Inventory and biological assets		63,648	137,902
Receivables		47,514	(976,769)
Prepaid expenses and deposits		900,067	(164,894)
Deferred financing costs		-	45,000
Accounts payable and accrued liabilities		(139,181)	1,489,649
Income taxes payable		9,375	(1,155,544)
Cash used in operating activities of continuing operations		(11,244,592)	(5,033,612)
Cash used in operating activities of discontinued operations	19	-	(495,100)
Investing Activities			
Property and equipment	7	(2,997,715)	(13,146,027)
Restricted cash		-	4,425,602
Cash (used in) provided by investing activities		(2,997,715)	(8,720,425)
Financing Activities			
Common shares issued for cash – private placement	11(c)	-	4,500,000
Common shares issued for cash – exercise of stock options	11(c)	12,000	490,224
Common shares issued for cash – exercise of warrants	11(c)	1,181,806	3,209,123
Subscription receipts	11(c)	10,000	-
Lease repayment	9	(192,708)	-
Convertible debentures, net	10	-	15,581,986
Cash provided by financing activities		1,011,098	23,781,333
Effect of exchange rate changes on cash		470,712	103,336
(Decrease) increase in cash		(12,760,497)	9,635,532
Cash, beginning of period		17,613,900	5,056,183
Cash, end of period		\$ 4,853,403	\$ 14,691,715

Supplemental disclosure with respect to cash flows (note 16)

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

1933 INDUSTRIES INC.

CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Expressed in Canadian dollars, except share numbers) - Unaudited

	Note	Number	Issued capital	Reserves	Accumulated other comprehensive income	Deficit	Non- controlling interest	Total equity
Balance, July 31, 2018		227,962,060	\$ 47,338,683	\$ 1,846,376	\$ (138,081)	\$ (12,294,920)	\$ 231,439	\$ 36,983,497
Shares issued - exercise of options	11	1,010,000	259,615	(162,382)	-	-	-	97,233
Shares issued - exercise of warrants	11	11,040,123	3,041,958	-	-	-	-	3,041,958
Shares issued - exercise of agents warrants	11	557,217	197,199	(30,034)	-	-	-	167,165
Shares issued - exercise of agent options	11	896,454	533,972	(134,748)	-	-	-	399,224
Shares issued - private placement	11	10,000,000	4,500,000	-	-	-	-	4,500,000
Shares issued - conversion of convertible debentures \$0.25	11	9,700,000	2,311,957	(71,826)	-	-	-	2,240,131
Shares issued - conversion of convertible debentures \$0.45	11	10,402,208	4,587,396	(776,192)	-	-	-	3,811,204
Shares issued for acquisition of Infused	11	7,000,000	3,150,000	-	-	-	-	3,150,000
Shares issued - Infused 9% equity acquisition	11	-	-	190,486	-	-	-	190,486
Shares issued for interest	11	238,600	59,650	-	-	-	-	59,650
Shares cancelled	11	(1,065,000)	(372,750)	-	-	372,750	-	-
Equity portion of convertible debenture	11	-	-	2,550,084	-	-	-	2,550,084
Share-based compensation	11	-	-	1,850,842	-	-	-	1,850,842
Agent options issued as finders' fees	11	-	-	471,995	-	-	-	471,995
Translation adjustment less Infused 9% equity acquisition		-	-	-	982,074	-	19,602	1,001,676
Infused 9% equity acquisition		-	-	-	-	-	(166,499)	(166,499)
Net loss for the period		-	-	-	-	(13,322,093)	(101,476)	(13,423,569)
Balance, April 30, 2019		277,741,662	\$ 65,607,680	\$ 5,734,601	\$ 843,993	\$ (25,244,263)	\$ (16,934)	\$ 46,925,077

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

1933 INDUSTRIES INC.
CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Expressed in Canadian dollars, except share numbers) - Unaudited

	Note	Number	Issued capital	Reserves	Accumulated other comprehensive income	Deficit	Non- controlling interest	Total equity
Balance, July 31, 2019		281,509,693	\$ 67,467,929	\$ 6,329,323	\$ (8,444)	\$ (36,310,938)	\$ (289,466)	\$ 37,188,404
Adjustment on application of IFRS 16	3	-	-	-	-	(143,379)	-	(143,379)
Balance, August 1, 2019		281,509,693	\$ 67,467,929	\$ 6,329,323	\$ (8,444)	\$ (36,454,317)	\$ (289,466)	\$ 37,045,025
Shares issued - exercise of options	11	80,000	21,616	(9,616)	-	-	-	12,000
Shares issued - exercise of warrants	11	3,376,588	1,181,806	-	-	-	-	1,181,806
Shares issued - conversion of convertible debentures \$0.45	11,10	44,444	18,766	(2,904)	-	-	-	15,862
Shares issued – bonus	11,15	467,814	170,752	-	-	-	-	170,752
Subscription receipt	11	-	10,000	-	-	-	-	10,000
Share-based compensation	11,15	-	-	1,041,321	-	-	-	1,041,321
Warrants issued – services	11	-	-	240,500	-	-	-	240,500
Translation adjustment	-	-	-	-	2,013,149	-	44,145	2,057,294
Non-controlling interest	-	-	-	-	-	-	(437,842)	(437,842)
Net loss for the period	-	-	-	-	-	(14,529,503)	-	(14,529,503)
Balance, April 30, 2020		285,478,539	\$ 68,870,869	\$ 7,598,624	\$ 2,004,705	\$ (50,983,820)	\$ (683,163)	\$ 26,807,215

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

1933 INDUSTRIES INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

April 30, 2020 and 2019

(Expressed in Canadian dollars, except where noted) - Unaudited

1. NATURE OF OPERATIONS

1933 Industries Inc. (the "Company") was incorporated pursuant to the provisions of the Business Corporations Act of Alberta. The Company is a publicly traded corporation with its registered office located at 300 – 1055 West Hastings Street, Vancouver, British Columbia, Canada. On September 27, 2018, the Company continued out of the province of Alberta and into the province of British Columbia.

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, acquiring and designing hemp and CBD-infused products and brands for retail sale and use in jurisdictions where permitted. On April 1, 2019, the Company acquired the remaining 9% interest in Infused from the holder to make the Company's share in Infused 100%.

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.

On January 4, 2018, United States Attorney General Jeff Sessions issued a memorandum to United States district attorneys (the "Sessions Memorandum") which rescinded previous guidance from the United States Department of Justice specific to cannabis enforcement in the United States, including the Cole Memorandum. With the Cole Memorandum rescinded, United States federal prosecutors no longer have guidance relating to the exercise of their discretion in determining whether to prosecute cannabis related violations of United States federal law. In response to the Sessions Memorandum, on April 13, 2018, the United States President Donald Trump promised Colorado Senator Cory Gardner that he will support efforts to protect states that have legalized cannabis. Nevertheless, a significant change in the federal government's enforcement policy with respect to current federal laws applicable to cannabis could cause significant financial damage to the Company. 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.

2. BASIS OF PRESENTATION

a) Statement of compliance

These unaudited condensed interim consolidated financial statements ("interim financial statements") were approved by the Board of Directors and authorized for issue on June 25, 2020.

These interim financial statements have been prepared in accordance with International Accounting Standard 34 - *Interim Financial Reporting* using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). As such, these interim financial statements do not contain all the disclosures required by IFRS for annual financial statements and should be read in conjunction with the Company's audited annual consolidated financial statements for the years ended July 31, 2019 and 2018 ("annual financial statements").

b) Basis of measurement

These interim financial statements have been prepared in Canadian dollars on a historical cost basis except for cash and biological assets measured at fair value. Historical cost is generally based upon the fair value of the consideration given in exchange for assets.

c) Functional and presentation currency

These interim 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.

1933 INDUSTRIES INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

April 30, 2020 and 2019

(Expressed in Canadian dollars, except where noted) - Unaudited

2. BASIS OF PRESENTATION (continued)

d) Basis of consolidation

All inter-company balances, transactions, revenues and expenses have been eliminated on consolidation. These interim 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 for Infused
1933 Legacy Inc. ⁽¹⁾	Legacy	USA	100%	USD	Holding company Hemp and CBD –
Infused Mfg LLC	Infused MFG	USA	100% ⁽²⁾	USD	Infused products
FN Pharmaceuticals LLC	FNP	USA	100%	USD	Holding company for AMA
Alternative Medicine Association LLC	AMA	USA	91%	USD	Cannabis cultivation and production
AMA Productions LLC	AMA Pro	USA	91%	USD	Holding Company
Spire Secure Logistics Inc.	Spire	Canada	100%	CAD	Inactive

⁽¹⁾ The Company incorporated 1933 Legacy Inc. on November 15, 2018.

⁽²⁾ On April 1, 2019, the Company acquired the remaining 9% interest from the holder to make the Company's share in Infused Mfg LLC 100%.

e) Reclassification of prior year amounts

The Company may have reclassified certain immaterial items to improve clarity.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied in the preparation of these interim financial statements are consistent with those applied and disclosed in note 3 to the annual financial statements with exception of the following:

i. Leases

Effective January 1, 2019, the Company adopted IFRS 16, *Leases* (IFRS 16) using the modified retrospective approach. The new standard requires a lessee to recognize a liability to make lease payments (the lease liabilities) and an asset to recognize the right to use the underlying asset during the lease term (the right-of-use assets) in the statement of financial position. The Company recognized the after-tax cumulative effect of initially applying IFRS 16 as an adjustment to opening retained earnings at January 1, 2019. Comparative information has not been restated and continues to be reported under IAS 17, *Leases* (IAS 17) and IFRIC 4, *Determining Whether an Arrangement Contains a Lease* (IFRIC 4).

The Company used the practical expedient not to reassess whether a contract is or contains a lease at January 1, 2019. Instead, the Company applied IFRS 16 only to contracts previously identified as leases under IAS 17 and IFRIC 4.

The Company also used the following practical expedients to account for leases at January 1, 2019:

- Applied a single discount rate to a portfolio of leases with similar characteristics.
- Relied on the Company's assessment of whether leases are onerous immediately before January 1, 2019.

1933 INDUSTRIES INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

April 30, 2020 and 2019

(Expressed in Canadian dollars, except where noted) - Unaudited

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

- Applied recognition exemptions for operating leases when the underlying asset was of low value or the lease term ends within 12 months. The payments associated with these leases are recognized as an expense in operating expenses.
- Excluded initial direct costs when measuring the right-of-use asset at January 1, 2019.
- Used hindsight to determine the lease term when the contract contained options to extend or terminate the lease.

These policies apply to contracts entered into or changed on or after January 1, 2019. 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.

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.

For leases previously classified as operating leases, lease liabilities were measured at the present value of the remaining lease payments, discounted using the Company's weighted-average incremental borrowing rate, calculated in accordance with IFRS 16, at August 1, 2019, of 10%. Associated right-of-use assets for certain property leases, elected on a lease-by-lease basis, were measured retrospectively as though IFRS 16 had been applied since the commencement date. Other right-of-use assets were measured at the amount equal to the lease liabilities. The right-of-use asset was adjusted by the amount of any prepaid, accrued lease payments, or acquisition lease advantages or disadvantages relating to that lease and recognized in the statements of financial position as at July 31, 2019.

1933 INDUSTRIES INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

April 30, 2020 and 2019

(Expressed in Canadian dollars, except where noted) - Unaudited

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

The lease liabilities as at August 1, 2019 can be reconciled to the operating lease commitments as of July 31, 2019 as follows:

Operating lease commitments as at July 31, 2019	\$	14,575,000
Add:		
Lease payments during renewal periods ⁽¹⁾		16,516,126
Total operating lease commitments as at July 31, 2019		31,091,126
Weighted average incremental borrowing rate as at August 1, 2019		10%
Lease liability as at August 1, 2019 ⁽²⁾	\$	14,617,314

⁽¹⁾ Represents managements estimate of the lease payments during the renewal periods.

⁽²⁾ Includes lease liability of \$13,077,791 as at July 31, 2019 and \$1,539,523 lease liability resulting from the adoption of IFRS 16 (note 9).

ii. Critical judgements and estimates

The Company's management makes judgements in the process of applying the Company's accounting policies in the preparation of its interim financial statements. In addition, the preparation of the financial statements requires that the Company's management make assumptions and estimates of effects of uncertain future events on the carrying amounts of the Company's assets and liabilities at the end of the reporting period and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates as the estimation process is inherently uncertain. Estimates are reviewed on an ongoing basis based on historical experience and other factors that are considered to be relevant under the circumstances. Revisions to estimates and the resulting effects on the carrying amounts of the Company's assets and liabilities are accounted for prospectively. The Company's interim results are not necessarily indicative of its results for a full year. The critical judgements and estimates applied in the preparation of these interim financial statements are consistent with those applied and disclosed in note 3(e) to the annual consolidated financial statements with exception of the following:

Leases as a result of adopting IFRS 16

Identifying whether a contract includes a lease

IFRS 16 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. As it is not reasonably certain that the extension or early termination options will be exercised, the Company determined that the term of its leases are the lesser of original lease term or the life of the mine. This significant estimate could affect future results if the Company extends the lease or exercises an early termination option.

4. INVENTORY

	April 30, 2020	July 31, 2019
Harvested cannabis and trim	\$ 435,929	\$ 87,428
Cannabis oil and equivalent	843,532	883,497
Finished goods	923,259	1,071,514
Raw materials	503,189	469,844
	\$ 2,705,909	\$ 2,512,283

1933 INDUSTRIES INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

April 30, 2020 and 2019

(Expressed in Canadian dollars, except where noted) - Unaudited

5. BIOLOGICAL ASSETS

	April 30, 2020		July 31, 2019
Balance, beginning of period	\$ 168,400	\$	311,037
Production costs capitalized	3,282,982		969,901
Change in fair value less costs to sell	1,000,041		(1,883)
Transferred to inventory upon harvest	(3,411,650)		(1,114,521)
Unrealized foreign exchange gain	17,430		3,866
Balance, end of period	\$ 1,057,203	\$	168,400

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. The significant assumptions used in determining the fair value of cannabis plants include:

Assumption	April 30, 2020		July 31, 2019
Estimated sales price per gram	USD\$ 5.29	USD\$	5.07
Weighted average stage of growth	7 weeks		10 weeks
Expected yields by plant strain	95 grams		113 grams
Wastage	1%		1%
Post-harvest cost per gram	USD\$ 0.57	USD\$	0.29

Biological assets are measured at fair value less costs to sell until harvest. All production costs are capitalized. As at April 30, 2020 the carrying value of biological assets consisted entirely of live cannabis plants. The Company values cannabis plants at cost from the date of initial clipping from mother plants until the end of the sixth week of its growing cycle. Measurement of the biological asset at fair value less costs to sell and costs to complete begins at the seventh week until harvest. On average, the grow cycle is approximately 15 weeks.

The fair value measurements for biological assets have been categorized as Level 3. 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.

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.

6. PREPAID EXPENSES AND DEPOSITS

	April 30, 2020		July 31, 2019
Prepaid expenses	\$ 931,212	\$	829,481
Holdback	-		986,100
Security deposit	393,527		130,199
	\$ 1,324,739	\$	1,945,780

On May 13, 2019, the Company completed the sale-lease back of land and facility under construction in Las Vegas, Nevada (note 7). The purchaser held back \$1,230,999 (USD\$936,264) until certain performance conditions were met. During the nine months ended April 30, 2020, the remaining holdback of \$986,100 (USD\$750,000) was released.

1933 INDUSTRIES INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

April 30, 2020 and 2019

(Expressed in Canadian dollars, except where noted) - Unaudited

7. PROPERTY AND EQUIPMENT

	Land	Construction in Progress	Leasehold Improvements	Production Equipment	Office Equipment	Right of Use	Total
Cost							
Balance, July 31, 2018	\$ 1,683,452	\$ 3,380,685	\$ 475,773	\$ 1,226,339	\$ 200,457	\$ -	\$ 6,966,706
Additions	-	13,543,866	344,122	3,171,396	53,134	13,058,747	30,171,265
Disposals	(570,258)	(14,166,791)	(13,007)	(57,155)	(1,106)	-	(14,808,317)
Foreign exchange gain (loss)	15,767	(56,351)	2,220	(8,886)	3,190	(84,861)	(128,921)
Balance, July 31, 2019	1,128,961	2,701,409	809,108	4,331,694	255,675	12,973,886	22,200,733
Adoption of IFRS 16	-	-	-	-	-	1,843,705	1,843,705
Additions	-	469,170	102,498	2,404,986	21,061	-	2,997,715
Foreign exchange gain	65,430	160,854	49,843	273,050	12,282	851,983	1,413,442
Balance, April 30, 2020	\$ 1,194,391	\$ 3,331,433	\$ 961,449	\$ 7,009,730	\$ 289,018	\$ 15,669,574	\$ 28,455,595
Accumulated depreciation							
Balance, July 31, 2018	\$ -	\$ -	\$ 78,739	\$ 208,350	\$ 13,583	\$ -	\$ 300,672
Depreciation	-	-	68,416	340,742	131,513	108,295	648,966
Foreign exchange gain (loss)	-	-	(19,276)	(48,837)	(3,184)	1,599	(69,698)
Balance, July 31, 2019	-	-	127,879	500,255	141,912	109,894	879,940
Adoption of IFRS 16	-	-	-	-	-	447,561	447,561
Depreciation	-	-	68,657	554,170	89,728	711,893	1,424,448
Foreign exchange gain	-	-	8,481	34,120	7,383	75,051	125,035
Balance, April 30, 2020	\$ -	\$ -	\$ 205,017	\$ 1,088,545	\$ 239,023	\$ 1,344,399	\$ 2,876,984
Carrying amount							
Balance, July 31, 2019	\$ 1,128,961	\$ 2,701,409	\$ 681,229	\$ 3,831,439	\$ 113,763	\$ 12,863,992	\$ 21,320,793
Balance, April 30, 2020	\$ 1,194,391	\$ 3,331,433	\$ 756,432	\$ 5,921,185	\$ 49,995	\$ 14,325,175	\$ 25,578,611

On May 13, 2019, the Company completed the sale-lease back of land and facility under construction in Las Vegas, Nevada for \$14,027,035 (USD\$10,450,000) less various adjustments for title fees, commission, and transfer taxes for a net sale price to the Company of \$12,949,443 (USD\$9,862,700). The Company recorded a loss on disposal of \$1,787,606 (USD\$1,345,886).

As a result of the sale-lease back, the Company entered into a 10-year lease which contains an option to extend two additional 5-year terms. The lease has been deemed a finance lease under IAS 17 and as such, the Company recorded a finance lease of \$12,967,478 (USD\$9,862,700) representing the right of use of the facility and a corresponding lease liability (note 9). The adoption of IFRS 16 had no impact on the finance lease asset or the lease liability.

1933 INDUSTRIES INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

April 30, 2020 and 2019

(Expressed in Canadian dollars, except where noted) - Unaudited

8. GOODWILL

	April 30, 2020		July 31, 2019
Balance, beginning of period	\$ 16,366,878	\$	21,274,604
Impairment - Spire Global Strategy Inc.	-		(5,044,866)
Unrealized foreign exchange gain	964,280		137,140
Balance, end of period	\$ 17,331,158	\$	16,366,878

9. LEASE LIABILITY

	April 30, 2020		July 31, 2019
Balance, beginning of period	\$ 13,077,791	\$	-
Finance lease obligation	-		12,967,478
Adoption of IFRS 16	1,539,523		-
Repayment of lease obligation	(1,253,690)		(101,406)
Interest expense	1,060,982		212,844
Unrealized foreign exchange loss (gain)	918,776		(1,125)
Balance, end of period	15,343,382		13,077,791
Less: Non-current portion	15,086,050		13,032,126
Current portion of lease liability	\$ 257,332	\$	45,665

Pursuant to the sale-leaseback agreement dated May 13, 2019, the Company recognized a lease liability of \$12,967,478 (USD\$9,862,700) representing future minimum lease payments discounted at a rate of 10%. The lease matures May 13, 2029 and the Company has two 5-year renewal options.

10. CONVERTIBLE DEBENTURES

	April 30, 2020		July 31, 2019
Balance, beginning of period	\$ 9,879,125	\$	1,965,031
Convertible debentures issued (a)(b)(c)	-		17,250,000
Equity component	-		(2,911,250)
Transaction costs - non-cash	-		(613,903)
Transaction costs - cash	-		(1,386,506)
Interest expense	932,683		1,332,210
Accretion expense	852,988		1,215,212
Converted to common shares	(15,848)		(5,743,226)
Interest paid - cash	(622,050)		(1,168,793)
Interest paid - shares	-		(59,650)
Balance, end of period	11,026,898		9,879,125
Less: non-current portion	11,026,898		9,879,125
Current portion of convertible debentures	\$ -	\$	-

\$17,250,000 convertible debenture units

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 will entitle 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.

1933 INDUSTRIES INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

April 30, 2020 and 2019

(Expressed in Canadian dollars, except where noted) - Unaudited

10. CONVERTIBLE DEBENTURES (continued)

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, 2019 and recorded as a deferred financing 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.

The equity component of the \$17,250,000 convertible debenture was determined to be \$2,505,099 net of transaction costs of \$406,151.

Convertible debentures with a principal balance of \$20,000 were converted into 44,444 common shares of the Company (note 11(c)) during the period.

The principal balance outstanding as at April 30, 2020 is \$12,432,007. The balance per the balance sheet at April 30, 2020 of \$11,026,898 represents the principal balance, which has been discounted for the equity component and the cash and non-cash transaction costs. The balance will be increased each period through accretion expense to increase the balance to the principal balance outstanding over the remaining term of the convertible debentures.

11. SHARE CAPITAL AND RESERVES

a) Authorized

Unlimited common shares with no par value and unlimited preferred shares issuable in series. As of April 30, 2020, there were 285,478,539 common shares outstanding (July 31, 2019 - 281,509,693).

b) Escrow shares

The Company has shares subject to trading restrictions and escrow which are released in tranches through 2020. As at April 30, 2020, a total of 4,870,160 common shares were subject to these escrow restrictions.

c) Issued common shares

The Company had the following common share transactions during the nine months ended April 30, 2020:

- On September 4, 2019, the Company issued 44,444 common shares pursuant to the conversion of \$20,000 of convertible debentures. In relation to the conversion \$2,904 was reallocated from reserves to share capital and \$18,766 was recorded as share capital representing the accreted balance of convertible debentures net of transaction costs.
- On September 19, 2019, the Company issued 291,901 common shares with a fair value of \$106,544 as share-based compensation to the Chairman of the Board.
- On September 19, 2019, the Company issued 175,913 common shares with a fair value of \$64,208 as share-based compensation to the CEO.
- The Company issued 80,000 common shares upon exercise of stock options at a price of \$0.15 per share for gross proceeds of \$12,000. In relation to the exercise of stock options \$9,616 was reallocated from reserves to share capital.
- The Company issued 3,376,588 common shares upon the exercise of warrants at a price of \$0.35 per share for gross proceeds of \$1,181,806.
- The Company received \$10,000 related to a share issuance during the year ended July 31, 2019. The amount has been allocated to share capital.

1933 INDUSTRIES INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

April 30, 2020 and 2019

(Expressed in Canadian dollars, except where noted) - Unaudited

11. SHARE CAPITAL AND RESERVES (continued)

The Company had the following common share transactions during the year ended July 31, 2019:

- The Company issued 2,109,997 common shares pursuant to the exercise of 2,109,997 stock options at a price of \$0.15 per common share for gross proceeds of \$316,500. In relation to the exercise of stock options, \$253,633 was reallocated from reserves to share capital.
- The Company issued 12,760,376 common shares pursuant to the exercise of 12,760,376 share purchase warrants at prices between of \$0.25 to \$0.65 per share for gross proceeds of \$3,906,514. In relation to the exercise of the share purchase warrants, \$30,034 was reallocated from reserves to share capital.
- The Company issued 896,454 common shares upon the exercise of Agent Options at a price of \$0.25 to \$0.45 per share for gross proceeds of \$399,224. In relation to the exercise of Agent Options, \$210,860 was reallocated from reserves to share capital.
- The Company issued 20,342,206 common shares pursuant to the conversion of \$7,213,993 of convertible debentures. In relation to the conversion \$768,606 was reallocated from reserves to share capital and \$5,734,255 was recorded as share capital representing the accreted balance of convertible debentures net of transaction costs.
- On December 31, 2018, in accordance with the debenture interest subscription agreement, the Company issued 238,600 common shares to settle interest payable representing an interest payment of \$59,650.
- On March 15, 2019, pursuant to a non-brokered private placement, the Company issued 10,000,000 units at a price of \$0.45 per unit for gross proceeds of \$4,500,000. Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one common share at a price of \$0.50 per share for 24 months. The Company may force acceleration of the warrants on less than 30 days' notice should the trading price of the company's shares on the Canadian Securities Exchange be greater than \$0.75 for any 10 consecutive trading days.
- On March 29, 2019, pursuant to the terms of the Agreement with Infused MFG, issued 7,000,000 common shares with a fair value of \$0.45 per share for total consideration of \$3,150,000.
- On May 7, 2019, the Company issued 200,000 common shares with a fair value of \$100,000 as share-based compensation to the CEO.

d) Reserves

The following is a summary of changes in reserves:

	Stock options	Convertible debentures	Warrants	Total
Balance, July 31, 2018	\$ 1,304,370	\$ 71,826	\$ 470,180	\$ 1,846,376
Share-based payments	2,204,712	-	-	2,204,712
Agent Options issued as finders' fee	-	-	738,547	738,547
Equity portion of convertible debenture	-	2,505,099	-	2,505,099
Warrants issued as part of 9% interest acquisition	-	-	297,722	297,722
Reclassified on conversion of convertible debentures	-	(768,606)	-	(768,606)
Reclassified on exercise of warrants	-	-	(30,034)	(30,034)
Reclassified on exercise of stock options and Agent Options	(253,633)	-	(210,860)	(464,493)
Balance, July 31, 2019	3,255,449	1,808,319	1,265,555	6,329,323
Share-based payments	1,041,321	-	-	1,041,321
Warrants issued for services	-	-	240,500	240,500
Reclassified on conversion of convertible debentures	-	(2,904)	-	(2,904)
Reclassified on exercise of stock options	(9,616)	-	-	(9,616)
Balance, April 30, 2020	\$ 4,287,154	\$ 1,805,415	\$ 1,506,055	\$ 7,598,624

1933 INDUSTRIES INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

April 30, 2020 and 2019

(Expressed in Canadian dollars, except where noted) - Unaudited

11. 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, 2018	16,852,297	\$ 0.32
Issued - convertible debentures	38,329,500	0.65
Issued - exercise of Agent Options	896,454	0.64
Issued - private placement	10,000,000	0.50
Issued - 9% Infused acquisition	1,000,000	0.53
Expired	(4,030,559)	0.35
Exercised	(12,760,376)	0.31
Balance, July 31, 2019	50,287,316	0.62
Issued – services	650,000	0.37
Expired	(16,750)	0.35
Exercised	(50,000)	0.35
Balance, April 30, 2020	50,870,566	\$ 0.61

On August 1, 2019, the Company issued 650,000 warrants to consultants for services rendered commencing August 1, 2019 through June 13, 2022. Each warrant entitles the consultants to purchase one common share at a price of \$0.37 and expire on June 13, 2022. The fair value of the warrants of \$240,500 was recorded as an increase in warrants reserves and was determined using the Black-Scholes Valuation Model using the following assumptions: risk free interest rate 1.61%, expected life of 2.73 years, volatility of 100%.

During the three and nine months ended April 30, 2020, the Company recorded an expense to professional fees of \$20,614 and \$61,843, respectively (three and nine months ended April 30, 2019 - \$nil and \$nil, respectively) on the consolidated statement of loss for services received. As at April 30, 2020, the Company recorded a prepaid expense of \$178,657 (July 31, 2019 - \$nil) with respect to prepaid services.

The following table summarizes share purchase warrants outstanding as at April 30, 2020:

Expiry date	Number of Warrants	Weighted Average Exercise Price	Weighted Average Remaining Years
March 14, 2021	10,000,000	\$ 0.50	0.87
March 28, 2021	1,000,000	0.53	0.91
September 14, 2021	39,220,566	0.65	1.38
June 13, 2022	650,000	0.37	2.12
	50,870,566	\$ 0.61	1.28

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.

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 CSE, and all stock options granted under the plan will have a maximum term of five years.

1933 INDUSTRIES INC.**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

April 30, 2020 and 2019

(Expressed in Canadian dollars, except where noted) - Unaudited

11. SHARE CAPITAL AND RESERVES (continued)

A summary of stock option activity is as follows:

	Number of Options	Weighted Average Exercise Price
Balance, July 31, 2018	10,343,330	\$ 0.22
Granted	9,525,000	0.54
Exercised	(2,109,997)	0.15
Cancelled	(561,667)	0.34
Balance, July 31, 2019	17,196,666	0.41
Granted	8,050,000	0.35
Exercised	(80,000)	0.15
Cancelled	(1,575,000)	0.36
Balance, April 30, 2020	23,591,666	\$ 0.39

The following table summarizes stock options outstanding and exercisable as at April 30, 2020:

Expiry date	Number of Options	Number of Exercisable Options	Weighted Average Exercise Price	Weighted Average Remaining Years
14-Nov-20	237,500	237,500	\$ 0.50	0.54
8-Jan-21	37,500	37,500	0.64	0.69
31-May-21	500,000	500,000	0.50	1.08
5-Oct-21	7,835,000	5,223,333	0.55	1.43
13-Jun-22	5,531,666	5,531,666	0.15	2.12
15-Aug-22	6,800,000	2,266,667	0.35	2.29
15-Feb-23	1,300,000	1,300,000	0.65	2.80
2-May-24	100,000	75,000	0.55	4.01
20-Jan-23	250,000	83,333	0.35	2.72
26-Feb-23	1,000,000	333,333	0.35	2.82
	23,591,666	15,588,332	\$ 0.39	1.98

Share-based compensation expense recognized during the three and nine months ended April 30, 2020 of \$256,685 and \$1,041,321 respectively (2019 - \$234,075 and \$1,850,842, respectively) related to options granted and vested during the period. The Company granted 1,000,000 and 8,050,000 stock options during the three and nine months ended April 30, 2020, respectively (2019 – nil and 8,925,000, respectively). The fair value of stock options was calculated using the Black-Scholes Option Pricing Model using the following weighted average assumptions:

	2020	2019
Risk-free interest rate	1.38%	1.75%
Expected life of options	3 years	3 years
Annualized volatility	100%	75%
Dividend rate	0%	0%
Weighted average fair value per option	\$0.15	\$0.24

1933 INDUSTRIES INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

April 30, 2020 and 2019

(Expressed in Canadian dollars, except where noted) - Unaudited

11. SHARE CAPITAL AND RESERVES (continued)**g) Agent Options**

A summary of Agent Option activity is as follows:

	Number of Options		Weighted Average Exercise Price
Balance, July 31, 2018	27,900	\$	0.25
Granted	3,066,666		0.45
Exercised	(896,454)		0.45
Balance, July 31, 2019	2,198,112		0.45
Expired	(7,000)		0.25
Balance, April 30, 2020	2,191,112	\$	0.45

The following table summarizes Agent Options outstanding and exercisable as at April 30, 2020:

Expiry date	Number of Options	Number of Exercisable Options	Weighted Average Exercise Price	Weighted Average Remaining Years
September 14, 2021 ⁽²⁾	2,191,112	2,191,112	\$ 0.45	1.38
	2,191,112	2,191,112	\$ 0.45	1.38

⁽¹⁾ Each Agent Option entitles the holder to acquire one unit. Each unit is comprised of one common share and one share purchase warrant exercisable at \$0.65 until September 14, 2021.

12. NON-CONTROLLING INTEREST

The following table presents summarized financial information for the non-wholly owned subsidiaries as at April 30, 2020 and July 31, 2019 and for the nine months ended April 30, 2020 and 2019:

	April 30, 2020		July 31, 2019
Assets			
Current	\$ 4,883,007	\$	4,615,148
Non-current	22,607,419		21,934,935
	27,490,426		26,550,083
Liabilities			
Current	14,843,679		13,642,796
Net assets	12,646,747		12,907,287
Non-controlling interest	\$ (683,163)	\$	(289,466)
	2020		2019
Revenues	\$ 4,722,088	\$	2,256,764
Net (loss) income	\$ (4,212,424)	\$	156,398

1933 INDUSTRIES INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

April 30, 2020 and 2019

(Expressed in Canadian dollars, except where noted) - Unaudited

13. FINANCIAL RISK MANAGEMENT

Fair value of financial assets and liabilities

IFRS 13 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 fair value of cash and restricted cash is measured using Level 1 inputs. The carrying values of receivables and accounts payable and accrued liabilities approximate their respective fair values due to the short-term nature of these instruments. The fair value of convertible debentures approximates fair value as it is discounted using a market rate of interest.

14. CAPITAL RISK MANAGEMENT

The Company defines capital as equity. The Company manages its capital structure and makes adjustments in order to have the funds available to support its operating activities.

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.

Management reviews its capital management approach on an ongoing basis. There were no changes in the Company's approach to capital management during the periods presented. The Company is not subject to externally imposed capital requirement.

15. 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 and director compensation for the three and nine months ended April 30, 2020 and 2019, was as follows:

	Three months ended		Nine months ended	
	2020	2019	2020	2019
Management and consulting fees	\$ 19,500	\$ 120,998	\$ 598,416	\$ 668,832
Directors fees	47,120	-	97,120	-
Shares issued for compensation	-	-	170,752	-
Share-based payments	165,848	245,378	772,605	973,840
	\$ 232,468	\$ 366,376	\$ 1,638,893	\$ 1,642,672

Other related party transactions for the three and nine months ended April 30, 2020 and 2019, were as follows:

	Three months ended		Nine months ended	
	2020	2019	2020	2019
Legal fees	\$ 809	\$ 21,748	\$ 13,784	\$ 59,779
Rent	15,000	15,000	47,921	28,500
Wages and benefits	399,246	57,692	679,202	178,577
	\$ 415,055	\$ 94,440	\$ 740,907	\$ 266,856

1933 INDUSTRIES INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

April 30, 2020 and 2019

(Expressed in Canadian dollars, except where noted) - Unaudited

15. RELATED PARTY TRANSACTIONS (continued)

Due to related parties as at April 30, 2020 and July 31, 2019, was as follows:

	April 30, 2020	July 31, 2019
Accounts payable and accrued liabilities	\$ 300,000	\$ 375,030

As at April 30, 2020, the Company's accounts payable and accrued liabilities included \$300,000 owing to the Company's former Chief Operating Officer and President.

As at July 31, 2019, the Company's accounts payable and accrued liabilities included \$375,030 owing to the Company's former Chief Operating Officer.

16. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

The significant non-cash transactions for the nine months ended April 30, 2020 were as follows:

- Convertible debentures with a face value of \$20,000 and carrying value of \$15,862 were converted into 44,444 common shares of the Company (notes 10 and 11(c)). In relation to the conversion \$18,766 was recorded to share capital and \$2,904 was reallocated from reserves to share capital.
- Reallocated \$9,616 from reserves to share capital upon exercise of stock options (notes 11(d) and 11(f)).
- Issuance of 650,000 share purchase warrants for professional services with a fair value of \$240,500 (note 11(d)).
- The Company made cash interest payments of \$622,050 in relation to the convertible debentures. No income taxes were paid.

The significant non-cash transactions for the nine months ended April 30, 2019 were as follows:

- Convertible debentures with principal value of \$7,114,994 were converted into 20,102,207 common shares of the Company (notes 10 and 11(c)).
- The equity portion of the \$17,250,000 convertible debentures issued on September 14, 2018 was determined to be \$2,505,099 (notes 10 and 11(g)).
- Non-cash transaction costs related to Agent Units issued in relation to the convertible debentures were valued at \$471,995 (note 11).
- Reallocated \$162,382 from reserves to share capital upon exercise of stock options.
- Reallocated \$30,034 from reserves to share capital upon exercise of agent warrants.
- Reallocated \$134,748 from reserves to share capital upon exercise of Agent Options.
- Pursuant to the terms of the NCI Buyout Agreement, the Company issued a promissory note of \$1,248,000 (USD\$940,000) with an interest rate of 6.0% per annum and a maturity date of December 1, 2019; issued 7,000,000 common shares with a fair value of \$0.45 per share (note 11(c)); and issued 1,000,000 non-transferable common share purchase warrants with an exercise price of \$0.53 per warrant and fair value of \$190,486 as determined by Black-Scholes (note 11(e)) for total purchase consideration of \$4,588,486 to the Vendor.
- The Company made cash interest payments of \$579,611 during the period ended April 30, 2019. No income taxes were paid.

1933 INDUSTRIES INC.**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

April 30, 2020 and 2019

(Expressed in Canadian dollars, except where noted) - Unaudited

17. 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. Segmented information for the three and nine months ended April 30, 2020 is as follows:

Nine months ended April 30, 2020	AMA		Infused MFG		Corporate		Total
Revenues	\$	4,722,088	\$	4,852,427	\$	-	\$ 9,574,515
Cost of sales, including fair value adjustments		4,953,529		2,399,489		-	7,353,018
Gross margin		(231,441)		2,452,938		-	2,221,497
Expenses							
General and administration		1,585,097		2,345,738		2,710,520	6,641,355
Management and consulting fees		-		-		837,355	837,355
Wages and benefits		1,710		896,848		2,459,713	3,358,271
Professional fees		275,080		220,331		543,972	1,039,383
Share-based compensation		-		-		1,041,321	1,041,321
Interest expense		1,004,044		21,748		967,873	1,993,665
Accretion expense		-		-		852,988	852,988
Depreciation		1,114,726		135,705		174,017	1,424,448
Foreign exchange loss (gain)		326		-		(270)	56
		3,980,983		3,620,370		9,587,489	17,188,842
Loss from continuing operations before income tax	\$	(4,212,424)	\$	(1,167,432)	\$	(9,587,489)	\$ (14,967,345)
As at April 30, 2020							
Property and equipment	\$	17,747,803	\$	2,855,587	\$	4,975,221	\$ 25,578,611
Goodwill		4,859,616		12,471,542		-	17,331,158
Total assets		27,490,426		18,506,525		8,620,184	54,617,135
Total liabilities	\$	14,843,679	\$	1,382,424	\$	11,583,817	\$ 27,809,920

1933 INDUSTRIES INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

April 30, 2020 and 2019

(Expressed in Canadian dollars, except where noted) - Unaudited

17. SEGMENTED INFORMATION (continued)

Three months ended April 30, 2020	AMA		Infused MFG		Corporate	Total
Revenues	\$	1,495,669	\$	1,058,398	\$ -	\$ 2,554,067
Cost of sales, including fair value adjustments		1,103,161		538,596	-	1,641,757
Gross margin		392,508		519,802	-	912,310
Expenses						
General and administration		421,323		955,261	778,030	2,154,614
Management and consulting fees		-		-	60,488	60,488
Wages and benefits		-		312,888	994,023	1,306,911
Professional fees		73,949		79,987	234,831	388,767
Share-based compensation		-		-	256,685	256,685
Interest expense		339,233		14,549	337,743	691,525
Accretion expense		-		-	292,255	292,255
Depreciation		383,841		31,589	68,085	483,515
Foreign exchange loss (gain)		7,246		-	(9)	7,237
		1,225,592		1,394,274	3,022,131	5,641,997
Loss from continuing operations before income tax	\$	(833,084)	\$	(874,472)	\$ (3,022,131)	\$ (4,729,687)

18. GENERAL AND ADMINISTRATION EXPENSE

General and administration expense information for the three and nine months ended April 30, 2020 and 2019 is as follows:

	Three months ended		Nine months ended	
	2020	2019	2020	2019
Advertising, promotion and selling costs	\$ 393,740	\$ 536,598	\$ 1,523,584	\$ 995,625
Investor relations	377,207	490,060	1,371,615	785,512
Office expenses and general administration	970,616	939,556	2,384,983	1,873,316
License fees, taxes, and insurance	343,527	131,470	1,112,024	800,152
Travel and entertainment	69,524	108,221	249,149	347,249
	\$ 2,154,614	\$ 2,205,905	\$ 6,641,355	\$ 4,801,854

19. DISCONTINUED OPERATIONS

The results of Spire have been presented as net loss and cash flows from discontinued operations for the three and nine months ended April 30, 2020 and 2019. The components of net loss from discontinued operation included in these consolidated financial statements for the three and nine months ended April 30, 2020 and 2019 relating to Spire as follow:

	Three months ended		Nine months ended	
	2020	2019	2020	2019
Revenue	\$ -	\$ (30,040)	\$ -	\$ (150,378)
Professional fees	-	1,140	-	7,580
Management and consulting fees	-	240,000	-	550,053
General and administration	-	39,007	-	102,711
	\$ -	\$ 250,107	\$ -	\$ 509,966

1933 INDUSTRIES INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

April 30, 2020 and 2019

(Expressed in Canadian dollars, except where noted) - Unaudited

20. EVENTS AFTER THE REPORTING PERIOD

On May 1, 2020, the Company cancelled 550,000 stock options with an exercise price of \$0.15, 600,000 stock options with an exercise price of \$0.35 and 2,325,000 stock options with an exercise price of \$0.55.

On May 14, 2020, the Company cancelled 30,000 stock options with an exercise price of \$0.55.

On May 19, 2020, the Company cancelled 30,000 stock options with an exercise price of \$0.55.

On June 3, 2020, the Company announced that it will hold on June 29, 2020, an extraordinary meeting of holders of 10% senior unsecured convertible debentures due September 14, 2021, to consider the following debenture amendments:

1. To amend the conversion price applicable to the debentures from \$0.45 per share to \$0.10 per share;
2. To amend the price at which the company may require a forced conversion of the debentures from \$0.70 per share to \$0.15 per share, such conversion to be made at the amended conversion price of \$0.10 per share;
3. To authorize the company to pay the interest due on the debentures in cash or through the issuance of its common shares at a price of \$0.10 per share, at its sole discretion; and
4. To amend the timing for the payment of interest 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.

On June 11, 2020, the Company cancelled 50,000 stock options with an exercise price of \$0.15, 200,000 stock options with an exercise price of \$0.35 and 150,000 stock options with an exercise price of \$0.55.

On June 15, 2020, the Company cancelled 200,000 stock options with an exercise price of \$0.35 and 270,000 stock options with an exercise price of \$0.55.