



MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE AND SIX MONTHS ENDED JANUARY 31, 2024 AND 2023

(in Canadian Dollars, except where noted)

This Management's Discussion and Analysis ("MD&A") for 1933 Industries Inc., together with its wholly owned subsidiaries ("1933" or "the Company") provides analysis of the Company's unaudited condensed interim consolidated financial statements for the three and six months ended January 31, 2024 and 2023 (referred to hereafter as the "Financial Statements").

The 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 and interpretations of the International Financial Reporting Interpretations Committee. As such, the 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 consolidated financial statements for the years ended July 31, 2023 and 2022 ("Annual Financial Statements").

The Company's certifying officers are responsible for ensuring that the Financial Statements and MD&A do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made. The Company's certifying officers certify that the Financial Statements together with the other financial information included in the filings fairly present in all material respects the financial condition, financial performance, and cash flows of the Company as of the date of and for the periods presented in the filings.

The first, second, third and fourth quarters of the Company's fiscal years are referred to as "Q1", "Q2", "Q3" and "Q4", respectively. "YTD 2024" refers to the six months ended January 31, 2024 and "YTD 2023" refers to the six months ended January 31, 2023. All amounts are presented in Canadian dollars, the Company's presentation currency, unless otherwise stated. The functional currency of the Company and its subsidiaries is disclosed in the notes to the Financial Statements. References to "USD" are to United States dollars.

Statements are subject to the risks and uncertainties identified in the "Risks and Uncertainties", and "Cautionary Note Regarding Forward-Looking Statements" sections of this document. The Company has included the non-GAAP performance measures of Earnings before interest, taxes, depreciation, and amortization ("EBITDA") and Adjusted EBITDA per share within this document. For further information and detailed calculations of these measures, see the "Non-GAAP Measures" section of this document.

The Company is publicly traded on the Canadian Securities Exchange under the symbol "TGIF" and quoted on the OTCQB under the symbol "TGIF". Additional information relating to the Company is available on the Company's website at www.1933industries.com, and on SEDAR+ at www.sedarplus.ca. Information in this MD&A is prepared as of March 28, 2024 (the "MD&A Date").

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This document contains certain "forward-looking statements" which may include, but are not limited to, statements with respect to the future financial or operating performance of the Company. Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates", or "believes" or variation (including negative variations) of such words and phrases, or statements that certain actions, events, or results "may", "could", "would", "might", or "will" be taken, occur or to achieve.

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Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance, or achievements of the Company and/or its subsidiaries to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, among others, the Company's business model; U.S. regulatory landscape and enforcement related to cannabis, including political risks; risks related to capital raising due to heightened regulatory scrutiny; risks related to quantifying the Company's target market; risks related to access to banks and credit card payment processors; risks related to lack of U.S. federal trademark and patent protection; risks related to the enforceability of contracts; risks related to potential violation of laws by banks and other financial institutions; risks related to service providers withdrawing or suspending services under threat of prosecution; risks related to tax liabilities; and heightened scrutiny by Canadian regulatory authorities.

Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results to differ from those anticipated, estimated, or intended. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements.

OUTLOOK AND THE PATH FORWARD

1933 Industries is a licensed cannabis operator with cultivation, production, manufacturing, and distribution assets based in Las Vegas, Nevada. The Company operates two subsidiaries that combined, produce a full-range of cannabis and hemp-based products. The Company cultivates and produces its own branded cannabis products in a purpose-built, indoor cultivation facility under perpetual harvest cycle. Its craft-style flower cultivation is supported by an integrated production facility, focused on high-quality concentrate products that are sold directly to licensed dispensaries in the State of Nevada. The Company's brand of cannabis flower, pre-rolls and extraction products have strong wholesale penetration in dispensaries in Las Vegas, while its ultra-craft, select-batch premium brand offers unique, exotic strains that appeal to cannabis connoisseurs. In addition, the Company manufactures a proprietary line of hemp-infused wellness products for sale across the United States, offering a variety of effects-based cannabinoid-infused products and form factors that appeal to a wide range of consumers.

The Company holds cannabis licenses for cultivation, processing, and distribution in Nevada's limited license regime. The Company's revenue is derived from wholesale cannabis sales in Nevada, and from the sale of hemp-derived consumer packaged goods sold B2B and direct to consumers via ecommerce at cannahemp.com.

Packaged flower is available in 1 gram, 3.5 gram, 7 gram, 14 gram, and 28 gram formats. Live and cured concentrates are offered in 0.5 and 1 gram and are known for their exceptional potency and purity. AMA's infused 1 gram pre-rolls and vapor pens are among the Company's best-selling products. In each product category, AMA offers dozens of premium strains, while constantly striving to find the best genetics that give consumers a wide choice of products that keep them engaged.

The Company's strengths lie in its expertise as a top cultivator in the Nevada market with a strong market presence in several categories, and in its ability to attain shelf space in dispensaries. As a widely recognized non-dispensary brand, AMA consistently rates as a top brand by volume sold in the state, according to business intelligence aggregator Headset¹. In the highly competitive Nevada flower and pre-roll categories, AMA ranked in the top 5 brands during the reporting quarter, indicating a consistent demand for its products. With over 180 brands available in Nevada, AMA stands out in a competitive cannabis marketplace due to its ability to offer a large variety of quality cannabis products with assured consistency with a pricing strategy that meets changing consumer demands. Overall, Nevada has experienced pricing challenges with a 12.2% decrease year over year and state-wide sales have continued on a downward trend. However, Nevada remains top of the list for cannabis sales per capita due to its resilient tourism industry. Moreover, Nevada presents significant opportunities for operators due to the state's high barriers to entry with a favourable licensing structure and generous patient reciprocity laws. Demand for the Company's AMA products remains strong, and the Company believes that it has attained the right approach in delivering quality products to its dispensary partners at a price point that resonates with current market conditions in Nevada. With the cultivation facility's upgrades completed and operating at full capacity, the Company is well positioned to take advantage of the continued demand for cannabis flower and cannabis products.

During Q2 2024, the Company recorded revenues of \$4.74 million, a 10% increase from Q2 2023, and gross profit of \$2.2 million, before fair market adjustments. Gross profit increased to \$1.41 million from \$0.05 million during the same period in 2023. The strong performance is attributed to the upgrades, including a large scale retrofit of the irrigation system and additional bloom room, to the cultivation facility that were completed during Q4 2023. Company-wide, Q2 2024 net loss and adjusted EBITDA were a loss of \$732,999 and \$3,556, respectively, compared to Q2 2023 loss of \$359,191 and income of \$174,817, respectively. The Company's hemp-infused consumer packaged goods recorded positive gross margins, although the demand for hemp-

¹ <https://www.headset.io/brands/alternative-medicine-association-ama>

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infused products remains soft both in wholesale and retail stores as well as via e-commerce. The Company continues to improve margins and control costs, without compromising quality, and will remain focused on revenue growth.

On November 30, 2022, the Cannabis Compliance Board (“CCB”) issued 40 cannabis consumption lounge prospective licenses. On June 20, 2023, the CCB gave approval to three cannabis consumption lounges to move forward. Those include Planet 13, Thrive Cannabis, and SoL Cannabis. Subsequent to the reporting period, on February 23, 2024, Smoke and Mirrors was the first state-regulated lounge to open in Nevada. Consumption lounges must still obtain local approvals and complete their buildout. Consumption lounges will provide a safe, legal place for tourists to consume cannabis. It is currently illegal to consume cannabis anywhere outside of private residences. It is expected that the launch of consumption lounges will create a new attraction for visitors to the state and expand cannabis-related tourism. The Company is well positioned to benefit from increased demand, flower price stabilization, and the strength of its top brand and in-demand products that deliver excellent value to consumers.

COMPANY OVERVIEW AND DESCRIPTION OF THE BUSINESS

1933 Industries Inc. is a brand-focused cannabis company with operations in the United States, with cultivation, extraction and manufacturing facilities based in Las Vegas, Nevada. Operating through two subsidiary companies, the Company owns leading cannabis brands as well as licensed cannabis cultivation, extraction, processing, manufacturing, and distribution assets. The Company owns 91% of Alternative Medicine Association LC (“AMA”), 100% of AMA Production LLC, and 100% of Infused MFG. (“Infused”).

In Nevada, the Company operates two subsidiaries: AMA, a licensed cannabis cultivator, extractor, product manufacturer, and distributor; and Infused, a manufacturer of hemp-extracted wellness products.

The Company operates in three sought-after verticals:

- Craft cannabis flower cultivation;
- Extraction of cannabis concentrates; and
- Manufacturing of proprietary cannabinoid branded goods, focusing on Cannabidiol (“CBD”), Cannabigerol (“CBG”) and Cannabinol (“CBN”).

AMA’s wholesale cannabis products include premium craft-style cannabis, infused pre-rolls, full spectrum oils, high quality distillates, proprietary blends of terpenes, vaporizer products and boutique concentrates such as shatter, crumble, batter, sugar wax, diamonds, and cured and live resins, sold under the house brands AMA and Level X. AMA cultivates and wholesales its products to regulated medical and adult-use dispensaries in the state. With an extensive selection of products, the AMA brand has strong penetration into dispensaries throughout Nevada, where it appeals to a wide range of both medical and recreational consumers. The AMA brand combines craft style cultivation, quality, and competitive pricing, while the Level X brand offers exclusive strains and premium quality.

Cannabis flower is cultivated in the Company’s 68,000 sq. ft., purpose-built, state-of-the-art facility, serving the Las Vegas market. Biomass (remaining parts of the plant that contain THC such as sugar leaf trim and popcorn/small buds) is utilized to produce AMA’s extensive line of concentrates.

Infused develops proprietary formulations for its Canna Hemp™ line of wellness products. With over 60 products in its portfolio, Infused manufactures and distributes products in a variety of verticals and consumption formats, including: effects-based tinctures, lotions, creams, vape pens and cartridges, gummies, and capsules for Sleep, Relief, Calm, Focus, Energy, and exercise recovery. High-grade CBD and a proprietary blend of cannabis terpenes formulated for specific effects are key differentiators for the Canna Hemp™ line. The Company introduced previously untapped CBD, CBG and CBN to its portfolio of products and continues to develop a pipeline of products to meet changing consumer demands.

Infused distributes its branded products through wholesale and retail channels in Nevada and across the U.S. via its e-commerce platform at www.cannahemp.com. The Company is focusing on increasing marketing efforts by strengthening its e-commerce business and by working in conjunction with dispensaries and specialized distributors to increase brand awareness and promote its products.

Infused has branched out into functional mushroom product category under the brand Ether Wellness. Infused recently launched a functional mushroom capsule - Ether Wellness Balance 10X Complex. Infused plans on further developing out the Ether Wellness brand of functional mushroom and other wellness products.

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The Company abides by strict quality assurance standards, implementing required policies and procedures and adhering to licensing requirements set by regulators across all levels of government in order to ensure the safety, consistency and quality of its products.

The Company's common shares are listed for trading on the Canadian Securities Exchange under the symbol "TGIF" and traded on the OTC Markets under the symbol "TGIF".

The Company's head office is located at #300-1055 West Hastings Street, Vancouver, BC V6E 2E9. The head office of operations is located at 3370 Pinks Place, Suite B, Las Vegas, Nevada 89102.

AMA - Cultivation and Extraction Segment

AMA's business involves the growing of cannabis indoors for personal medicinal and recreational use and the production of premium, boutique concentrates for the Nevada market. AMA began commercial production in April 2015 when it was the first Medical Marijuana Establishment or "MME" approved for cultivation in Southern Nevada. Its first crops were harvested, dried, packaged and sold in October 2015 and it has produced cannabis on a commercial scale in Nevada since then, providing a first-mover advantage.

Market Plans and Strategies

The Company's business model is based on servicing the existing medicinal cannabis patient base in Nevada (which has approximately 3.0 million residents) and the recreational cannabis consumers, including those who visit Las Vegas each year (approx. 55 million visitors for the trailing 12-month period as of March 2023²). The Company is an established wholesale supplier of unique branded flower and extraction products to licensed dispensaries and cannabis stores.

As its branded image and reputation is well established, the Company may license or acquire other cannabis businesses in the United States that have legalized medicinal cannabis and/or recreational cannabis specific brands with recurring sales to a loyal and growing clientele.

The Company believes that the constantly evolving regulatory environment for the production and distribution of recreational cannabis within the U.S., and the dispensing of both medicinal and recreational cannabis will be disruptive for both producers and consumers, transforming the current industry into one of commercial scale. The Company is focused on establishing a portfolio of high quality, premium cannabis products that have wide appeal to a growing and varied consumer base. The Company has developed a comprehensive marketing program to create visibility and awareness in the market for its products. AMA markets its products locally, via social media, in-store programs, as well as via targeted marketing campaigns in conjunction with dispensaries and educational programs targeting budtenders and consumers.

Hemp Infused Products Segment

Infused focuses on developing, formulating, and producing CBD, CBG and CBN hemp-based products and brands for retail sale and use in jurisdictions where permitted by law and regulation in the United States.

Cannabinoids, as utilized by Infused, are extracted from industrial hemp, sourced from legal suppliers in the United States. Infused manufactures and distributes its products under the following segments:

- Canna Hemp™ hemp-derived cannabinoid products that include tinctures, lotions, creams, vape pens and cartridges, gummies, and capsules;
- Canna Hemp X™ products targeting the action sports vertical, including pre and post workout tinctures, and muscle balms; and
- Canna Hemp™ products containing hemp-seed oil and free of CBD.

The Canna Hemp™ line is marketed through a variety of brick-and-mortar retail outlets, and retail dispensaries in Nevada and Arizona under its various segments, and direct to consumers via its e-commerce platforms. The Company believes that its success in the market is achieved by offering a broad range of premium quality products with wide-range appeal at competitive prices and delivered through outstanding client service under a well identified brand.

² <https://www.lasvegasnevada.gov/News/Blog/Detail/strong-growth-for-tourism#:~:text=March%202023%20set%20a%20monthly,time%20high%20of%2055.4%20million>

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Combined, the AMA and Canna Hemp™ brands offer over 100 different products. The Company has been focused on cultivating craft flowers delivered to customers at competitive prices with an extensive line of news strains, and top-tier ultra-craft line branded as Level X. The Company believes that carrying a consistent base of high-quality strains and cannabis products, including hemp-based products, is essential to its long-term success.

Infused is growing its product portfolio via the expansion into the functional mushroom category. Infused has created the Ether Wellness brand to grow its portfolio of mushroom-based products targeting natural wellness categories.

DESCRIPTION AND OUTLOOK OF THE UNITED STATES LEGAL CANNABIS INDUSTRY

In accordance with the Canadian Securities Administrators Staff Notice 51-352 (Revised) dated February 8, 2018 - Issuers with U.S. Marijuana-Related Activities (“Staff Notice 51-352”), below is a discussion of the federal and state-level United States regulatory regimes in those jurisdictions where the Corporation is currently directly involved, through its subsidiaries, in the cannabis industry. In accordance with Staff Notice 51-352, the Corporation will evaluate, monitor and reassess this disclosure, and any related risks on an ongoing basis. In addition, the disclosure will be supplemented and amended to investors in public filings, including in the event of government policy changes or the introduction of new or amended guidance, laws, or regulations regarding marijuana regulation.

Federal Regulation of Cannabis in the United States

The United States federal government regulates drugs through the Controlled Substances Act (the “CSA”), which places controlled substances, including cannabis, in one of five different schedules. Cannabis is classified as a Schedule I drug. As a Schedule I drug, the federal Drug Enforcement Agency (“DEA”) considers marijuana to have a high potential for abuse; no currently accepted medical use in treatment in the United States; and a lack of accepted safety for use of the drug under medical supervision. The scheduling of marijuana as a Schedule I drug is inconsistent with what the Corporation believes to be many valuable medical uses for marijuana accepted by physicians, researchers, patients, and others. As evidence of this, the federal Food and Drug Administration (“FDA”) on June 25, 2018, approved Epidiolex CBD oral solution with an active ingredient derived from the cannabis plant for the treatment of seizures associated with two rare and severe forms of epilepsy, Lennox-Gastaut syndrome and Dravet syndrome, in patients two years of age and older. This is the first FDA-approved drug that contains a purified drug substance derived from the cannabis plant. In this case, the substance is CBD, a chemical component of marijuana that does not contain the intoxication properties of tetrahydrocannabinol (“THC”), the primary psychoactive component of marijuana. The Corporation believes the CSA categorization as a Schedule I drug is not reflective of the medicinal properties of marijuana or the public perception thereof, and numerous studies show cannabis is not able to be abused in the same way as other Schedule I drugs, has medicinal properties, and can be safely administered.

The federal position is not necessarily consistent with democratic approval of marijuana at the state government level in the United States. Unlike in Canada, which has federal legislation uniformly governing the cultivation, distribution, sale, and possession of marijuana under the Cannabis Act (Canada), numerous states have implemented legislation regulating marijuana. State laws regulating cannabis are in conflict with the CSA, which makes cannabis use and possession federally illegal. Although certain states and territories of the United States authorize medical or adult-use cannabis production and distribution by licensed or registered entities, under United States federal law, the possession, use, cultivation, and transfer of cannabis and any related drug paraphernalia is illegal, and any such acts are criminal acts. Strict compliance with state and local laws with respect to cannabis may neither absolve the Corporation of liability under United States federal law nor provide a defense to federal criminal charges that may be brought against the Corporation. The Supremacy Clause of the United States Constitution establishes that the United States Constitution and federal laws made pursuant to it are paramount and, in case of conflict between federal and State law, the federal law will apply.

The state of California was the first state to legalize medical marijuana in 1996. Since then, the medical use of cannabis has been legalized in 40 states and the District of Columbia. The recreational or adult-use of cannabis has been approved in the District of Columbia and 24 states. As more and more states legalized medical and/or adult-use marijuana, the federal government attempted to provide clarity on the incongruity between federal prohibition under the CSA and these state-legal regulatory frameworks. Until 2018, the federal government provided guidance to federal law enforcement agencies and banking institutions through a series of United States Department of Justice (“DOJ”) memoranda. One such memorandum was drafted by former Deputy Attorney General James Cole on August 29, 2013 (the “Cole Memorandum”).

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The Cole Memorandum offered guidance to federal enforcement agencies as to how to prioritize civil enforcement, criminal investigations, and prosecutions regarding marijuana in all states. The memo put forth eight prosecution priorities:

- Preventing the distribution of marijuana to minors;
- Preventing revenue from the sale of marijuana from going to criminal enterprises, gangs, and cartels;
- Preventing the diversion of marijuana from states where it is legal under state law in some form to other states;
- Preventing the state-authorized marijuana activity from being used as a cover or pretext for the trafficking of other illegal drugs or other illegal activity;
- Preventing the violence and the use of firearms in the cultivation and distribution of marijuana;
- Preventing drugged driving and the exacerbation of other adverse public health consequences associated with marijuana use;
- Preventing the growing of marijuana on public lands and the attendant public safety and environmental dangers posed by marijuana production on public lands; and
- Preventing marijuana possession or use on federal property.

The Cole Memorandum was seen by many state-legal cannabis companies as a safe harbor - albeit an imperfect one - for their licensed operations that were conducted in full compliance with all applicable state and local regulations.

On January 4, 2018, former United States Attorney General Jeff Sessions rescinded the Cole Memorandum by issuing a new memorandum to all United States Attorneys (the "Sessions Memo"). Rather than establish national enforcement priorities particular to marijuana-related crimes in jurisdictions where certain marijuana activity was legal under state law, the Sessions Memo instructs that "in deciding which marijuana activities to prosecute with the DOJ's finite resources, prosecutors should follow the well-established principles that govern all federal prosecutions." Namely, these include the seriousness of the offense, history of criminal activity, deterrent effect of prosecution, the interests of victims, and other principles.

In the absence of a uniform federal policy, as had been established by the Cole Memorandum, numerous United States Attorneys with state-legal cannabis programs within their jurisdictions have announced enforcement priorities for their respective offices. For instance, Andrew Lelling, United States Attorney for the District of Massachusetts, stated that while his office would not immunize any businesses from federal prosecution, he anticipated focusing the office's marijuana enforcement efforts on: (1) overproduction; (2) targeted sales to minors; and (3) organized crime and interstate transportation of drug proceeds. Other United States attorneys provided less assurance, promising to enforce federal law, including the CSA in appropriate circumstances.

Former United States Attorney General Jeff Sessions resigned on November 7, 2018. He was replaced by William Barr on February 14, 2019. In a written response to questions from U.S. Senator Cory Booker posed to him when a nominee, Attorney General Barr stated, "I do not intend to go after parties who have complied with state law in reliance on the Cole Memorandum."

Under the Biden administration, Merrick Garland was appointed as the United States Attorney General on March 11, 2021. Attorney General Garland has not confirmed whether he would reinstate the Cole Memorandum but has indicated that there would be a reduction in resources towards the enforcement of federal marijuana laws. This is indicative that the Justice Department is shifting back towards Obama-era approach of Cole Memorandum priorities, which is positive for state-legal marijuana businesses.

Nonetheless, there is no guarantee that state laws legalizing and regulating the sale and use of cannabis will not be repealed or overturned, or that local governmental authorities will not limit the applicability of state laws within their respective jurisdictions. Unless and until the United States Congress amends the CSA with respect to cannabis (and as to the timing or scope of any such potential amendments there can be no assurance), there is a risk that federal authorities may enforce current U.S. federal law.

The Company believes it is too soon to determine if any prosecutorial effects will be undertaken by the rescission of the Cole Memorandum or a similar guidance document for United States attorneys. The sheer size of the cannabis industry, in addition to participation by state and local governments and investors, suggests that a large-scale enforcement operation would possibly create unwanted political backlash for the Department of Justice and the President of the United States' administration.

As an industry best practice, despite the rescission of the Cole Memorandum, the Corporation abides by the following standard operating policies and procedures to ensure compliance with the guidance provided by the Cole Memorandum:

- ensure that its operations are compliant with all licensing requirements as established by the applicable state, county, municipality, town, township, borough, and other political/administrative divisions;
- ensure that its cannabis related activities adhere to the scope of the licensing obtained (for example: in the states where cannabis is permitted only for adult-use, the products are only sold to individuals who meet the requisite age requirements);
- implement policies and procedures to ensure that cannabis products are not distributed to minors;

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- implement policies and procedures in place to ensure that funds are not distributed to criminal enterprises, gangs, or cartels;
- implement adequate inventory tracking system and necessary procedures in place to ensure that such compliance system is effective in tracking inventory or preventing diversion of cannabis and cannabis products into those states where cannabis is not permitted by state law, or cross any state lines in general;
- ensure that its state-authorized cannabis business activity is not used as a cover or pretense for trafficking of other illegal drugs, is engaged in any other illegal activity or any activities that are contrary to any applicable anti-money laundering statutes; and
- ensure that its products comply with applicable regulations and contain necessary disclaimers about the contents of the products to prevent adverse public health consequences from cannabis use and prevent impaired driving.

In addition, the Company frequently conducts background checks to ensure that the principals and management of its operating subsidiaries are of good character, and have not been involved with other illegal drugs, engaged in illegal activity or activities involving violence, or use of firearms in cultivation, manufacturing or distribution of cannabis. The Company will conduct ongoing reviews of the activities of its cannabis businesses, the premises on which they operate and the policies and procedures that are related to possession of cannabis or cannabis products outside of the licensed premises, including the cases where such possession is permitted by regulation. See “Risk and uncertainties.”

Although the Cole Memorandum has been rescinded, one legislative safeguard for the medical marijuana industry remains in place: Congress has passed a so-called “rider” provision in the FY 2015, 2016, 2017 and 2018 Consolidated Appropriations Acts to prevent the federal government from using congressionally appropriated funds to enforce federal marijuana laws against regulated medical marijuana actors operating in compliance with state and local law. The rider is known as the “Rohrabacher-Farr” Amendment after its original lead sponsors (it is sometimes referred to as the “Rohrabacher-Blumenauer” or “Joyce-Leahy” Amendment, but it is referred to in this MD&A as “Rohrabacher-Farr”).

More recently, the Rohrabacher-Farr Amendment (now known colloquially as the “Joyce-Leahy Amendment” after its most recent sponsors) was included in the Consolidated Appropriations Act of 2019, which was signed by then-President Trump on February 14, 2019, and funds the departments of the federal government through the fiscal year ending September 30, 2019. In signing the Act, President Trump issued a signing statement noting that the Act “provides that the Department of Justice may not use any funds to prevent implementation of medical marijuana laws by various States and territories,” and further stating “I will treat this provision consistent with the President’s constitutional responsibility to faithfully execute the laws of the United States.” While the signing statement can fairly be read to mean that the executive branch intends to enforce the CSA and other federal laws prohibiting the sale and possession of medical marijuana, the president did issue a similar signing statement in 2017 and no major federal enforcement actions followed.

There is a growing consensus among marijuana businesses and numerous congressmen and congresswomen that guidance is not law and temporary legislative riders, such as the Rohrabacher-Farr Amendment, are an inappropriate way to protect lawful medical marijuana businesses. Numerous bills have been introduced in Congress in recent years to decriminalize aspects of state-legal marijuana trades. For fiscal year 2019, the strategy amongst the bipartisan Congressional Marijuana Working Group in Congress, is to introduce numerous marijuana-related appropriations amendments in the Appropriations Committee in both the House and Senate, similar to the strategy employed in fiscal year 2018. The amendments will include protections for marijuana-related businesses in states with medical and adult-use marijuana laws, as well as protections for financial institutions that provide banking services to state-legal marijuana businesses. The Corporation has observed that each year more congressmen and congresswomen sign on and co-sponsor marijuana legalization bills. These include the CARERS Act, REFER Act, MORE act, and others.

While there are different perspectives on the most effective route to end federal marijuana prohibition, Congressman Blumenauer and Senator Wyden have introduced the three-bill package, Path to Marijuana Reform, which would fix the so-called Internal Revenue Service 280E provision that provides tax burdens for marijuana businesses, eliminate civil asset forfeiture and federal criminal penalties for marijuana businesses complying with state law, reduce barriers to banking, de-schedule marijuana from the federal list of controlled substances, and tax and regulate marijuana. Senator Booker has introduced the Marijuana Justice Act, which would de-schedule marijuana, and in 2018 Congresswoman Barbara Lee introduced the House companion.

In July 2020, the House of Representatives passed the “Blumenauer-McClintock-Norton-Lee Amendment”, to the Commerce, Justice, Science (“CJS”) appropriations bill, which continued the Joyce/Leahy Amendment’s protections for state medical cannabis programs. It extended protections to include recreational programs in such states where recreational cannabis is legal. Although the House of Representatives passed the CJS appropriations bills, it was not heard in the Senate, as then Majority Leader Mitch McConnell opposes marijuana legalization.

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The 2021 appropriations package included similar language to the Blumenauer amendment, which continues protections for state medical cannabis programs. However, there can be no assurances that the Senate will include marijuana protections in the final Fiscal Year 2022 appropriations package, and therefore, there can be no assurances that the federal government will not seek to prosecute businesses that are compliant with State laws relating to adult-use cannabis.

The MORE Act was reintroduced by Representative Nadler (D-NY 10th Dist.) in May 2021. On September 30, 2021, the MORE Act passed the House Judiciary Committee by a vote of 26-15. Two Republicans joined all of the committee's Democratic members to move the bill forward. The next step was for the legislation to move to the House floor once again for consideration.

On November 15, 2021, Rep. Nancy Mace (R-SC) introduced the States Reform Act. The bill, if enacted, would legalize cannabis at the federal level by removing from the CSA and provide some deference to the states and state programs. The bill has yet to be put before the House for consideration.

On Friday, April 1, 2022, the U.S. House of Representative passed the latest iteration of the MORE Act. While passing with a vote of 220-204, the MORE Act is not viewed as having substantial bipartisan support, with only 3 Republican representatives backing the bill. To be passed into law the bill will need approval of the Senate. While its repeated adoption by Congress is seen as an encouraging sign, it is not expected to pass in its current iteration.

President Joe Biden issued a proclamation on October 6, 2022, granting pardon to all U.S. citizens who prior to the date of the proclamation, were charged or convicted of simple possession of marijuana in violation of the Controlled Substances Act. In issuing the pardon proclamation, the pardon is only applicable to federal charges and not any persons who is or was incarcerated for breaking state law. However, President Biden did encourage state governors to follow his lead and issue pardons for simple possession of marijuana. President Biden stated that he was directing the attorney general and health and human services secretary to initiate an administrative review of how marijuana is scheduled under federal law. While the scope of President Biden's pardon is limited, it brings the issue of federal decriminalization and legalization to the forefront of the federal policy discussion.

In light of all of this, many expect that the federal government could eventually repeal the federal prohibition on cannabis and thereby leave the states to decide for themselves whether to permit regulated cannabis cultivation, production and sale, just as states are free today to decide policies governing the distribution of alcohol or tobacco. Given current political trends, however, the Company considers these developments unlikely in the near-term. For the time being, marijuana remains a Schedule I controlled substance at the federal level, and neither the Cole Memorandum nor its rescission nor the continued passage of the Rohrabacher-Farr Amendment has altered that fact. The federal government of the United States has always reserved the right to enforce federal law in regard to the sale and disbursement of medical or adult-use marijuana, even if state law sanctions such sale and disbursement. If the United States federal government begins to enforce United States federal laws relating to cannabis in states where the sale and use of cannabis is currently legal, or if existing applicable state laws are repealed or curtailed, the Company's business, results of operations, financial condition and prospects would be materially adversely affected.

Additionally, under United States federal law, it may potentially be a violation of federal money laundering statutes for financial institutions to take any proceeds from the sale of any Schedule I controlled substance. Due to the CSA categorization of marijuana as a Schedule I drug, federal law makes it illegal for financial institutions that depend on the Federal Reserve's money transfer system to take any proceeds from marijuana sales as deposits. Banks and other financial institutions could be prosecuted and possibly convicted of money laundering for providing services to cannabis businesses under the United States Currency and Foreign Transactions Reporting Act of 1970 (the "Bank Secrecy Act"). Therefore, under the Bank Secrecy Act, banks or other financial institutions that provide a cannabis business with a checking account, debit or credit card, small business loan, or any other service could be charged with money laundering or conspiracy.

While there has been no change in U.S. federal banking laws to accommodate businesses in the large and increasing number of U.S. states that have legalized medical and/or adult-use marijuana, the Department of the Treasury Financial Crimes Enforcement Network ("FinCEN"), in 2014, issued guidance to prosecutors of money laundering and other financial crimes (the "FinCEN Guidance"). The FinCEN Guidance advised prosecutors not to focus their enforcement efforts on banks and other financial institutions that serve marijuana-related businesses so long as that business is legal in their state and none of the federal enforcement priorities referenced in the Cole Memorandum are being violated (such as keeping marijuana away from children and out of the hands of organized crime). The FinCEN Guidance clarifies how financial institutions can provide services to marijuana-related businesses consistent with their Bank Secrecy Act obligations, including thorough customer due diligence, but makes it clear that they are doing so at their own risk.

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The customer due diligence steps include:

- Verifying with the appropriate state authorities whether the business is duly licensed and registered;
- Reviewing the license application (and related documentation) submitted by the business for obtaining a state license to operate its marijuana-related business;
- Requesting from state licensing and enforcement authorities' available information about the business and related parties;
- Developing an understanding of the normal and expected activity for the business, including the types of products to be sold and the type of customers to be served (e.g., medical versus adult-use customers);
- Ongoing monitoring of publicly available sources for adverse information about the business and related parties;
- Ongoing monitoring for suspicious activity, including for any of the red flags described in this guidance; and
- Refreshing information obtained as part of customer due diligence on a periodic basis and commensurate with the risk.

With respect to information regarding state licensure obtained in connection with such customer due diligence, a financial institution may reasonably rely on the accuracy of information provided by state licensing authorities, where states make such information available.

Because most banks and other financial institutions are unwilling to provide any banking or financial services to marijuana businesses, these businesses can be forced into becoming "cash-only" businesses. While the FinCEN Guidance decreased some risk for banks and financial institutions considering serving the industry, in practice it has not increased banks' willingness to provide services to marijuana businesses. This is because, as described above, the current law does not guarantee banks immunity from prosecution, and it requires banks and other financial institutions to undertake time-consuming and costly due diligence on each marijuana business they accept as a customer.

The few state-chartered banks and/or credit unions that have agreed to work with marijuana businesses are limiting those accounts to small percentages of their total deposits to avoid creating a liquidity risk. Since, theoretically, the federal government could change the banking laws as it relates to marijuana businesses at any time and without notice, these credit unions must keep sufficient cash on hand to be able to return the full value of all deposits from marijuana businesses in a single day, while keeping sufficient liquid capital on hand to serve their other customers. Those state-chartered banks and credit unions that do have customers in the marijuana industry charge marijuana businesses high fees to pass on the added cost of ensuring compliance with the FinCEN Guidance.

Unlike the Cole Memorandum, however, the FinCEN Guidance from 2014 has not been rescinded. The former Secretary of the U.S. Department of the Treasury, Stephen Mnuchin, publicly stated that the Department was not informed of any plans to rescind the Cole Memorandum. Former Secretary Mnuchin stated that he does not have a desire to rescind the FinCEN Guidance.

As an industry best practice and consistent with its standard operating procedures, the Corporation adheres to all customer due diligence steps in the FinCEN Guidance.

In the United States, a bill has been tabled in Congress to grant banks and other financial institutions immunity from federal criminal prosecution for servicing marijuana-related businesses if the underlying marijuana business follows state law. This bill has not been passed and there can be no assurance with that it will be passed in its current form or at all. In both Canada and the United States, transactions involving banks and other financial institutions are both difficult and unpredictable under the current legal and regulatory landscape. Legislative changes could help to reduce or eliminate these challenges for companies in the cannabis space and would improve the efficiency of both significant and minor financial transactions.

An additional challenge to marijuana-related businesses is that the provisions of the Internal Revenue Code, Section 280E, are being applied by the Internal Revenue Service ("IRS") to businesses operating in the medical and adult-use marijuana industry. Section 280E of the Internal Revenue Code prohibits marijuana businesses from deducting their ordinary and necessary business expenses, forcing them to pay higher effective federal tax rates than similar companies in other industries. The effective tax rate on a marijuana business depends on how large its ratio of non-deductible expenses is to its total revenues. Therefore, businesses in the legal cannabis industry may be less profitable than they would otherwise be.

Overview of Federal CBD and Hemp Derived Regulations

CBD is a product that often is derived from hemp, which contains only trace amounts of THC, the psychoactive substance found in marijuana. On December 20, 2018, then President Trump signed the Agriculture Improvement Act of 2018 (popularly known as the "2018 Farm Bill") into law. Until the 2018 Farm Bill became law hemp and products derived from it, such as CBD, fell within the definition of "marijuana" under the CSA and the DEA classified hemp as a Schedule I controlled substance because hemp is part of the cannabis plant.

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The 2018 Farm Bill defines hemp as the plant *Cannabis sativa L.* and any part of the plant with a delta-9 THC concentration of not more than 0.3 percent by dry weight and removes hemp from the CSA. The 2018 Farm Bill allows states to create regulatory programs allowing for the licensed cultivation of hemp and production of hemp-derived products. Hemp and products derived from it, such as CBD, may then be sold into commerce and transported across state lines provided that the hemp from which any product is derived was cultivated under a license issued by an authorized state program approved by the U.S. Department of Agriculture and otherwise meets the definition of hemp removed from the CSA. The introduction of hemp and products derived from it, such as CBD, in foods, beverages, and dietary supplements has not - except in limited circumstances - been approved by the FDA. FDA expects to engage in rulemaking on this subject.

Compliance with Applicable State Law in the United States

The Company is classified as having a “direct” involvement in the United States cannabis industry and is in compliance with applicable United States state law and related licensing requirements and the regulatory framework enacted by the State of Nevada. The Company is not subject to any citations or notices of violation with applicable licensing requirements and the regulatory frameworks which may have an impact on its licenses, business activities or operations. The Company uses reasonable commercial efforts to ensure that its business is in compliance with applicable licensing requirements and the regulatory frameworks enacted by Nevada, through the advice of its General Counsel, who monitors and reviews its business practices and changes to United States Federal enforcement priorities.

The Company’s General Counsel works with external legal advisors in Nevada, to ensure that the Company is in on-going compliance with applicable state laws.

In the United States, numerous U.S. states have implemented legislation regulating marijuana. As of November 22, 2022, 40 states and the District of Columbia have passed laws broadly legalizing marijuana for medicinal use by eligible patients. 21 states and the District of Columbia have legalized marijuana for adult-use regardless of medical condition. Additional states have pending legislation regarding the same. The large increase in recent statewide referenda and legislation that liberalizes marijuana laws is consistent with public opinion. Public polling routinely shows large majorities of Americans in favor of the legalization of marijuana. In fact, the latest poll results, show that two-thirds of Americans say the use of marijuana should be legal, reflecting a steady increase over the past decade, according to a Pew Research Center survey. The share of U.S. adults who oppose legalization has fallen from 52% in 2010 to 32% in 2020. An overwhelming majority of U.S. adults (91%) say marijuana should be legal either for medical *and* recreational use (59%) or that it should be legal just for medical use (32%). Fewer than one-in-ten (8%) prefer to keep marijuana illegal in all circumstances, according to the survey, conducted Sept. 3 to 15, 2020, on Pew Research Center’s American Trends Panel.

Although each State in which the Company operates (and anticipates operating) authorizes, as applicable, medical and/or adult-use cannabis production and distribution by licensed or registered entities, and numerous other states have legalized cannabis in some form, under U.S. federal law, the possession, use, cultivation, and transfer of cannabis and any related drug paraphernalia is illegal, and any such acts are criminal acts under federal law under any and all circumstances under the CSA. The concepts of “medical cannabis” and “adult-use cannabis” do not exist under U.S. federal law. Marijuana is a Schedule I drug under the CSA. Under U.S. federal law, a Schedule I drug or substance has a high potential for abuse, no accepted medical use in the United States, and a lack of safety for the use of the drug under medical supervision. Although the Company believes that its business activities are compliant with applicable state and local laws of the United States, strict compliance with state and local laws with respect to cannabis may neither absolve 1933 of liability under United States federal law nor provide a defense to any federal proceeding which may be brought against 1933. Any such proceedings brought against the Company may result in a material adverse effect on 1933.

The Company derives 100% of its revenues from the cannabis industry in certain states, which industry is illegal under United States federal law. Even where the Company’s cannabis-related activities are compliant with applicable state and local law, such activities remain illegal under United States federal law. The enforcement of relevant federal laws is a significant risk.

United States Customs and Border Protection (“CBP”) enforces the laws of the United States. Crossing the border while in violation of the CSA and other related United States federal laws may result in denied admission, seizures, fines, and apprehension. CBP officers administer the United States Immigration and Nationality Act to determine the admissibility of travelers, who are non-U.S. citizens, into the United States. An investment in 1933, if it became known to CBP, could have an impact on a shareholder’s admissibility into the United States and could lead to a lifetime ban on admission. See “Risk Factors - U.S. border officials could deny entry of non-US citizens into the U.S. to employees of or investors in companies with cannabis operations in the United States and Canada.”

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Medical cannabis has been protected against enforcement by enacted legislation from the United States Congress in the form of the Rohrabacher-Farr Amendment, which prevents federal prosecutors from using federal funds to impede the implementation of medical cannabis laws enacted at the state level, subject to the United States Congress restoring such funding. This amendment has historically been passed as an amendment to omnibus appropriations bills, which by their nature expire at the end of a fiscal year or other defined term. Subsequent to the issuance of Sessions Memo, the United States Congress passed its omnibus appropriations bill, SJ 1662, which for the fourth consecutive year contained the Rohrabacher-Farr Amendment language (referred to in 2018 as the Leahy Amendment) and continued the protections for the medical cannabis marketplace and its lawful participants from interference by the Department of Justice. The Rohrabacher-Farr Amendment again was included in the Consolidated Appropriations Act of 2019, which was signed by then President Trump on February 14, 2019, and funds the departments of the federal government through the fiscal year ending July 31, 2019. Notably, such Amendments have always applied only to medical cannabis programs and have no effect on pursuit of recreational cannabis activities.

Regulatory Risks

The activities of 1933 Industries are subject to regulation by governmental authorities. The Company's business objectives are contingent upon, in part, compliance with State regulatory requirements enacted by these governmental authorities and obtaining all regulatory approvals, where necessary, for the sale of its products in each jurisdiction in which it operates. Any delays in obtaining, or failure to obtain regulatory approvals would significantly delay the development of markets and products and could have a material adverse effect on the business, results of operations and financial condition of 1933. Furthermore, although the operations of the Company are currently carried out in accordance with all applicable State rules and regulations, no assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner which could limit or curtail the Company's ability to import, distribute or, in the future, produce cannabis. Amendments to current laws and regulations governing the importation, distribution, transportation and/or production of cannabis, or more stringent implementation thereof could have a substantial adverse impact on the Company.

As a result of the conflicting views between State legislatures and the federal government regarding cannabis, investments in cannabis businesses in the United States are subject to inconsistent legislation and regulation. The response to this inconsistency was addressed in the Cole Memorandum addressed to all United States district attorneys acknowledging that notwithstanding the designation of cannabis as a controlled substance at the federal level in the United States, several states have enacted laws relating to cannabis for medical purposes. The Cole Memorandum outlined certain priorities for the United States Department of Justice relating to the prosecution of cannabis offenses. In particular, the Cole Memorandum noted that in jurisdictions that have enacted laws legalizing cannabis in some form and that have implemented strong and effective regulatory and enforcement systems to control the cultivation, distribution, sale and possession of cannabis, conduct in compliance with those laws and regulations is less likely to be a priority at the federal level.

Notably, however, the United States Department of Justice has never provided specific guidelines for what regulatory and enforcement systems it deems sufficient under the Cole Memorandum standard. In light of limited investigative and prosecutorial resources, the Cole Memorandum concluded that the United States Department of Justice should be focused on addressing only the most significant threats related to cannabis. States where medical cannabis had been legalized were not characterized as a high priority.

In March 2017, then Attorney General Sessions again noted limited federal resources and acknowledged that much of the Cole Memorandum had merit; however, he had previously stated that he did not believe it had been implemented effectively and, on January 4, 2018, then Attorney General Sessions issued the Sessions Memo, which rescinded the Cole Memorandum. The Sessions Memo rescinded previous nationwide guidance specific to the prosecutorial authority of United States Attorneys relative to cannabis enforcement on the basis that they are unnecessary, given the well-established principles governing federal prosecution that are already in place. Those principles are included in chapter 9.27.000 of the United States Attorneys Manual and require federal prosecutors deciding which cases to prosecute to weigh all relevant considerations, including federal law enforcement priorities set by the Attorney General, the seriousness of the crime, the deterrent effect of criminal prosecution, and the cumulative impact of particular crimes on the community. As a result of the Sessions Memo, federal prosecutors are now free to utilize their prosecutorial discretion to decide whether to prosecute cannabis activities despite the existence of State-level laws that may be inconsistent with federal prohibitions. No direction was given to federal prosecutors in the Sessions Memo as to the priority they should ascribe to such cannabis activities, and it is uncertain how active U.S. federal prosecutors will be in relation to such activities.

Attorney General Sessions was replaced by William Barr on February 14, 2019. In a written response to questions from U.S. Senator Cory Booker posed to him when a nominee, then Attorney General Barr stated, "I do not intend to go after parties who have complied with state law in reliance on the Cole Memorandum." Attorney General Barr served in the same position under former President George H.W. Bush and promoted an anti-drug stance during his tenure.

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However, during his Senate confirmation hearing, Mr. Barr testified (similar to his written responses) that although he disagrees with efforts by states to legalize marijuana, he “won’t go after” marijuana companies in states that have authorized regulated adult use. He stated further that he would not upset settled expectations that have arisen as a result of the Cole Memorandum, notwithstanding his predecessor’s rescission of the Cole Memorandum.

Under the Biden administration, Merrick Garland was appointed as the United States Attorney General on March 11, 2021. Attorney General Garland has not confirmed whether he would reinstate the Cole Memorandum but has indicated that there would be a reduction in resources towards the enforcement of federal marijuana laws. This is indicative that the Justice Department is shifting back towards Obama-era approach of Cole Memorandum priorities, which is positive for state-legal marijuana businesses.

However, there is no guarantee that Attorney General Garland plans to or will forbid federal prosecution of state-licensed marijuana companies. It is important to note that in the United States, individual United States attorneys operate within state or district level jurisdictions and enjoy a substantial degree of autonomy in determining which criminal actions to pursue. While dozens of United States attorneys from across the country have affirmed that their view of federal enforcement priorities has not changed, there can be no assurances that such views are universally held or will continue in the near future. In California, at least one United States Attorney has made comments indicating a desire to enforce the CSA, stating that the Sessions Memorandum and the rescission of the Cole Memorandum “returns trust and local control to federal prosecutors” to enforce the CSA. These and other so called “enforcement hawks” in California or elsewhere may choose to enforce the CSA in accordance with federal policies prior to the issuance of the Cole Memorandum. As such, there can be no assurance that the United States federal government will not seek to prosecute cases involving cannabis businesses that are otherwise compliant with State law. Contrastingly, Andrew Lelling, the United States Attorney for the District of Massachusetts, issued a statement explaining that while marijuana is illegal under federal law, his “office’s resources [...] are primarily focused on the opioid epidemic.” In this statement, United States Attorney Lelling clarified that his marijuana enforcement efforts will be focused on overproduction, targeted sales to minors, and organized crime and interstate transportation of drug proceeds. In sum, there is no certainty as to how the Department of Justice, Federal Bureau of Investigation and other government agencies will handle cannabis matters in the future. There can be no assurances that the Biden administration would not change the current enforcement policy and decide to strongly enforce the federal laws. The Company regularly monitors the activities of the current administration in this regard.

Money Laundering Laws and Access to Banking

The Company is subject to a variety of laws and regulations in the United States that involve money laundering, financial record-keeping and proceeds of crime, including the Currency and Foreign Transactions Reporting Act of 1970 (commonly known as the Bank Secrecy Act), as amended by Title III of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (USA PATRIOT Act), and any related or similar rules, regulations or guidelines, issued, administered or enforced by governmental authorities in the United States.

In February 2014, FinCen issued the FinCen Memo providing instructions to banks seeking to provide services to cannabis-related businesses. The FinCEN Memo states that in some circumstances, it is permissible for banks to provide services to cannabis-related businesses without risking prosecution for violation of federal money laundering laws. It refers to supplementary guidance that Deputy Attorney General Cole issued to federal prosecutors relating to the prosecution of money laundering offenses predicated on cannabis-related violations of the CSA. It is unclear at this time whether the current administration will follow the guidelines of the FinCEN Memo.

In the event that any of the Company’s operations, or any proceeds thereof, any dividends or distributions therefrom, or any profits or revenues accruing from such operations in the United States were found to be in violation of money laundering legislation or otherwise, such transactions could be viewed as proceeds of crime under one or more of the statutes noted above or any other applicable legislation. This could restrict or otherwise jeopardize the ability of the Company to declare or pay dividends or effect other distributions.

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United States Border Entry

Because cannabis remains illegal under United States federal law, those investing in Canadian companies with operations in the United States cannabis industry could face detention, denial of entry, or lifetime bans from the United States for their business associations with United States cannabis businesses. Entry happens at the sole discretion of CBP officers on duty, and these officers have wide latitude to ask questions to determine the admissibility of a non-US citizen or foreign national. The government of Canada has started warning travelers on its website that previous use of cannabis, or any substance prohibited by United States federal laws, could mean denial of entry to the United States. Business or financial involvement in the cannabis industry in the United States could be reason enough for United States border guards to deny entry. On September 21, 2018, CBP released a statement outlining its current position with respect to enforcement of the laws of the United States. It stated that Canada's legalization of cannabis will not change CBP enforcement of United States laws regarding controlled substances and because cannabis continues to be a controlled substance under United States law, working in or facilitating the proliferation of the legal cannabis industry in the U.S. where it is deemed legal may affect admissibility to the United States. As a result, CBP has affirmed that, employees, directors, officers, managers, and investors of companies involved in business activities related to cannabis in the United States (such as 1933), who are not United States citizens face the risk of being barred from entry into the United States for life.

Ability to Access Public and Private Capital

Given the current laws regarding cannabis at the federal level in the United States, traditional bank financing is typically not available to United States cannabis companies. Specifically, the federal illegality of cannabis in the United States means that financial transactions involving proceeds generated by cannabis-related conduct can form the basis for prosecution under money laundering statutes, the unlicensed money transmitter statute, and the Bank Secrecy Act (the "BSA"). As a result, businesses involved in the cannabis industry often have difficulty finding a bank willing to accept their business. Banks who do accept deposits from cannabis-related businesses in the United States must do so in compliance with the Cole Financial Crime Memo and the FinCEN Memo, each dated February 14th, 2014. The Cole Financial Crime Memo states that prosecutors should apply the enforcement priorities of the Cole Memorandum in determining whether to charge individuals or institutions with crimes related to financial transactions involving the proceeds of cannabis-related conduct. The FinCen Memo provides guidelines to banks on how to accept deposits from cannabis-related businesses while remaining compliant with the BSA. The Financial Crime Enforcement Network has not rescinded the FinCEN Memo following the United States Department of Justice's January 4, 2018, announcement rescinding the Cole Memorandum.

1933 has banking relationships with Nevada state-chartered banks for deposits and payroll, however the Company does not have access to traditional bank financing. 1933 has been successful at raising capital privately. The Company expects to generate adequate cash along with cash on hand to fund its continuing operations. The Company's business plan includes managed growth, both in the form of additional acquisitions and through facility expansion and improvements. There can be no assurance that additional financing, should it be needed, will be available to the Company or on terms which are acceptable.

Compliance with Nevada State Law

Nevada's current regulatory regime, the Cannabis Compliance Board ("CCB"), was created due to the Nevada state legislature's passage of Nevada Assembly Bill 533 in June 2019. The CCB took over regulatory authority of the state's cannabis program beginning July 1, 2020.

The Company complies with applicable Nevada state licensing requirements as follows: (i) Alternative Medicine Association ("AMA") is licensed pursuant to applicable Nevada state law to cultivate and produce marijuana in Nevada; (ii) renewal dates for such licenses are docketed by legal counsel and/or other advisors; (iii) random internal audits of the Company's business activities are conducted by the applicable Nevada state regulator and by the Company to ensure compliance with applicable Nevada state law; (iv) each employee of the Company is provided with an employee handbook that outlines internal standard operating procedures in connection the cultivation, possession and distribution of marijuana to ensure that all marijuana inventory and proceeds from the sale of such marijuana are properly accounted for and tracked; (v) each room that marijuana inventory and/or proceeds from the sale of such inventory enter is monitored by video surveillance; (vi) software is used to track marijuana inventory from seed-to-sale (as defined herein); and (vii) the Company is contractually obligated to comply with applicable Nevada state law in the United States in connection with the cultivation, possession and/or distribution of marijuana in Nevada.

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The Company has a full time General Counsel on staff in Nevada, who is a licensed attorney under the State Bar of Nevada, in good standing, whose responsibilities include monitoring the day-to-day activities of staff, including ensuring that the established standard operating procedures are being adhered to at each stage of the cultivation, processing and distribution cycle, to identify any non-compliance matters and to put in place the necessary modifications to ensure compliance. In his capacity as General Counsel, monthly, unannounced audits are performed against the Company's established standard operating procedures and State of Nevada regulations. Each employee is provided with an employee handbook outlining the standard operating procedures and state regulations upon hiring and is then provided with one on one quality and regulatory training by the General Counsel. The Company's licenses are in good standing to cultivate, possess and/or wholesale marijuana in the State of Nevada and the Company, through AMA, is following a regulatory program. AMA has not experienced any non-compliance, nor has it been subject to any notices of violation by the State of Nevada. The Company is in compliance with U.S. state law and the related licensing framework. The Company uses reasonable commercial efforts to confirm, through the advice of its General Counsel, through the monitoring and review of its business practices, and through regular monitoring of changes to U.S. Federal enforcement priorities, that its businesses are in compliance with applicable licensing requirements and the regulatory frameworks enacted by Nevada. The Company's General Counsel works with external legal advisors in Nevada to ensure that the Company and AMA are in on-going compliance with applicable Nevada state law, including:

- quarterly independent regulatory consultant inspections and reviews with written findings and recommendations,
- weekly correspondence and updates with advisors;
- development of standard operating procedures with respect to cultivation, processing, and distribution;
- ongoing monitoring of compliance with operating procedures and regulations by on-site management;
- appropriate employee training for all standard operating procedures; and
- subscription to monitoring programs to ensure compliance with the FinCEN Memorandum.

The Company, through AMA, has not received any noncompliance orders, citations, or notices of violation, that may have an impact on AMA's licenses, business activities or operations.

In addition, the Company will continue to ensure it is in compliance with applicable licensing requirements and the regulatory framework enacted in Nevada by continuous review of its licenses and affirmation certifications from management. While the Company's business activities are compliant with applicable state and local law, such activities remain illegal under United States federal law. See "Risks and Uncertainties".

Reporting Requirements

The State of Nevada has selected Franwell Inc.'s METRC solution ("METRC") as the state's track-and-trace system used to track commercial cannabis activity and movement across the distribution chain ("seed-to-sale"). Individual licensees whether directly or through third-party integration systems are required to push data to the state to meet all reporting requirements. For all Nevada licensed facilities, the Company has designated an in-house computerized seed-to-sale software that integrates with METRC via an application programming interface.

Q2 2024 AND Q2 2023 CONSOLIDATED OPERATING FINANCIAL HIGHLIGHTS

- Total revenues were \$4,744,948 for Q2 2024 and \$4,297,375 for Q2 2023.
- Expenses were \$2,138,110 for Q2 2024 compared to \$398,675 for Q2 2023. The increase from the prior year comparable period was primarily due the Company receiving a payroll tax refund from the IRS of \$2,043,238 related to the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act") in Q2 2023.
- Gross profit was \$1,405,111 for Q2 2024 and \$46,559 for Q2 2023. The increase in gross profit was primarily due to a more efficient operation and the upgrading of plant equipment and facility improvements.
- Net loss was \$732,999 for Q2 2024 and comprehensive loss was \$429,735. Net loss was \$359,191 and comprehensive loss was \$626,737 in the prior year comparable period.

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Q2 2024 KEY DEVELOPMENTS

During the six months ended January 31, 2024, the Company announced that the upgrades and improvements undertaken to its cultivation facility in Las Vegas have been completed. A large scale retrofit of the irrigation system was undertaken for the long-term success of the facility. The Company added an additional bloom room with 65 lights, thus increasing the total number of lights in the facility's 17 bloom rooms to 806.

On December 29, 2024, the Company announced renegotiation of its convertible debentures with an original maturity date of December 31, 2023. Of the total principal of \$3,114,000, holders of \$3,073,000 agreed to be issued replacement debentures and holders of \$41,000 of the convertible debentures were repaid in cash during February 2024. The renegotiated debentures accrue interest at 10% per annum, may be converted into units of the Company and mature on December 31, 2025. Each unit is comprised of one common share and one common share purchase warrant entitling the holder to purchase one additional common share at a price of \$0.05 for a period of five years from the date of issuance of the new convertible debentures. Interest in arrears resulting from the original debentures remains payable in cash or may be settled through the issuance of units of the Company at \$0.05 per unit.

SUMMARY OF QUARTERLY RESULTS

A summary of the Company's result for the eight most recently completed quarters is as follows:

	Q2 2024	Q1 2024	Q4 2023	Q3 2023
	\$	\$	\$	\$
Revenue	4,744,948	5,514,387	5,609,131	4,073,142
Net loss	(732,999)	(394,389)	(9,070,311)	(3,362,402)
Basic / diluted loss per share	(0.00)	(0.00)	(0.02)	(0.01)
Number of weighted average shares	469,152,428	461,014,610	460,681,080	457,534,847
	Q2 2023	Q1 2023	Q4 2022	Q3 2022
	\$	\$	\$	\$
Revenue	4,297,375	4,964,851	2,607,511	4,256,280
Net loss	(359,191)	(1,166,851)	(3,921,644)	(12,375,391)
Basic / diluted loss per share	(0.00)	(0.00)	(0.01)	(0.03)
Number of weighted average shares	451,045,719	451,045,719	450,699,319	450,699,319

The Company is expected to remain subject to many of the risks and challenges common to cannabis enterprises, including those related to laws, regulations, licensing, integrating, and retaining qualified employees; making effective use of limited resources; achieving market acceptance of existing and future solutions; competing against companies with greater financial and technical resources; acquiring and retaining customers; and developing new solutions.

The Company's revenues have remained relatively stable over the past three quarters with \$5,609,131 in the fourth quarter of 2023 and \$4,744,948 in the three months ended January 31, 2024. In Q1 2024 and Q2 2024, the Company has also worked to reduce its general and administrative costs. General and administrative costs in Q2 2024 were \$249,336 compared to \$584,600 in Q2 2023. Cost-savings efforts combined with the Company's upgrades and improvements undertaken to its cultivation facility in Las Vegas are expected to help stabilize operating expenses and improve net loss in future quarters.

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SUMMARY OF RESULTS

A summary of the Company's results of operations is as follows:

	Q2 2024	Q2 2023	YTD 2024	YTD 2023
	\$	\$	\$	\$
Revenues	4,744,948	4,297,375	10,259,335	9,262,226
Gross profit	1,405,111	46,559	3,125,451	575,619
Expense				
General and administration	249,336	584,600	624,923	715,609
License taxes and insurance	520,630	623,877	1,373,344	1,385,527
Management and consulting fees	177,104	150,000	322,266	278,000
Other expenses (income)	735,309	(1,550,466)	1,185,333	(2,004,233)
Professional fees	108,142	292,322	186,995	609,535
Share-based compensation	7,507	26,015	16,461	142,928
Wages and benefits	340,082	272,327	543,517	458,761
	2,138,110	398,675	4,252,839	1,586,127
Net loss before income tax	(732,999)	(352,116)	(1,127,388)	(1,010,508)
Income tax expense	-	(7,075)	-	(515,534)
Net loss	(732,999)	(359,191)	(1,127,388)	(1,526,042)
Translation adjustment	303,264	(267,546)	496,785	474,400
Comprehensive income (loss)	(429,735)	(626,737)	(630,603)	(1,051,642)

Q2 2024 compared to Q2 2023

The Company generated revenue of \$4,744,948 compared to \$4,297,375 in the prior year comparable period. The Company generated gross profit of \$1,405,111 in the current period compared to \$46,559 in the prior year comparable period. The increases in revenue and gross profit from the previous year are mainly attributed to the cultivation facility's upgrades and improvements. Gross margin excluding fair value adjustments, calculated as gross profit excluding fair value adjustments divided by revenue was 46% in Q2 2024 and 50% in Q2 2023, indicating stable production costs against revenues. Gross margin calculated as gross profit divided by revenue was 30% in Q2 2024 and 1% in Q2 2023.

The Company's expenses increased to \$2,138,110 from \$398,675 in the prior year comparable period. The primary drivers of this increase are as follows:

- The primary driver in the change in net expenses from Q2 2023 to Q2 2024 resulted from the recovery of payroll taxes from the IRS of \$2,043,238 which resulted in a gain recorded to other income, which is netted against expenses.
- Management and consulting fees increased to \$177,104 compared to \$150,000 in the prior year comparable period.
- Wages and benefits increased to \$340,082 compared to \$272,327 in the prior year comparable period resulting from higher cultivation and production wages in the Company's Las Vegas cultivation facility.

Overall, the Company has made progress in reducing expenses compared to the prior year comparable period as follows:

- General and administration decreased to \$249,336 compared to \$584,600 in the prior year comparable period resulting from ongoing cost saving efforts.
- Professional fees decreased to \$108,142 compared to \$292,322 in the prior year comparable period resulting from lower accounting and legal expenses incurred during the current period.
- Share-based compensation decreased to \$7,507 compared to \$26,015 in the prior year comparable period due to the timing of the vesting of previously issued stock options, partially offset by stock options granted and cancelled in the current period.

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MANAGEMENT DISCUSSION AND ANALYSIS

For the three and six months ended January 31, 2024 and 2023
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YTD 2024 compared to YTD 2023

The Company generated revenue of \$10,259,335 compared to \$9,262,226 in the prior year comparable period. The Company generated gross profit of \$3,125,451 in the current period compared to \$575,619 in the prior year comparable period as a result of the upgrades and improvements to its cultivation facility completed in Q4 2023 and the running of a more efficient operation. Gross margin excluding fair value adjustments, calculated as gross profit excluding fair value adjustments divided by revenue was 59% in YTD 2024 and 43% in YTD 2023, indicating slightly reduced production costs against revenues in the six months. Gross margin, calculated as gross profit divided by revenue was 30% in YTD 2024 and 6% in YTD 2023,

The Company's expenses increased to \$4,252,839 from \$1,586,127 in the prior year comparable period. The increase includes:

- The primary driver in the change from income to expenses from YTD 2023 to YTD 2024 resulted from the recovery of payroll taxes from the IRS of \$2,043,238 which resulted in a gain recorded to other income, which netted against expenses.
- Management and consulting fees increased to \$322,266 compared to \$278,000 in the prior year comparable period.
- Wages and benefits increased to \$543,517 compared to \$458,761 in the prior year comparable period.

Overall, the Company has made progress in reducing expenses compared to the prior year comparable period as follows:

- General and administration decreased to \$624,923 compared to \$715,609 in the prior year comparable period resulting from ongoing cost saving efforts.
- Professional fees decreased to \$186,995 compared to \$609,535 in the prior year comparable period resulting from lower accounting and legal expenses incurred during the current period.
- Share-based compensation decreased to \$16,461 compared to \$142,928 in the prior year comparable period due to the timing of the vesting of previously issued stock options, partially offset by stock options granted and cancelled in the current period.

The Company's foreign currency translation adjustment results from the consolidation process when translating the results of subsidiaries in the group from their functional currency to the presentation currency of the financial statements. The foreign currency translation adjustment for the three and six months ended January 31, 2024 was a gain of \$303,264 and \$496,785, respectively (2023 - loss of \$267,546 and gain of \$474,400, respectively).

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

Liquidity risk is the risk that the Company will encounter difficulties in meeting obligations associated with its financial liabilities and other contractual obligations. The Company's strategy for managing liquidity is based on the Company achieving positive cash flows from operations to internally fund operating and capital requirements.

Factors that may affect the Company's liquidity are continuously monitored. These factors include production levels, operating costs, capital costs, income tax refunds, foreign currency fluctuations, seasonality, market immaturity, and a highly fluid environment related to state and federal law passage and regulations.

In the event that the Company is adversely affected by any of these factors and, as a result, the operating cash flows are not sufficient to meet the Company's working capital requirements, there is no guarantee that the Company would be able to raise additional capital on acceptable terms to fund a potential cash shortfall. Consequently, the Company is subject to liquidity risk. The Company monitors its liquidity primarily by focusing on total liquid assets and working capital. The Company monitors its level of working capital and working capital ratio to assess its ability to enter into strategic opportunities such as equity investments, royalty financing arrangements, and providing start-up working capital to its existing and future business units.

While the Company has historically issued shares as a component of the consideration for acquisitions, there can be no assurance that the Company will be able to continue to finance strategic opportunities via the issuance of shares or debt. Management will continue to monitor and assess its acquisition activities to ensure that operating requirements are met over the next twelve months.

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A summary of the Company's liquidity-related information is as follows:

	January 31, 2024	July 31, 2023
	\$	\$
Cash	805,594	1,092,562
Liquid assets ⁽¹⁾	5,800,544	5,515,267
Working capital (deficiency)	212,919	(4,239,042)
Quick ratio ⁽²⁾	0.95	0.52
Working capital ratio ⁽³⁾	1.03	0.60

(1) Liquid assets include cash, receivables and inventory.

(2) Quick ratio is defined as liquid assets divided by current liabilities.

(3) Working capital ratio is defined as current assets divided by current liabilities.

Note that current liabilities at July 31, 2023 contained \$4,406,730 pertaining to the convertible debentures that had a maturity was extension to December 31, 2025. At January 31, 2024 the convertible debentures have a balance of \$3,073,000 and are classified within non-current liabilities.

Capital Resources

A summary of the Company's capital structure is as follows:

	January 31, 2024	July 31, 2023
	\$	\$
Shareholders' deficiency	(4,415,405)	(5,263,152)
Convertible debentures	3,073,000	4,406,730
	(1,342,405)	(856,422)
Less: cash	(805,594)	(1,092,562)
	(2,147,999)	(1,948,984)

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.

Dividends

No dividends have been declared or paid by the Company in any of the periods presented above. The Company does not anticipate declaring or paying any dividends on its common shares in the foreseeable future.

1933 INDUSTRIES INC.**MANAGEMENT DISCUSSION AND ANALYSIS**

For the three and six months ended January 31, 2024 and 2023

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SOURCES AND USES OF CASH

A summary of the Company's sources and uses of cash during the three and six months ended January 31, 2024, and 2023 is as follows:

	Q2 2024	Q2 2023	YTD 2024	YTD 2023
	\$	\$	\$	\$
Net cash provided by (used in) operating activities	245,833	(469,593)	307,917	(840,878)
Net cash (used in) provided by investing activities	(78,933)	-	(400,852)	3,134,818
Net cash (used in) provided by financing activities	(350,205)	268,999	(701,457)	(214,531)
Effect of exchange rate changes on cash	225,736	(198,800)	507,424	474,400
Cash, beginning of period	763,163	3,316,477	1,092,562	363,274
Cash, end of period	805,594	2,917,083	805,594	2,917,083

Operating activities

Cash provided by operating activities for the three and six months ended January 31, 2024, was \$245,833 and \$307,917, respectively compared to cash used of \$469,593 and \$840,878, respectively, during the prior year comparable periods. The Company was able to generate cash from operating activities due to closer management of working capital and improved gross profit excluding fair value adjustments.

Investing activities

Cash used in investing activities for the three and six months ended January 31, 2024, was \$78,933 and \$400,852, respectively compared to \$nil and cash used of \$3,134,818, respectively in the prior year comparable periods. The investing activities in fiscal 2024 were resulted from the purchases of production equipment and leasehold improvements for the Company's production facility in Las Vegas.

Financing activities

Cash used in financing activities for the three and six months ended was \$350,205 and \$701,457, respectively compared to cash provided by financing activities of \$268,999 during the three months ended January 31, 2023, and cash used of \$214,531 during the six months ended January 31, 2023. The cash used in financing activities during the current period and prior year comparable period are due to lease payments on the Company's facilities.

OUTSTANDING SHARE DATA

The authorized capital of the Company consists of an unlimited number of common shares without par value.

A summary of securities outstanding is as follows:

Type of security	January 31, 2024	March 28, 2024
	#	#
Common shares	490,471,657	490,471,657
Stock options	22,790,000	22,790,000
Warrants	3,700,000	3,700,000
Convertible debentures - \$0.05 conversion	3,073,000	3,073,000

1933 INDUSTRIES INC.**MANAGEMENT DISCUSSION AND ANALYSIS**

For the three and six months ended January 31, 2024 and 2023

(In Canadian dollars, except where noted)

A summary of the Company's stock options, warrants, and agent options as at January 31, 2024 is as follows:

Expiry date	Type of security	Number	Exercise price	Proceeds if exercised
		#	\$	\$
November 08, 2025	Stock options	11,050,000	0.10	1,105,000
August 24, 2027	Stock options	10,740,000	0.05	537,000
October 27, 2028	Stock options	1,000,000	0.05	50,000
		22,790,000	0.07	1,692,000
June 13, 2024	Warrants	3,700,000	0.075	277,500
		3,700,000	0.075	277,500

A summary of the Company's stock options, warrants and agent options as at the MD&A date is as follows:

Expiry date	Type of security	Number	Exercise price	Proceeds if exercised
		#	\$	\$
November 08, 2025	Stock options	11,050,000	0.10	1,105,000
August 24, 2027	Stock options	10,740,000	0.05	537,000
October 27, 2028	Stock options	1,000,000	0.05	50,000
		22,790,000	0.07	1,692,000
June 13, 2024	Warrants	3,700,000	0.075	277,500
		3,700,000	0.075	277,500

NON-GAAP MEASURES

EBITDA and Adjusted EBITDA are non-GAAP financial measures and accordingly they are not earnings measures recognized by IFRS and do not carry standard prescribed significance. Moreover, the Company's method for calculating Adjusted EBITDA may differ from that used by other companies using the same designation. Accordingly, caution is advised to readers that Adjusted EBITDA should not be substituted for determining net income (loss) as an indicator of operating results or as a substitute for cash flows from operating and investing activities. Management believes that, in addition to conventional measures prepared in accordance with GAAP, certain investors use this information to evaluate the Company's performance and ability to generate cash flow. Accordingly, the presentation of these measures is to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP.

A summary of the Company's reconciliation of the EBITDA and Adjusted EBITDA is as follows:

	Q2 2024	Q2 2023	YTD 2024	YTD 2023
			\$	\$
Net loss for the period	(732,999)	(359,191)	(1,127,388)	(1,526,042)
Add:				
Interest expense	464,516	420,410	915,203	851,927
Depreciation expense	257,420	80,508	276,758	221,437
Income tax expense	-	7,075	-	515,534
EBITDA income (loss)	(11,063)	148,802	64,573	62,856
Share-based compensation expense	7,507	26,015	16,461	142,928
Adjusted EBITDA income	(3,556)	174,817	81,034	205,784

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MANAGEMENT DISCUSSION AND ANALYSIS

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OFF-BALANCE SHEET ARRANGEMENTS

The Company has not entered into any material off-balance sheet arrangements such as guarantee contracts, contingent interests in assets transferred to unconsolidated entities, derivative financial obligations, or arrangements with respect to any obligations under a variable interest equity arrangement.

The Company has no off-balance sheet arrangements as of the date of this MD&A.

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.

A summary of the Company's related party transactions for the three and six months ended January 31, 2024, and 2023 is as follows:

	Three months ended January 31,		Six months ended January 31,	
	2024	2023	2024	2023
			\$	\$
Directors' fees included in general and administration	21,028	21,724	35,988	51,146
Management and consulting fees	132,501	120,000	277,662	218,000
Share-based compensation	7,781	11,638	14,294	82,831
	161,310	153,362	327,944	351,977

As of January 31, 2024, \$250,174 (July 31, 2023 - \$99,079) was owed to directors and officers or their related companies in respect of the services rendered and were included in accounts payable and accrued liabilities. These are non-interest bearing and payable on demand.

CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of financial statements in accordance with IFRS requires the Company to make estimates and judgments, in applying accounting policies. Management continually evaluates these estimates and judgments based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates and judgments which may cause a material adjustment to the carrying amounts of assets and liabilities. The Company's interim results are not necessarily indicative of its results for a full year. The significant estimates and judgments applied in the preparation of these financial statements are consistent with those applied and disclosed in the notes to the Annual Financial Statements

FINANCIAL RISK MANAGEMENT

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

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

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to fulfill its contractual obligations. The Company's credit risk relates primarily to cash and receivables. The Company minimizes its credit risk related to cash by placing cash with major financial institutions. The Company regularly reviews the collectability of its receivables. The Company considers the credit risk related to both cash and receivables to be minimal.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations when they become due. The Company's liquidity risk relates primarily to accounts payable and accrued liabilities, promissory note, lease liability, note payable, as well as convertible debenture. To mitigate this risk, the Company has a planning and budgeting process in place to determine the funds required to support its ongoing operations and capital expenditures. The Company endeavors to ensure that there is sufficient capital to meet short term business requirement. One of management's goals is to maintain an optimal level of liquidity through the active management of assets, liabilities and cash flows.

A summary of the Company's undiscounted financial liabilities as at January 31, 2024 is as follows:

	Within 1 year	1 - 3 years	Greater than 3 years	Total
	\$	\$	\$	\$
Accounts payable and accrued liabilities	3,787,672	-	-	3,787,672
Income tax payable	1,722,497	-	-	1,722,497
Lease liability	1,375,049	5,015,408	25,586,666	31,977,123
Note payable	47,219	-	-	47,219
Convertible debentures	-	3,073,000	-	3,073,000
	6,932,437	8,088,408	25,586,666	40,607,511

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

Foreign exchange risk

The Company's operational activities are conducted in the U.S. and is exposed to foreign exchange risk due to fluctuations in the U.S. dollar relative to the Canadian dollar. Foreign exchange risk arises from financial assets and liabilities that are denominated in U.S. dollars. The Company has not entered into any agreements or purchased any foreign currency hedging instruments to hedge possible currency risks at this time. Management believes the foreign exchange risk derived from currency conversions is not significant.

A summary of the Company's financial assets and liabilities held in foreign currencies, expressed in Canadian dollars, is as follows:

	January 31, 2024	July 31, 2023
	\$	\$
Cash	787,018	1,074,208
Receivables	2,358,537	2,231,302
Accounts payable and accrued liabilities	(3,063,367)	(3,356,702)
Income tax payable	(1,722,496)	(1,694,210)
Lease liability	(12,840,286)	(13,105,395)
Note payable	(49,942)	(58,902)
Net financial liabilities	(14,530,536)	(14,909,699)

The effect on net loss and comprehensive loss for the six months ended January 31, 2024 of a 10% change in Canadian dollar against the U.S dollar on the above-mentioned net financial liabilities of the Company is estimated to have an increase or decrease in foreign exchange gain or loss of \$1,453,054.

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MANAGEMENT DISCUSSION AND ANALYSIS

For the three and six months ended January 31, 2024 and 2023

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Interest rate risk

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

RISKS AND UNCERTAINTIES

For a detailed listing of the risks and uncertainties faced by the Company, please refer to the Company's MD&A for the years ended July 31, 2023 and 2022.

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