



1933 INDUSTRIES INC.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended October 31, 2021 and 2020

(Expressed in Canadian Dollars)

(Unaudited)

Notice of Disclosure of Non-Auditor Review of the Condensed Interim Consolidated Financial Statements for the Three Months Ended October 31, 2021 and 2020.

Pursuant to subsection 4.3(3)(a) of National Instrument 51-102 - Continuous Disclosure Obligations, 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 October 31, 2021 and 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, MNP LLP, have not performed a review of these condensed interim consolidated financial statements.

December 30, 2021

1933 INDUSTRIES INC.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Expressed in Canadian dollars) - Unaudited

| | Note | October 31, 2021 | July 31, 2021 |
|---|-------|----------------------|----------------------|
| ASSETS | | | |
| Current | | | |
| Cash | | \$ 3,162,952 | \$ 4,405,849 |
| Receivables | 4 | 1,289,004 | 934,109 |
| Inventory | 5 | 4,508,197 | 4,199,850 |
| Biological assets | 6 | 1,263,633 | 865,953 |
| Prepaid expenses and deposits | 7 | 776,276 | 743,455 |
| | | 11,000,062 | 11,149,216 |
| Property and equipment | 8 | 18,155,800 | 18,677,577 |
| Goodwill | 9 | 15,429,839 | 15,527,023 |
| Total assets | | \$ 44,585,701 | \$ 45,353,816 |
| LIABILITIES | | | |
| Current | | | |
| Accounts payable and accrued liabilities | | \$ 1,829,394 | \$ 1,381,208 |
| Income tax payable | | 598,831 | 488,899 |
| Current portion of lease liability | 10 | 455,046 | 459,553 |
| Warrant liability | 11 | 305,654 | 380,146 |
| Convertible debentures | | 4,299,628 | - |
| | | 7,488,553 | 2,709,806 |
| Lease liability | 10 | 12,930,292 | 13,176,655 |
| Convertible debentures | 12 | - | 4,234,819 |
| Total liabilities | | 20,418,845 | 20,121,280 |
| Shareholders' equity | | | |
| Share capital | 13 | 81,855,012 | 81,817,159 |
| Reserves | 13(d) | 10,162,666 | 10,145,449 |
| Accumulated other comprehensive (loss) income | | (1,484,620) | (1,320,710) |
| Deficit | | (65,602,080) | (64,649,281) |
| Equity attributable to shareholders of the Company | | 24,930,978 | 25,992,617 |
| Non-controlling interest | 14 | (764,122) | (760,081) |
| Total equity | | 24,166,856 | 25,232,536 |
| Total liabilities and shareholders' equity | | \$ 44,585,701 | \$ 45,353,816 |

Events after the reporting period (note 22)

Approved on behalf of the Board of Directors and authorized for issuance on December 30, 2021:

“Signed”

 Brian Farrell, Director

“Signed”

 Paul Rosen, 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 months ended October 31, 2021 and 2020

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

| | Note | 2021 | 2020 |
|--|-------|---------------------|-----------------------|
| Revenues | | \$ 2,466,064 | \$ 2,687,516 |
| Cost of sales | 5 | 1,824,363 | 1,845,811 |
| Gross margin, excluding fair value adjustments | | 641,701 | 841,705 |
| Fair value adjustment on sale of inventory | 6 | (720,750) | (666,939) |
| Fair value adjustment on biological assets | 6 | 1,182,151 | 553,934 |
| Gross margin | | 1,103,102 | 728,700 |
| Expenses (income) | | | |
| General and administration | 17,19 | 876,370 | 1,228,567 |
| Management and consulting fees | | 107,000 | 79,505 |
| Wages and benefits | 17 | 289,946 | 566,139 |
| Professional fees | 17 | 213,761 | 211,042 |
| Share-based compensation | 13(f) | 17,895 | 253,682 |
| Interest expense | 10,12 | 421,360 | 707,545 |
| Accretion expense | 12 | 10,434 | 40,122 |
| Depreciation | 8 | 80,460 | 463,426 |
| Change in fair value of warrant liability | 11 | (74,492) | - |
| Foreign exchange gain | | (5,505) | (5,341) |
| | | 1,937,229 | 3,544,687 |
| Loss from continuing operations before income taxes | | (834,127) | - |
| Current income tax expense | | (114,698) | - |
| Net loss from continuing operations | | (948,825) | (2,815,987) |
| Net loss from discontinued operations | 20 | - | (2,590) |
| Net loss for the period | | \$ (948,825) | \$ (2,818,577) |
| Net income (loss) from continuing operations attributable to: | | | |
| Shareholders of the Company | | \$ (952,799) | \$ (2,680,664) |
| Non-controlling interest | | \$ 3,974 | \$ (135,323) |
| Net income (loss) attributable to: | | | |
| Shareholders of the Company | | \$ (952,799) | \$ (2,683,254) |
| Non-controlling interest | | \$ 3,974 | \$ (135,323) |
| Net loss from continuing operations per share | | | |
| Basic and Diluted | | \$ (0.00) | \$ (0.01) |
| Net loss from discontinued operations per share | | | |
| Basic and Diluted | | \$ - | \$ (0.00) |
| Net loss per share | | | |
| Basic and Diluted | | \$ (0.00) | \$ (0.01) |
| Weighted average number of shares outstanding | | | |
| Basic and Diluted | | 450,640,574 | 320,970,618 |

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 months ended October 31, 2021 and 2020

(Expressed in Canadian dollars) - Unaudited

| | 2021 | 2020 |
|---|-----------------------|-----------------------|
| Net loss for the period | \$ (948,825) | \$ (2,818,577) |
| Other comprehensive loss | | |
| Foreign currency translation adjustment (Item that will be subsequently reclassified to profit or loss) | (171,925) | (110,546) |
| Comprehensive loss for the period | (1,120,750) | (2,929,123) |
| Comprehensive income (loss) attributable to: | | |
| Shareholders of the Company | (952,799) | (2,683,254) |
| Translation adjustment – Shareholders of the Company | (163,910) | (101,429) |
| Comprehensive loss attributable to shareholders | (1,116,709) | (2,784,683) |
| Non-controlling interest | 3,974 | (135,323) |
| Translation adjustment – Non-controlling interest | (8,015) | (9,117) |
| Comprehensive loss attributable to Non-controlling interest | (4,041) | (144,440) |
| | \$ (1,120,750) | \$ (2,929,123) |

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 three months ended October 31, 2021 and 2020

(Expressed in Canadian dollars) - Unaudited

| | Note | 2021 | 2020 |
|---|-------|--------------------|--------------------|
| Operating Activities | | | |
| Loss from continuing operations | | \$ (834,127) | \$ (2,815,987) |
| Adjustments to non-cash items: | | | |
| Fair value adjustment on sale of inventory | 6 | 720,750 | 666,939 |
| Fair value adjustment on growth of biological assets | 6 | (1,182,151) | (553,934) |
| Share-based compensation | 13(f) | 17,895 | 253,682 |
| Accretion expense | 12 | 10,434 | 40,122 |
| Depreciation | 8 | 370,389 | 463,426 |
| Change in fair value of warrant liability | 11 | (74,492) | - |
| Interest expense on convertible debentures | 12 | 91,550 | 247,944 |
| Warrants issued for professional fees | 13(e) | - | 11,712 |
| Gain on lease termination | 8 | (14,818) | - |
| Changes in non-cash working capital items | | | |
| Receivables | | (352,219) | (164,174) |
| Inventory | | (356,377) | 9,598 |
| Biological assets | | 63,721 | 150,381 |
| Prepaid expenses and deposits | | (35,993) | (178,679) |
| Accounts payable and accrued liabilities | | 457,912 | 517,208 |
| Net cash used in operating activities of continuing operations | | (1,117,526) | (1,351,762) |
| Net cash used in operating activities of discontinued operations | | - | (2,590) |
| Investing Activity | | | |
| Purchase of property and equipment | 8 | (8,616) | (118,189) |
| Net cash used in investing activities of continuing operations | | (8,616) | (118,189) |
| Financing Activities | | | |
| Common shares issued for cash - private placement | 13 | - | 788,253 |
| Share issue costs | 13 | - | (6,037) |
| Repayment of lease obligation | 10 | (103,962) | (156,263) |
| Net cash provided by (used in) financing activities | | (103,962) | 625,953 |
| Effect of exchange rate changes on cash | | (12,793) | 129,619 |
| Change in cash | | (1,242,897) | (716,969) |
| Cash, beginning of period | | 4,405,849 | 2,761,542 |
| Cash, end of period | | \$ 3,162,952 | \$ 2,044,573 |

Supplemental disclosure with respect to cash flows (note 18)

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 (loss) | Deficit | Non- controlling interest | Total |
|--|-------|--------------------|----------------------|----------------------|--|------------------------|---------------------------------|----------------------|
| 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 | 12,13 | 11,817,739 | 1,181,774 | (23,481) | - | - | - | 1,158,293 |
| Shares issued – private placement | 13 | 10,510,040 | 679,147 | 109,106 | - | - | - | 788,253 |
| Share-based compensation | 13,17 | - | - | 253,682 | - | - | - | 253,682 |
| Share issue costs | 13 | - | (6,873) | 836 | - | - | - | (6,037) |
| Non-controlling interest | | - | - | - | - | - | (135,323) | (135,323) |
| Translation adjustment | | - | - | - | (101,429) | - | (9,117) | (110,546) |
| Net loss for the period | | - | - | - | - | (2,683,254) | - | (2,683,254) |
| Balance, October 31, 2020 | | 327,975,325 | \$ 72,741,818 | \$ 6,993,665 | \$ 715,761 | \$ (60,679,416) | \$ (1,054,578) | \$ 18,717,250 |
| Shares issued - conversion of convertible debentures \$0.10 | 12,13 | 63,385,399 | 6,392,747 | (121,002) | - | - | - | 6,271,745 |
| Shares issued - Private Placement | 13 | 58,965,929 | 3,350,204 | 2,137,689 | - | - | - | 5,487,893 |
| Share-based compensation | 13 | - | - | 771,392 | - | - | - | 771,392 |
| Share issue costs | 13 | - | (667,610) | 181,002 | - | - | - | (486,608) |
| Purchase of non-controlling interest | 14 | - | - | 182,703 | - | (182,703) | - | - |
| Non-controlling interest | | - | - | - | - | - | 192,110 | 192,110 |
| Translation adjustment | | - | - | - | (2,036,471) | - | 102,387 | (1,934,084) |
| Net loss for the period | | - | - | - | - | (3,787,162) | - | (3,787,162) |
| 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 | 12,13 | 372,666 | 37,853 | (678) | - | - | - | 37,175 |
| Share-based compensation | 13 | - | - | 17,895 | - | - | - | 17,895 |
| Non-controlling interest | | - | - | - | - | - | 3,974 | 3,974 |
| Translation adjustment | | - | - | - | (163,910) | - | (8,015) | (171,925) |
| Net loss for the period | | - | - | - | - | (952,799) | - | (952,799) |
| Balance, October 31, 2021 | | 450,699,319 | \$ 81,855,012 | \$ 10,162,666 | \$ (1,484,620) | \$ (65,602,080) | \$ (764,122) | \$ 24,166,856 |

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

October 31, 2021 and 2020

(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 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. On November 4, 2021, the Company acquired the remaining 9% interest in AMA Production LLC ("AMA Pro") from the holders to make the Company's share in AMA Pro 100% (note 14). 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. On April 1, 2020, 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. 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.

COVID-19

On March 11, 2020, the World Health Organization declared the coronavirus disease ("COVID-19") a global pandemic. During the remainder of March 2020 and through to July 31, 2021, the COVID-19 pandemic has negatively impacted global economic and financial markets. Most industries have been impacted by the COVID-19 pandemic and are facing operating challenges associated with the regulations and guidelines resulting from efforts to contain it.

As a direct result of the COVID-19 pandemic, the Company realized significant decreases in revenues resulting from the decline in tourism to Las Vegas. The global response to the COVID-19 pandemic has resulted in, among other things, border closures, severe travel restrictions, as well as quarantine, self-isolation, and other emergency measures imposed by various governments. Additional government or regulatory actions or inactions around the world including in jurisdictions where the Company operates may also have potentially significant economic and social impacts. If the Company's business operations are disrupted or suspended as a result of these or other measures, it may have a material adverse effect on the Company's business, results of operations and financial performance. Factors that may be impacted, among other things, are the Company's operating plan, supply chain and workforce. The Company continues to monitor the situation closely, including any potential impact on its operations. The extent to which COVID-19 may impact the Company's business and operations will depend on future developments that are highly uncertain and cannot be accurately estimated, at this time, including new information which may emerge concerning the severity of and the actions required to contain COVID-19 or remedy its impact.

Going Concern

The Company has not yet achieved profitable operations and during the three months ended October 31, 2021, the Company incurred a net loss of \$948,825 (three months ended October 31, 2020 - \$2,818,577) and used cash in operating activities of \$1,117,526 (three months ended October 31, 2020 - \$1,351,762). In addition, the Company has accumulated deficit of \$65,602,080 (July 31, 2021 - \$64,649,281). The ability of the Company to ensure continuing operations is dependent on the Company's ability to raise sufficient funds to finance development activities and expand sales to achieve profitable operations. These circumstances may cast significant doubt about the Company's ability to continue as a going concern.

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 22 for events after the reporting period.

1933 INDUSTRIES INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2021 and 2020

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

2. BASIS OF PRESENTATION

a) Statement of compliance

These unaudited condensed interim consolidated financial statements were approved by the Board of Directors and authorized for issue on December 30, 2021.

These interim financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”) applicable to the preparation of interim financial statements including International Accounting Standard 34 - Interim Financial Reporting using accounting policies consistent with. 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, 2021 and 2020 (“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 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 inter-company 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% ⁽¹⁾ | 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% ⁽²⁾ | USD | Holding Company |
| Spire Secure Logistics Inc. | Spire | Canada | 100% | CAD | Inactive |

⁽¹⁾ 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% (note 14).

e) Reclassification of prior year amounts

The Company has reclassified inventory and biological assets on the consolidated statements of cash flows 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.

1933 INDUSTRIES INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2021 and 2020

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

4. RECEIVABLES

| | October 31, 2021 | | July 31, 2021 |
|-------------------|---------------------|----|------------------|
| Trade receivables | \$ 1,133,665 | \$ | 796,390 |
| GST receivable | 113,730 | | 95,837 |
| Other | 41,609 | | 41,882 |
| | \$ 1,289,004 | \$ | 934,109 |

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

5. INVENTORY

| | October 31, 2021 | | July 31, 2021 |
|-----------------------------|---------------------|----|------------------|
| Harvested cannabis and trim | \$ 3,110,278 | \$ | 2,466,382 |
| Cannabis oil and equivalent | 77,870 | | 87,712 |
| Finished goods | 754,495 | | 1,107,313 |
| Raw materials | 565,554 | | 538,443 |
| | \$ 4,508,197 | \$ | 4,199,850 |

Inventories expensed to cost of sales during the year ended October 31, 2021, was \$1,824,363 (2020 - \$1,845,811).

6. BIOLOGICAL ASSETS

| | October 31, 2021 | | July 31, 2021 |
|--|---------------------|----|------------------|
| Balance, beginning of period | \$ 865,953 | \$ | 810,332 |
| Production costs capitalized | 1,351,567 | | 4,946,872 |
| Change in fair value less costs to sell due to biological transformation | 1,182,151 | | 3,154,163 |
| Transferred to inventory upon harvest | (2,124,533) | | (7,894,046) |
| Foreign exchange loss | (11,505) | | (151,368) |
| Balance, end of period | \$ 1,263,633 | \$ | 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, 2021, the carrying value of biological assets consisted entirely of live cannabis plants. On average, the grow cycle is approximately 17 weeks.

The fair value measurements for biological assets have been categorized as Level 3 (as defined in note 15). 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 price for all expected grades and strains of cannabis based on estimates published by the State of Nevada 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

1933 INDUSTRIES INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2021 and 2020

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

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 | October 31, 2021 | July 31, 2021 |
|---------------------------------------|-----------------------------|--------------------------|
| Estimated sales price per gram | USD\$ 3.78 | USD\$ 3.65 |
| Weighted average stage of growth | 10 weeks | 9 weeks |
| Expected yields by plant strain | 131 grams | 116 grams |
| Wastage | 1.66% | 1.56% |
| Post-harvest processing cost per gram | USD\$ 0.80 | 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 | October 31, 2021 | July 31, 2021 |
|----------------------------------|-----------------------------|--------------------------|
| Estimated sales price per gram | 127,973 | 112,162 |
| Weighted average stage of growth | 100,717 | 102,569 |
| Expected yields by plant strain | 100,717 | 102,569 |
| Wastage | (3,972) | (4,417) |
| Post – harvest cost per gram | (27,257) | (9,594) |

7. PREPAID EXPENSES AND DEPOSITS

| | October 31, 2021 | July 31, 2021 |
|------------------|-----------------------------|--------------------------|
| Prepaid expenses | \$ 665,991 | \$ 660,839 |
| Security deposit | 110,285 | 82,616 |
| | \$ 776,276 | \$ 743,455 |

1933 INDUSTRIES INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2021 and 2020

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

8. 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) | (1,060,366) | (1,800,457) |
| Balance, July 31, 2021 | \$ 1,070,058 | \$ 2,984,638 | \$ 878,215 | \$ 4,520,059 | \$ 413,893 | \$ 14,027,894 | \$ 23,894,756 |
| Additions | - | - | - | 8,501 | 115 | - | 8,616 |
| Termination of lease | - | - | - | - | - | (105,056) | (105,056) |
| Effects of movement in foreign exchange | (6,698) | (18,681) | (5,497) | (28,291) | (2,296) | (87,801) | (149,264) |
| Balance, October 31, 2021 | \$ 1,063,360 | \$ 2,965,957 | \$ 872,718 | \$ 4,500,269 | \$ 411,712 | \$ 13,835,037 | \$ 23,649,052 |
| 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 | - | - | 13,931 | 135,052 | 6,496 | 214,910 | 370,389 |
| Termination of lease | - | - | - | - | - | (56,383) | (56,383) |
| Effects of movement in foreign exchange | - | - | (2,883) | (19,380) | (1,317) | (14,353) | (37,933) |
| Balance, October 31, 2021 | \$ - | \$ - | \$ 338,708 | \$ 1,947,009 | \$ 214,980 | \$ 2,992,556 | \$ 5,493,253 |
| Carrying amount | | | | | | | |
| Balance, July 31, 2021 | \$ 1,070,058 | \$ 2,984,638 | \$ 550,555 | \$ 2,688,722 | \$ 204,092 | \$ 11,179,512 | \$ 18,677,577 |
| Balance, October 31, 2021 | \$ 1,063,360 | \$ 2,965,957 | \$ 534,010 | \$ 2,553,260 | \$ 196,732 | \$ 10,842,481 | \$ 18,155,800 |

Total depreciation expense for the three months ended October 31, 2021 was \$370,389 (2020 - \$463,426). Of the total expense, \$289,929 was allocated to inventory (2020 - \$nil).

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

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 \$105,056, accumulated amortization of \$56,383 and lease liability of \$63,491 resulting in a gain on lease termination of \$14,818 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 consolidated statements of loss and comprehensive loss.

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9. GOODWILL

| | October 31, 2021 | July 31, 2021 |
|---|---------------------|------------------|
| Balance, beginning of period | \$ 15,527,023 | \$ 16,700,708 |
| Effects of movement in foreign exchange | (97,184) | (1,173,685) |
| Balance, end of period | \$ 15,429,839 | \$ 15,527,023 |

10. LEASE LIABILITY

| | October 31, 2021 | July 31, 2021 |
|---|---------------------|------------------|
| Balance, beginning of period | \$ 13,636,208 | \$ 14,821,569 |
| Adoption of IFRS 16 | - | - |
| Repayment of lease obligation | (433,772) | (1,474,861) |
| Interest expense | 329,810 | 1,365,022 |
| Termination of lease | (63,491) | - |
| Effects of movement in foreign exchange | (83,417) | (1,075,522) |
| Balance, end of period | 13,385,338 | 13,636,208 |
| Less: Non-current portion | 12,930,292 | 13,176,655 |
| Current portion of lease liability | \$ 455,046 | \$ 459,553 |

Total expenses relating to short-term leases and low-value leases during the three months ended October 31, 2021 totaled \$6,381 (2020 - \$3,117).

11. 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 and comprehensive 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 | | - | (74,492) |
| Balance, October 31, 2021 | 0.10 (USD0.08) | 13,920,000 | 305,654 |
| Less: Current portion of warrant liability | | - | 305,654 |
| Non-current portion of warrant liability | | - | - |

The following table summarizes the warrants outstanding and exercisable as at October 31, 2021:

| Expiry date | Number of warrants | Weighted average exercise price (\$) | Weighted average remaining life (in years) |
|-------------|-----------------------|---|--|
| May 3, 2022 | 13,920,000 | 0.10 (USD0.08) | 0.50 |
| | 13,920,000 | 0.10 (USD0.08) | 0.50 |

On November 3, 2020, pursuant to a non-brokered private placement, the Company issued 13,920,000 units. 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 (note 13(c)).

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12. CONVERTIBLE DEBENTURES

| | October 31, 2021 | | July 31, 2021 |
|---|---------------------|----|------------------|
| Balance, beginning of period | \$ 4,234,819 | \$ | 10,923,172 |
| Interest expense | 91,550 | | 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 | 4,299,628 | | 4,234,819 |
| Less: non-current portion | - | | 4,234,819 |
| Current portion of convertible debentures | \$ 4,299,628 | \$ | - |

\$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.

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;
- 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, *Financial Instruments*, 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.

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12. CONVERTIBLE DEBENTURES (continued)

During the three months ended October 31, 2021, convertible debentures with a principal balance of \$32,000 and interest payable of \$5,267 were converted into 372,666 common shares of the Company (note 13(c)). The principal and interest balance outstanding as at October 31, 2021 was \$3,662,007 and \$637,621, respectively.

13. SHARE CAPITAL AND RESERVES

a) Authorized

Unlimited common shares with no par value and unlimited preferred shares issuable in series. As of October 31, 2021, there were 450,699,319 common shares outstanding (October 31, 2020 – 449,616,571).

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 three months ended October 31, 2021:

- 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 closure 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.
- 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.

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13. SHARE CAPITAL AND RESERVES (continued)

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 payments | 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 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 payments | 17,895 | - | - | 17,895 |
| Reclassified on conversion of convertible debentures | - | (678) | - | (678) |
| Balance, October 31, 2021 | \$ 6,252,607 | \$ 77,534 | \$ 3,832,525 | \$ 10,162,666 |

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 | (39,199,666) | 0.65 |
| Balance, October 31, 2020 | 67,961,199 | 0.14 |

For warrants issued for services during the year ended July 31, 2020, the Company recorded an expense to professional fees during the three months ended October 31, 2021 of \$nil (2020 - \$11,712) on the consolidated statement of loss for services received. On November 3, 2020, the Company cancelled the warrants and fully recognized the remaining prepaid expense \$67,629 (July 31, 2020 - \$89,789) with respect to prepaid services.

The following table summarizes share purchase warrants outstanding as at October 31, 2021:

| Expiry date | Number of Warrants | Weighted Average Exercise Price (\$) | Weighted Average Remaining Years |
|-------------------|--------------------|---|-------------------------------------|
| September 3, 2022 | 5,255,020 | 0.13 | 0.84 |
| September 3, 2022 | 40,250 | 0.13 | 0.84 |
| May 3, 2022 | 13,920,000 | 0.11 | 0.50 |
| March 4, 2023 | 45,045,929 | 0.16 | 1.34 |
| June 13, 2024 | 3,700,000 | 0.08 | 2.62 |
| | 67,961,199 | 0.14 | 1.20 |

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13. SHARE CAPITAL AND RESERVES (continued)**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 Canadian Securities Exchange ("CSE"), 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 |
| Cancelled | (3,630,000) | 0.37 |
| Balance, October 31, 2021 | 13,550,000 | 0.11 |

The following table summarizes stock options outstanding and exercisable as at October 31, 2021:

| Expiry date | Number of Options | Number of Exercisable Options | Weighted Average Exercise Price (\$) | Weighted Average Remaining Years |
|--------------------|--------------------------|--|---|---|
| February 15, 2023 | 750,000 | 750,000 | 0.35 | 0.79 |
| August 6, 2025 | 1,500,000 | 500,000 | 0.075 | 3.77 |
| November 8, 2025 | 11,300,000 | 3,766,667 | 0.10 | 4.02 |
| | 13,550,000 | 5,016,667 | 0.11 | 3.82 |

Share-based compensation expense recognized during the three months ended October 31, 2021 of \$17,895 (2020 - \$ 253,682) related to options granted and vested during the period. The Company granted no stock options during the three months ended October 31, 2021 (2020 - 9,200,000). The fair value of stock options was calculated using the Black-Scholes Option Pricing Model using the following weighted average assumptions:

| | 2021 | 2020 |
|--|-------------|-------------|
| 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 |

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.

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13. 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, 2020 | 2,191,112 | 0.45 |
| Granted | 3,153,214 | 0.11 |
| Balance, July 31, 2021 | 5,344,326 | 0.25 |
| Granted | (2,191,112) | 0.45 |
| Balance, October 31, 2021 | 3,153,214 | 0.11 |

The following table summarizes Agent Options outstanding and exercisable as at October 31, 2021:

| Expiry date | Number of Options | Number of Exercisable Options | Weighted Average Exercise Price (\$) | Weighted Average Remaining Years |
|------------------------------|-------------------|-------------------------------|--------------------------------------|----------------------------------|
| March 4, 2023 ⁽¹⁾ | 3,153,214 | 3,153,214 | 0.11 | 1.34 |
| | 3,153,214 | 3,153,214 | 0.11 | 1.34 |

⁽¹⁾ 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.

14. 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 13(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.

The following table presents summarized financial information for the non-wholly owned subsidiaries as at October 31, 2021 and July 31, 2021:

| | October 31, 2021 | July 31, 2021 |
|--------------------------|-------------------|-------------------|
| Assets | | |
| Current | \$ 7,030,861 | \$ 5,983,237 |
| Non-current | 17,855,240 | 18,246,417 |
| | 24,886,101 | 24,229,654 |
| Liabilities | | |
| Current | 901,809 | 771,719 |
| Non-current | 12,678,294 | 12,814,254 |
| | 13,580,103 | 13,585,973 |
| Net assets | 11,305,998 | 10,643,681 |
| Non-controlling interest | \$ (764,122) | \$ (760,081) |
| Revenues | \$ 2,002,262 | \$ 9,128,004 |
| Net income (loss) | \$ 70,539 | \$ (669,039) |

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15. 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 carrying values of cash, 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 due to the short-term nature of the remaining term.

16. CAPITAL RISK MANAGEMENT

The Company defines capital and reserves 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.

17. 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 three months ended October 31, 2021 and 2020, was as follows:

| | 2021 | 2020 |
|--------------------------------|------------|------------|
| Management and consulting fees | \$ 87,000 | \$ 84,300 |
| Wages and benefits | 48,350 | - |
| Directors' fees | 22,374 | 54,230 |
| Share-based payments | 8,784 | 195,803 |
| | \$ 166,508 | \$ 334,333 |

Other related party transactions for the three months ended October 31, 2021 and 2020, were as follows:

| | 2021 | 2020 |
|--------------------|------|------------|
| Legal fees | \$ - | \$ 2,344 |
| Wages and benefits | - | 136,795 |
| | \$ - | \$ 139,139 |

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18. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

The significant non-cash transactions and supplemental disclosure for the three months ended October 31, 2021 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 12 and 13(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.

The significant non-cash transactions and supplemental disclosure for the three months ended October 31, 2020 were as follows:

- Convertible debentures of \$1,100,000 and interest payable on the convertible debentures of \$72,774 were converted into 11,817,739 common shares of the Company (notes 12 and 13(c)). In relation to the conversion \$1,181,774 was recorded to share capital and \$23,481 was reallocated from reserves to share capital.
- Share issue costs included \$836 with respect to 40,250 warrants issued as finders fees (note 13(c)).
- The Company made cash interest payments of \$nil. No income taxes were paid.

19. GENERAL AND ADMINISTRATION EXPENSE

General and administration expense information for the three months ended October 31, 2021 and 2020 is as follows:

| | 2021 | 2020 |
|--|------------|--------------|
| Advertising, promotion and selling costs | \$ 66,209 | \$ 109,913 |
| Investor relations | 22,168 | 91,022 |
| Office expenses and general administration | 207,733 | 492,367 |
| License fees, taxes, and insurance | 504,016 | 519,665 |
| Travel and entertainment | 76,244 | 15,600 |
| | \$ 876,370 | \$ 1,228,567 |

20. DISCONTINUED OPERATIONS

On August 15, 2019, the Company, through its wholly-owned subsidiary Legacy, signed a management services agreement to provide operational and accounting services, as well as general management and oversight to Green Spectrum LLC ("Green Spectrum"), a medicinal and recreational cannabis business licensee in the State of California in order to develop the Company's brands within the California market. The operation was discontinued during the year ended July 31, 2020 and as a result Legacy will have no continuing involvement with Green Spectrum LLC. The components of net loss (income) from discontinued operations included in these consolidated financial statements for the three months ended October 31, 2021 and 2020 relating to Legacy are as follows:

| | 2021 | 2020 |
|--------------------------------|------|----------|
| Management and consulting fees | \$ - | \$ 2,380 |
| General and administration | - | 210 |
| | \$ - | \$ 2,590 |

21. 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.

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21. SEGMENTED INFORMATION (continued)

Segmented information for the three months ended October 31, 2021 is as follows:

| | AMA | Infused MFG | Corporate | Total |
|---|------------------|------------------------|---------------------|---------------------|
| Revenue | \$ 2,002,262 | \$ 463,802 | \$ - | \$ 2,466,064 |
| Cost of Sales | | | | |
| Inventory expensed to cost of sales | 1,567,785 | 256,578 | - | 1,824,363 |
| Gross margin, excluding fair value items | 434,477 | 207,224 | - | 641,701 |
| Fair value adjustment on sale of inventory | (720,750) | - | - | (720,750) |
| Fair value adjustment on growth of biological assets | 1,182,151 | - | - | 1,182,151 |
| Gross margin | 895,878 | 207,224 | - | 1,103,102 |
| Expenses | | | | |
| General and administration | 379,611 | 128,506 | 368,253 | 876,370 |
| Management and consulting fees | - | - | 107,000 | 107,000 |
| Wages and benefits | 24,109 | 9,402 | 256,435 | 289,946 |
| Professional fees | 110,009 | 1,594 | 102,158 | 213,761 |
| Share-based compensation | - | - | 17,895 | 17,895 |
| Interest expense | 311,610 | 13,567 | 96,183 | 421,360 |
| Accretion expense | - | - | 10,434 | 10,434 |
| Depreciation | - | 42,305 | 38,155 | 80,460 |
| Change in fair value of warrant liability | - | - | (74,492) | (74,492) |
| Foreign exchange gain | - | - | (5,505) | (5,505) |
| | 825,339 | 195,374 | 916,516 | 1,937,229 |
| Income (loss) from continuing operations before income tax | \$ 70,539 | \$ 11,850 | \$ (916,516) | \$ (834,127) |
| As at October 31, 2021 | | | | |
| Property and equipment | \$ 13,534,885 | \$ 1,847,498 | \$ 2,773,417 | \$ 18,155,800 |
| Goodwill | 4,320,355 | 11,109,484 | - | 15,429,839 |
| Total assets | 24,886,101 | 13,620,694 | 6,078,906 | 44,585,701 |
| Total liabilities | \$ 14,178,933 | \$ 602,322 | \$ 5,637,590 | \$ 20,418,845 |

1933 INDUSTRIES INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2021 and 2020

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

21. SEGMENTED INFORMATION (continued)

Segmented information for the year ended October 31, 2020 is as follows:

| | AMA | Infused MFG | Corporate | Total |
|---|----------------|--------------------|------------------|----------------|
| Revenues | \$ 1,636,043 | \$ 1,051,473 | \$ - | \$ 2,687,516 |
| Cost of sales, including fair value adjustments | 1,472,271 | 486,545 | - | 1,958,816 |
| Gross margin | 163,772 | 564,928 | - | 728,700 |
| Expenses | | | | |
| General and administration | 543,342 | 164,214 | 521,011 | 1,228,567 |
| Management and consulting fees | - | - | 79,505 | 79,505 |
| Wages and benefits | - | 65,490 | 500,649 | 566,139 |
| Professional fees | 47,978 | 49,193 | 113,871 | 211,042 |
| Share-based compensation | - | - | 253,682 | 253,682 |
| Interest expense | 328,462 | 19,539 | 359,544 | 707,545 |
| Accretion expense | - | - | 40,122 | 40,122 |
| Depreciation | 356,311 | 55,596 | 51,519 | 463,426 |
| Foreign exchange gain | - | - | (5,341) | (5,341) |
| | 1,276,093 | 354,032 | 1,914,562 | 3,544,687 |
| Income (loss) from continuing operations before income tax | \$ (1,112,321) | \$ 210,896 | \$ (1,914,562) | \$ (2,815,987) |
| As at October 31, 2020 | | | | |
| Property and equipment | \$ 15,963,505 | \$ 2,460,888 | \$ 3,181,217 | \$ 21,605,610 |
| Goodwill | 4,653,088 | 11,940,468 | - | 16,593,556 |
| Total assets | 24,135,578 | 16,714,731 | 4,581,216 | 45,431,525 |
| Total liabilities | \$ 14,434,388 | \$ 1,263,901 | \$ 11,015,986 | \$ 26,714,275 |

22. EVENTS AFTER THE REPORTING PERIOD

On November 18, 2021, the Company cancelled 700,000 stock options with an exercise price of \$0.075.