



1933 INDUSTRIES INC.
(Formerly Friday Night Inc.)

CONSOLIDATED FINANCIAL STATEMENTS

For the year ended July 31, 2018

(Expressed in Canadian Dollars)

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
1933 Industries Inc. (formerly Friday Night Inc.)

We have audited the accompanying consolidated financial statements of 1933 Industries Inc. (formerly Friday Night Inc.), which comprise the consolidated statements of financial position as at July 31, 2018 and 2017, and the consolidated statements of loss and comprehensive loss, cash flows, and changes in equity (deficiency) for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of 1933 Industries Inc. (formerly Friday Night Inc.) as at July 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

“DAVIDSON & COMPANY LLP”

Vancouver, Canada

Chartered Professional Accountants

November 28, 2018



1933 INDUSTRIES INC. (Formerly Friday Night Inc.)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(EXPRESSED IN CANADIAN DOLLARS)

AS AT

	<i>Note</i>	July 31, 2018	July 31, 2017
ASSETS			
Current			
Cash		\$ 5,056,183	\$ 598,641
Restricted cash	9	4,425,602	-
Receivables		1,316,562	77,612
Inventory	7	1,933,061	627,244
Biological assets	8	311,037	56,578
Prepaid expenses and deposits		311,533	217,653
Deferred financing costs	5	45,000	-
Assets held for sale	11	-	394,145
		13,398,978	1,971,873
Non-Current			
Property and equipment	9	6,666,034	1,378,531
Goodwill	4,10	21,274,604	15,546,958
Total assets		\$ 41,339,616	\$ 18,897,362
LIABILITIES AND EQUITY			
Current			
Accounts payable and accrued liabilities		\$ 1,078,807	\$ 498,666
Notes payable	13	39,339	1,784,161
Due to related parties	16	-	428,463
Income taxes payable	21	1,272,942	65,003
Liabilities held for sale	11	-	114,190
		2,391,088	2,890,483
Non-Current			
Convertible debentures	5	1,965,031	-
		4,356,119	2,890,483
Equity			
Share capital	12	47,338,683	21,431,946
Reserves	12	1,846,376	1,985,195
Non-controlling interest	4	231,439	85,659
Accumulated other comprehensive loss		(138,081)	(1,045,817)
Deficit		(12,294,920)	(6,450,104)
Total equity		36,983,497	16,006,879
Total liabilities and equity		\$ 41,339,616	\$ 18,897,362

Nature of operations (Note 1)

Commitments and contingencies (Note 17)

Subsequent events (Note 22)

Approved on behalf of the Board of Directors and authorized for issuance on November 26, 2018:

"Signed"

Cam Watt, Director

"Signed"

Brayden Sutton, Director

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

1933 INDUSTRIES INC. (Formerly Friday Night Inc.)
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(EXPRESSED IN CANADIAN DOLLARS)

	<i>Note</i>	July 31, 2018	July 31, 2017
Revenue		\$ 12,649,926	\$ 1,030,297
Cost of sales			
Inventory expensed to cost of sales		6,687,982	828,043
Gross margin, excluding fair value items		5,961,944	202,254
Fair value adjustment on sale of inventory		254,459	-
Fair value adjustment on growth of biological assets	8	(743,224)	(28,460)
Gross margin		6,450,709	230,714
Expenses			
General and administration	20	3,473,744	541,780
Management and consulting fees	16	2,138,495	756,042
Wages and benefits		1,384,720	41,183
Professional fees	16	931,125	636,939
Transaction costs		-	179,135
Bad debt expense		120,914	-
Share-based compensation	12, 16	915,896	608,214
Interest expense		477,582	-
Accretion expense	5	364,542	-
Loss on shares issued for interest	5	565,502	-
Depreciation	9	278,607	13,530
Foreign exchange		111,193	580
Total expenses		10,762,320	2,777,403
Loss before income taxes		(4,311,611)	(2,546,689)
Income tax expense	21	1,178,441	67,081
Net loss		(5,490,052)	(2,613,770)
Net loss from discontinued operations	11	(239,000)	(126,887)
Net loss from continuing operations		\$ (5,729,052)	\$ (2,740,657)
Other comprehensive loss			
Translation adjustment		937,752	(1,052,372)
Comprehensive loss for the year		\$ (4,791,300)	\$ (3,793,029)
Comprehensive income (loss) attributable to:			
Net loss - shareholders of the Company		(5,844,816)	(2,734,481)
Net income (loss) - non-controlling interest		115,764	(6,176)
Translation adjustment - shareholders of the Company		907,736	(1,045,817)
Translation adjustment - non-controlling interest		30,016	(6,555)
		\$ (4,791,300)	\$ (3,793,029)
Loss per share			
Basic and diluted		\$ (0.02)	\$ (0.06)
Weighted average number of common shares			
Basic and diluted		192,470,497	45,698,825

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

1933 INDUSTRIES INC. (Formerly Friday Night Inc.)

CONSOLIDATED STATEMENTS OF CASH FLOWS

(EXPRESSED IN CANADIAN DOLLARS)

	<i>Note</i>	July 31, 2018	July 31, 2017
Operating activities			
Net loss		\$ (5,729,052)	\$ (2,740,657)
Items not affecting cash:			
Unrealized gain from change in fair value of biological assets	8	(743,224)	28,460
Share-based compensation	12	915,896	608,214
Accretion	5	364,542	-
Depreciation	9	278,607	13,530
Shares issued for services	12	483,500	39,000
Shares issued for interest	12	821,640	-
Accrued interest		-	-
Loss on disposal of discontinued operations	11	239,000	-
Changes in non-cash working capital:			
Inventory and biological assets		(529,079)	(16,666)
Assets and liabilities held for sale		(109,045)	109,045
Receivables		(955,922)	(59,332)
Prepaid expenses		(93,880)	(113,498)
Deferred financing costs		(45,000)	-
Accounts payable and accrued liabilities		341,484	(487,395)
Due to related parties		(428,463)	307,463
Income taxes payable		1,207,939	65,003
Cash flows used in operating activities		(3,981,057)	(2,246,833)
Investing activities			
Acquisition of businesses, net of cash acquired	4	(25,594)	(4,204,828)
Sale of quickflow technology licence	11	150,000	-
Property and equipment	9	(5,390,977)	(46,338)
Restricted cash		(4,425,602)	-
Cash flows used in investing activities		(9,692,173)	(4,251,166)
Financing activities			
Common shares issued for cash	12	-	5,853,476
Share issuance costs	12	-	540,044
Common shares issued for cash - exercise of stock options	12	947,501	-
Common shares issued for cash - exercise of warrants and agent unit options	12	13,186,666	355,000
Convertible debenture units, net	5	6,013,272	-
Proceeds from (repayment of) notes payable		(1,744,822)	320,389
Cash flows from financing activities		18,402,617	7,068,909
Effect of exchange rate changes on cash		(271,845)	26,523
Increase in cash		4,457,542	597,433
Cash, beginning of year		598,641	1,208
Cash, end of year		\$ 5,056,183	\$ 598,641

Supplemental cash flow information (Note 18)

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

1933 INDUSTRIES INC. (Formerly Friday Night Inc.)
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (DEFICIENCY)
(EXPRESSED IN CANADIAN DOLLARS)

	Number of common shares	Share Capital	Reserves	Translation adjustment reserve	Non-controlling interest	Deficit	Total equity (deficiency)
Balance, July 31, 2016	19,688,617	\$ 2,496,255	\$ 925,493	\$ -	\$ -	\$ (3,715,623)	\$ (293,875)
Shares issued for cash - private placements	45,877,731	6,873,254	-	-	-	-	6,873,254
Shares issued - business combination	79,175,001	11,876,250	-	-	92,214	-	11,968,464
Shares issued - post-combination services	1,250,000	187,500	-	-	-	-	187,500
Shares issued - services	100,000	39,000	-	-	-	-	39,000
Shares issued - exercise of warrants	3,550,000	627,765	(272,765)	-	-	-	355,000
Share issue costs - finders' warrants	-	(128,034)	128,034	-	-	-	-
Share issue costs - cash	-	(540,044)	-	-	-	-	(540,044)
Fair value of warrants issued - 10800034 BC Ltd.	-	-	783,719	-	-	-	783,719
Share-based compensation	-	-	420,714	-	-	-	420,714
Translation adjustment	-	-	-	(1,045,817)	-	-	(1,045,817)
Non-controlling interest	-	-	-	-	(6,555)	-	(6,555)
Net loss for the year	-	-	-	-	-	(2,734,481)	(2,734,481)
Balance, July 31, 2017	149,641,349	\$ 21,431,946	\$ 1,985,195	\$ (1,045,817)	\$ 85,659	\$ (6,450,104)	\$ 16,006,879
Shares issued - exercise of options	6,041,670	1,499,334	(551,833)	-	-	-	947,501
Shares issued - exercise of warrants	43,684,883	13,314,714	(659,863)	-	-	-	12,654,851
Shares issued - exercise of agent options	2,127,300	750,714	(218,899)	-	-	-	531,815
Equity portion of convertible debenture	-	-	624,360	-	-	-	624,360
Shares issued - conversion of convertible debentures	17,100,000	4,036,835	(552,534)	-	-	-	3,484,301
Shares issued for acquisition of Spire	7,692,308	5,000,000	-	-	-	-	5,000,000
Shares issued for services	650,000	483,500	-	-	-	-	483,500
Shares issued for interest	1,024,550	821,640	-	-	-	-	821,640
Share-based compensation	-	-	915,896	-	-	-	915,896
Agent options and warrants issued as finders' fees	-	-	304,054	-	-	-	304,054
Translation adjustment	-	-	-	907,736	30,016	-	937,752
Non-controlling interest	-	-	-	-	115,764	-	115,764
Net loss for the year	-	-	-	-	-	(5,844,816)	(5,844,816)
Balance, July 30, 2018	227,962,060	\$ 47,338,683	\$ 1,846,376	\$ (138,081)	\$ 231,439	\$ (12,294,920)	\$ 36,983,497

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

1933 INDUSTRIES INC. (Formerly Friday Night Inc.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JULY 31, 2018

(EXPRESSED IN CANADIAN DOLLARS)

1. NATURE OF OPERATIONS

1933 Industries Inc. (formerly Friday Night Inc.) (the "Company") was incorporated pursuant to the provisions of the Business Corporations Act (Alberta). The Company is a publicly traded corporation with its registered office located at 105 – 45655 Tamihi Way, Chilliwack, British Columbia, Canada. On September 27, 2018, the Company changed its name to 1933 Industries Inc. and continued out of the province of Alberta and into the province of British Columbia.

The Company operates in the medical and recreational cannabis sectors in Nevada, USA. Alternative Medicine Association ("AMA"), a 91% owned subsidiary of the Company is licensed in the State of Nevada as a (i) cultivation facility; and (ii) a production facility for edible, or cannabis-infused products. Infused Mfg ("Infused"), a 91% owned subsidiary of the Company, is focused on developing, acquiring and designing hemp and CBD-infused products and brands for retail sale and use in jurisdictions where permitted. These acquisitions were completed on June 15, 2017 (Note 4).

While some states in the United States have authorized the use and sale of marijuana, it remains illegal under federal law and the approach to enforcement of U.S. federal laws against marijuana is subject to change. Because the Company engages in marijuana-related activities in the United States, it assumes certain risks due to conflicting state and federal laws. The federal law relating to marijuana could be enforced at any time and this would put the Company at risk of being prosecuted and having its assets seized.

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

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

On March 2, 2018 the Company acquired a 100% interest in Spire Secure Logistics Inc., a provider of customized security programs, compliance, information technology, buildout design, and due diligence services for the legal cannabis, mining and investment sectors (Note 4).

1933 INDUSTRIES INC. (Formerly Friday Night Inc.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JULY 31, 2018

(EXPRESSED IN CANADIAN DOLLARS)

2. BASIS OF PRESENTATION

Statement of compliance

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

Basis of measurement

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

Functional and presentation currency

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

Basis of consolidation

These consolidated financial statements incorporate the accounts of the Company and the following subsidiaries:

Name of subsidiary	Abbreviation	Country of Incorporation	Percentage Ownership	Functional Currency	Principal Activity
10800034 B.C. Ltd.	0034 BC	Canada	100%	CAD	Holding company
FN Management Services LLC	FNM	USA	100%	USD	Holding company for Infused
FN Pharmaceuticals LLC	FNP	USA	100%	USD	Holding company for AMA
Alternative Medicine Association LLC	AMA	USA	91%	USD	Cannabis cultivation and production
Infused Mfg LLC	Infused MFG	USA	91%	USD	Hemp and CBD-infused products
QuikFlo Technologies Ltd.	QuickFlo	Canada	100%	CAD	Inactive

Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries, including entities which the Company controls, are included in the consolidated financial statements from the date that control commences until the date that control ceases. All intercompany transactions and balances have been eliminated.

The purchase method of accounting is used to account for acquisitions of subsidiaries and assets that meet the definition of a business under IFRS. The cost of an acquisition is measured as the fair value of the assets transferred, equity instruments issued, and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of an acquisition over the fair value of the identifiable assets, liabilities, and contingent liabilities acquired is recorded as goodwill. If the cost of an acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized immediately in profit or loss. Associated transaction costs are expensed when incurred.

1933 INDUSTRIES INC. (Formerly Friday Night Inc.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JULY 31, 2018

(EXPRESSED IN CANADIAN DOLLARS)

2. BASIS OF PRESENTATION (cont'd)

Recently adopted accounting standards and interpretations issued but not yet adopted

New standards and interpretations not yet adopted

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the International Accounting Standards ("IAS") Board or International Financial Reporting Standards Interpretation Committee ("IFRIC") that are mandatory for future accounting periods. The following have not yet been adopted by the Company and are being evaluated to determine their impact.

- *IFRS 9 Financial Instruments*: New standard that replaced IAS 39 for classification and measurement, effective for annual periods beginning on or after January 1, 2018. The Company is in the process of reviewing all applicable disclosure requirements to ensure compliance. The Company does not expect the adoption of this standard to have a significant impact on its consolidated financial statements. The impact will be limited to changes in disclosures.
- *IFRS 15 Revenue from Contracts with Customers*: New standard establishes a comprehensive framework for the recognition, measurement and disclosure of revenue replacing IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC-31 Revenue — Barter Transactions Involving Advertising Services, effective for annual periods beginning on or after January 1, 2018. The Company does not expect the adoption of this standard to have a significant impact on its consolidated financial statements as it does not presently earn revenues from sales of products involving multiple deliverables.
- *IFRS 16 Leases*: New standard to establish principles for recognition, measurement, presentation, and disclosure of leases with an impact on lessee accounting, effective for annual periods beginning on or after January 1, 2019. The Company is currently assessing the impact of adopting this standard.
- *IFRIC 23: Uncertainty over Income Tax Treatments*: This standard was issued by IASB on June 7, 2017 to clarify the accounting for uncertainties in income taxes. The interpretation is to be applied to the determination of taxable profit/loss, tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12 *Income Taxes*. IFRIC 23 is effective January 1, 2019. The Company is currently assessing the impact of this new standard on its financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented.

Critical accounting estimates and judgements

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

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

1933 INDUSTRIES INC. (Formerly Friday Night Inc.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JULY 31, 2018

(EXPRESSED IN CANADIAN DOLLARS)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Critical accounting estimates and judgements (cont'd)

Determination of functional currency

In accordance with IAS 21, *The Effects of Changes in Foreign Exchange Rates*, the Company determined its functional currency, and the functional currency of its subsidiaries. The Company makes judgements in defining the functional currency based on the economic substance of the transactions relevant to each entity.

Estimated useful lives and depreciation of property and equipment

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

Biological assets and inventory

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

Share-based payments

In calculating the share-based payments expense, key estimates such as the rate of forfeiture of options and warrants granted/issued, the expected life of the option and warrants, the volatility of the value of the Company's common shares and the risk-free interest rate are used.

Business combinations

Judgement is used in determining whether an acquisition is a business combination or an asset acquisition.

Estimates are made as to the fair value of assets and liabilities acquired. In certain circumstances, such as the valuation of property and equipment, intangible assets and goodwill acquired, the Company may rely on independent third-party valuers. The determination of these fair values involves a variety of assumptions, including revenue growth rates, expected operating income, and discount rates.

The Company measures all the assets acquired and liabilities assumed at their acquisition-date fair values. Non-controlling interests in the acquiree are measured on the basis of the non-controlling interests' proportionate share of the equity in the acquiree's identifiable net assets. Acquisition-related costs are recognized as expenses in the periods in which the costs are incurred and the services are received (except for the costs to issue debt or equity securities which are recognized according to specific requirements). The excess of the aggregate of (a) the consideration transferred to obtain control, the amount of any non-controlling interest in the acquiree over (b) the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed, is recognized as goodwill as of the acquisition date.

1933 INDUSTRIES INC. (Formerly Friday Night Inc.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JULY 31, 2018

(EXPRESSED IN CANADIAN DOLLARS)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Critical accounting estimates and judgements (cont'd)

Convertible instruments

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

Impairment of long-lived assets

Long-lived assets, including property and equipment, and intangible assets, are reviewed for impairment at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or group of assets ("CGU"). The recoverable amount of an asset or a CGU is the higher of its fair value, less costs to sell, and its value in use. If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is recognized immediately in profit or loss by the amount by which the carrying amount of the asset exceeds the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount, and the carrying amount that would have been recorded had no impairment loss been recognized previously.

Income taxes

In assessing the probability of realizing income tax assets, management makes estimates related to expectations of future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. The Company considers whether relevant tax planning opportunities are within the Company's control, are feasible, and are within management's ability to implement. Examination by applicable tax authorities is supported based on individual facts and circumstances of the relevant tax position examined in light of all available evidence. Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax assets recognized. Also, future changes in tax laws could limit the Company from realizing the tax benefits from the deferred tax assets. The Company reassesses unrecognized income tax assets at each reporting period.

1933 INDUSTRIES INC. (Formerly Friday Night Inc.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JULY 31, 2018

(EXPRESSED IN CANADIAN DOLLARS)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Critical accounting estimates and judgements (cont'd)

Assets held for sale and discontinued operations

Pursuant to the Agreement to Purchase Shares dated July 25, 2017, the Company reached an agreement with a group of purchasers (the "Purchasers"), to sell the Company's subsidiary, QuikFlo Technologies Ltd. ("QFT") which includes the Company's intangible asset (Note 11). The Company considered that QFT met the criteria to be classified as held for sale on July 31, 2017, for the following reasons:

- The understanding between the Purchasers and the Company transpired before July 31, 2017.
- The shares of QFT are ready for sale in their present condition.
- The Company received approval from the board of directors to proceed with the transaction

QFT also met the criteria for discontinued operations as QFT's activity represents a separate major reportable segment of the Company.

Foreign currencies

Functional and presentation currency

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

Translation of foreign transactions and balances into the functional currency

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

Translation of the functional currency into the presentation currency

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

1933 INDUSTRIES INC. (Formerly Friday Night Inc.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JULY 31, 2018

(EXPRESSED IN CANADIAN DOLLARS)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Financial instruments

Financial assets

The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

Fair value through profit or loss - This category comprises derivatives, or assets acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the consolidated statements of financial position at fair value with changes in fair value recognized in profit or loss.

Loans and receivables - These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at cost less any provision for impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

Held-to-maturity investments - These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in profit or loss.

Available-for-sale - Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized directly in shareholders' equity (deficiency). Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from shareholders' equity (deficiency) and recognized in profit or loss.

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described above.

Financial liabilities

The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

Fair value through profit or loss - This category comprises derivatives, or liabilities acquired or incurred principally for selling or repurchasing it in the near term. They are carried in the consolidated statements of financial position at fair value with changes in fair value recognized in profit or loss.

Other financial liabilities - This category consists of liabilities carried at amortized cost using the effective interest method. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

The Company has classified its cash and restricted cash at fair value through profit or loss. Receivables are classified as loans and receivables. The Company's note payable, accounts payable and accrued liabilities, convertible debentures, and due to related parties are classified as other financial liabilities. Refer to Note 14 for additional disclosures.

1933 INDUSTRIES INC. (Formerly Friday Night Inc.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JULY 31, 2018

(EXPRESSED IN CANADIAN DOLLARS)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Impairment of non-financial assets

At the end of each reporting period the carrying amounts of the Company's assets are reviewed to determine whether there is any indication that those assets may be impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the period. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs. Following the recognition of an impairment loss, the depreciation charge applicable to the asset is adjusted prospectively in order to systematically allocate the revised carrying amount, net of any residual value, over the remaining useful life. Where an impairment subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate and its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or CGU) in prior periods. A reversal of an impairment loss is recognized immediately in profit or loss.

Intangible assets

The intangible asset represents amounts paid for an entire right, title and interest and to the intellectual property rights and technology rights related to an automated imaging tool for quick and appropriate triage of stroke patients.

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset are recognized in profit or loss when the asset is derecognized. At the end of each reporting period, the Company reviews the carrying amounts of its intangible assets to determine whether there is any indication of impairment. Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount is less than the carrying amount, the carrying amount of the asset is reduced to its recoverable amount and an impairment loss is recognized immediately in profit or loss. When an impairment subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

1933 INDUSTRIES INC. (Formerly Friday Night Inc.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JULY 31, 2018

(EXPRESSED IN CANADIAN DOLLARS)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Revenue

Revenue comprises the fair value of consideration received or receivable for the sale of goods in the ordinary course of the Company's activities. Revenue is shown net of returns and discounts.

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

Inventory

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

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

Biological assets

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

1933 INDUSTRIES INC. (Formerly Friday Night Inc.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JULY 31, 2018

(EXPRESSED IN CANADIAN DOLLARS)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Property and equipment

Property and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any.

Depreciation is calculated using the following terms and methods:

Office equipment	Straight-line	5-7 years
Production equipment	Straight-line	7-20 years
Leasehold improvements	Straight-line	Over lease term

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

Goodwill

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

Income taxes

Income tax expense comprises deferred income tax expense and is recognized in profit and loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

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

A deferred tax asset is recognized to the extent that is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

1933 INDUSTRIES INC. (Formerly Friday Night Inc.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JULY 31, 2018

(EXPRESSED IN CANADIAN DOLLARS)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Share capital

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

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

Share-based payments

The fair value of stock options granted is recognized as a share-based payment expense with a corresponding increase in reserves. The fair value is measured at grant date and each tranche is recognized on a graded-vesting basis over the period during which the options vest. The fair value of the stock options granted is measured using the Black-Scholes option pricing model considering the terms and conditions upon which the options were granted. The Company annually revises its estimates of the number of stock options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to reserve.

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

Loss per share

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

Assets held for sale and discontinued operations

The Company classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale rather than through continuing use. Such non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and their fair value less cost to sell. Costs to sell are the incremental costs directly attributable to the sale, excluding finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or the disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the sale will be withdrawn. Management must be committed to the sale expected within one year from the date of the classification.

Equipment is not depreciated once classified as held for sale. Assets and liabilities classified as held for sale are presented separately as current items in the statement of financial position.

1933 INDUSTRIES INC. (Formerly Friday Night Inc.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JULY 31, 2018

(EXPRESSED IN CANADIAN DOLLARS)

4. ACQUISITIONS**Acquisition of 10800034 B.C. Ltd.**

Effective June 15, 2017, the Company completed the acquisition of 10800034 B.C. Ltd. ("0034 BC), to which the Company acquired a 100% interest in 0034 BC, a private Canadian company that has two wholly-owned subsidiaries, FN Pharmaceuticals, and FN Management. Additionally, 0034 BC held at Letter of Intent to purchase 91% of AMA and a separate Letter of Intent to purchase 91% of Infused.

Concurrently, the Company acquired 91% ownership of AMA, and 91% ownership of Infused (all three collectively, the "Combination"). AMA operates in the medical and recreational cannabis sectors, and Infused is in the business of developing, acquiring and designing hemp and CBD-infused products. Both companies are located in Nevada, USA.

Pursuant to the Combination the Company issued:

- 45,425,001 common shares with a fair value of \$0.15 per share to the former shareholders of 0034 BC;
- 32,750,000 common shares with a fair value of \$0.15 per share to the former shareholders of AMA; and
- 1,000,000 common shares with a fair value of \$0.15 per share to the former shareholders of Infused.

The purchase price allocation was as follows:

Consideration:	
Fair value of common shares issued	\$ 11,876,250
Fair value of replacement warrants and options issued - 0034 BC	783,719
Cash	5,202,719
Total	\$ 17,862,688

Net assets acquired:	
Cash	\$ 997,891
Accounts receivable	3,612
Prepaid expenses	95,338
Biological assets	39,820
Inventory	655,796
Property and equipment	1,450,285
Accounts payable and accrued liabilities	(339,183)
Notes payable	(1,463,772)
Net assets acquired	1,439,787
Goodwill (Note 10)	16,521,291
Non-controlling interest	(98,390)
Total	\$ 17,862,688

1933 INDUSTRIES INC. (Formerly Friday Night Inc.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JULY 31, 2018

(EXPRESSED IN CANADIAN DOLLARS)

4. ACQUISITIONS (cont'd)

The Company incurred \$179,135 in transaction costs payable to a law firm which a director of the company is a partner related to the Combinations which was expensed to profit or loss. Share issue costs were \$nil. Additionally, share-based payment expense of \$187,500 was attributable to the fair value of the bonus shares issued as post-combination compensation to certain employees and consultants of AMA and Infused.

Goodwill arose from the Combination because the consideration paid for the Combination reflected the benefit of expected revenue, future market development, and the assembled work forces of AMA and Infused. These benefits were not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. None of the goodwill arising on the Combination is expected to be deductible for tax purposes.

In connection with the acquisition of 0034 BC, 0034 BC holds a minority equity interest in two LLC companies, BiVi LLC, and Bellissima LLC, that respectively own two liquor brands (Note 6). The Company considered various valuation techniques in determining the fair value of the investments in BiVi LLC and Bellissima LLC. The Company considered (i) the market approach; (ii) the cost approach; and (iii) the income approach and determined that the income approach was the most appropriate method as there is insufficient information available to apply the alternative technique. The income approach converts future amounts to a single current discounted amount.

The fair value measurement using the income approach reflects current market expectations about those future amounts. On June 15, 2017, the fair value of the investments in BiVi LLC and Bellissima LLC was determined to be \$nil due to one or more of the following reasons for each respective investment:

- Cash flows generated by the Company from these investments is \$nil to date;
- Distribution of the brand is minimal at this time;
- Sales levels are uncertain and below expectations; and
- Business and marketing plans are stalled with minimal budgeted future plans.

The following table presents summarized financial information for the non-wholly owned subsidiaries as at July 31, 2018 and July 31, 2017:

AMA and Infused - Non-controlling interest 9%	July 31, 2018	July 31, 2017
Assets		
Current	\$ 5,493,247	\$ 469,102
Non-current	3,695,514	1,378,531
	9,188,761	1,847,633
Liabilities		
Current	2,354,720	1,261,768
Net assets	6,834,041	585,865
Non-controlling interest	231,439	85,659

1933 INDUSTRIES INC. (Formerly Friday Night Inc.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JULY 31, 2018

(EXPRESSED IN CANADIAN DOLLARS)

4. ACQUISITIONS (cont'd)

Acquisition of Spire Secure Logistics Inc.

Effective March 2, 2018, the Company acquired a 100% interest in Spire Secure Logistics Inc. ("Spire"), a private Canadian company. Spire is a provider of the security and logistics services. Pursuant to the acquisition the Company issued 7,692,308 common shares with a fair value of \$0.65 per share for total consideration of \$5,000,000 to the former shareholders of Spire and paid transaction fees of \$30,000. The acquisition has been accounted for as a business combination using the acquisition method. The acquisition aligns with the Company's strategy to build a diversified business in the cannabis industry.

The purchase price allocation was as follows:

Net assets acquired:	
Cash	\$ 4,406
Accounts receivable	45,435
Accounts payable	(64,707)
Net assets acquired	(14,866)
Goodwill (Note 10)	5,044,866
Total	\$ 5,030,000

Goodwill arose from the combination because the consideration paid for the combination reflected the benefit of expected revenue, future market development, and the assembled work forces of Spire. These benefits were not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. None of the goodwill arising on the combination is expected to be deductible for tax purposes.

5. CONVERTIBLE DEBENTURES

\$5,500,000 convertible debenture units

On August 16, 2017 the Company closed a private placement of \$5,500,000 aggregate principal amount of convertible debenture units at a price of \$1,000 per convertible debenture unit. Each convertible debenture unit consists of a \$1,000 principal amount 10% senior unsecured convertible debenture and 4,000 common share purchase warrants of the Company. Each warrant is exercisable to acquire one common share of the Company at an exercise price of \$0.35 per share until August 16, 2019. Provided that if, at any time after December 17, 2017 and prior to the expiry date of the warrants, the volume weighted average trading price of the common shares of the Company equals or exceeds \$0.70 for 10 consecutive trading days, the Company may, within 30 days of the occurrence of such event, deliver a notice to the holders of the warrants accelerating the expiry date of the warrants to the date that is 30 days following the date of such notice. Any unexercised warrants shall automatically expire at the end of the accelerated exercise period.

The convertible debentures bear interest from the date of closing at 10.0% per annum, payable in common shares of the Company at a price of \$0.25 semi-annually on June 30 and December 31 of each year and will expire on August 16, 2019 (the "Maturity Date"). The convertible debentures are convertible into common Shares at the option of the holder at any time prior to the close of business on the earlier of: (i) the last business day immediately preceding the Maturity Date; and (ii) the date fixed for redemption, at a conversion price of \$0.25 per common share, subject to adjustment in certain events. Additionally, beginning on December 17, 2017, the Company may force the conversion of all of the principal amount of the then outstanding convertible debentures at the conversion price on 30 days prior written notice should the daily volume weighted average trading price of the common shares be greater than \$0.45 for any 10 consecutive trading days.

1933 INDUSTRIES INC. (Formerly Friday Night Inc.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JULY 31, 2018

(EXPRESSED IN CANADIAN DOLLARS)

5. CONVERTIBLE DEBENTURES (cont'd)

The convertible debentures will be subject to redemption, in whole or in part, by the Company at any time after August 16, 2018 upon giving holders not less than 30 and not more than 60 days' prior written notice, at a price equal to the then outstanding principal amount of the convertible debentures plus all accrued and unpaid interest up to and including the redemption date.

The Company paid cash fees of \$444,372 and issued 200 convertible debenture units (the "Agent's Units"), in payment of the Agent's commission, corporate finance fee and other expenses. In addition, the Agent received an option (the "Agent's Option") to acquire 2,155,200 units of the Company at an exercise price of \$0.25 per unit (2,127,300 of which were exercised as at July 31, 2018). Each Unit is comprised of one Common Share and one common shares purchase warrant exercisable at a price of \$0.35 per share subject to the same terms and conditions as the warrants. The fair value of the Agent's Option and 800,000 warrants issued as part of the Agent Units was \$304,054 and was recorded as a transaction cost. The fair value was determined using the Black-Scholes Valuation Model using the following assumptions: risk free interest rate 1.25%, expected life of 2 years, volatility of 75%.

\$1,000,000 convertible debenture units

On October 4, 2017 the Company completed a private placement of \$1,000,000 aggregate principal amount of convertible debenture units at a price of \$1,000 per convertible debenture unit. Each convertible debenture unit consists of a \$1,000 principal amount 10% senior unsecured convertible debenture and 4,000 common share purchase warrants of the Company. Each warrant is exercisable to acquire one common share of the Company at an exercise price of \$0.25 per warrant until October 4, 2019. Provided that if, at any time after February 5, 2018 and prior to the expiry date of the warrants, the volume weighted average trading price of the common shares of the Company equals or exceeds \$0.50 for 10 consecutive trading days, the Company may, within 30 days of the occurrence of such event, deliver a notice to the holders of the warrants accelerating the expiry date of the warrants to the date that is 30 days following the date of such notice. Any unexercised warrants shall automatically expire at the end of the accelerated exercise period.

The convertible debentures bear interest from the date of closing at 10.0% per annum (subject to withholdings for non-residents), semi-annually on June 30 and December 31 of each year and will expire on August 16, 2019 (the "Maturity Date"). The convertible debentures are convertible into common shares at the option of the holder at any time prior to the close of business on the earlier of: (i) the last business day immediately preceding the Maturity Date; and (ii) the date fixed for redemption, at a conversion price of \$0.25 per common share, subject to adjustment in certain events. Additionally, beginning on February 5, 2018, the Company may force the conversion of all of the principal amount of the then outstanding convertible debentures at the conversion price on 30 days prior written notice should the daily volume weighted average trading price of the common shares be greater than \$0.45 for any 10 consecutive trading days. The convertible debentures will be subject to redemption, in whole or in part, by the Company at any time after October 4, 2018 upon giving holders not less than 30 and not more than 60 days' prior written notice, at a price equal to the then outstanding principal amount of the convertible debentures plus all accrued and unpaid interest up to and including the redemption date. The Company paid finder's fees of \$42,356 and issued 24,000 warrants exercisable at a price of \$0.25 to certain arm's-length parties in the connection with the offering.

During the period ended July 31, 2018 the Company recorded \$364,542 in accretion and \$366,610 in interest expense related to the convertible debentures. Additionally, the company recognized a loss on shares issued for interest of \$565,502. The equity component of the convertible debenture was determined to be \$624,360 net of transaction costs of \$86,503. Convertible debentures of \$4,275,000 were converted into 17,100,000 common shares of the Company (Note 12) therefore the principal balance as at July 31, 2018 is \$2,225,000.

1933 INDUSTRIES INC. (Formerly Friday Night Inc.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JULY 31, 2018

(EXPRESSED IN CANADIAN DOLLARS)

5. CONVERTIBLE DEBENTURES (cont'd)

The following is a continuity of the Company's convertible debentures:

	July 31, 2018
Convertible debentures issued	\$ 6,500,000
Equity component	(710,863)
Transaction costs - non-cash	(270,802)
Transaction costs - cash	(433,613)
Interest expense	366,610
Accretion expense	364,542
Converted to common shares	(3,484,301)
Interest paid - cash	(110,405)
Interest paid - shares	(256,137)
	\$ 1,965,031

In relation to an issuance of convertible debentures completed subsequent to July 31, 2018 the Company incurred deferred financing costs of \$45,000.

6. INVESTMENTS

On July 29, 2016, 0034 BC entered into an agreement that granted it the right to acquire an interest up to 15% in BiVi LLC, and up to a 15% interest in Bellissima LLC, for USD \$500,000 cash. As at July 31, 2018, 0034 BC owns a minority interest in each of BiVi LLC, and Bellissima LLC. As at July 31, 2018, the Company's investments in BiVi LLC and Bellissima LLC were valued at \$nil (Note 4). The investments in BiVi LLC and Bellissima LLC, has been determined to be a Level 3 valuation of the fair value measurement hierarchy, as BiVi LLC and Bellissima LLC are privately held companies with no active public market for its equity and no observable inputs.

7. INVENTORY

Inventory is comprised of:

	July 31, 2018	July 31, 2017
Harvested cannabis and trim	\$ 1,072,871	\$ 252,548
Cannabis oil and equivalent	198,110	259,006
Finished goods	66,353	26,219
Raw materials	102,232	22,770
Supplies and consumables	493,495	66,701
	\$ 1,933,061	\$ 627,244

1933 INDUSTRIES INC. (Formerly Friday Night Inc.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JULY 31, 2018

(EXPRESSED IN CANADIAN DOLLARS)

8. BIOLOGICAL ASSETS

	July 31, 2018	July 31, 2017
Opening balance	\$ 56,578	\$ -
Acquired biological assets (Note 4)	-	39,820
Production costs capitalized	1,360,930	-
Change in fair value less costs to sell due to biological transformation	743,224	28,460
Transferred to inventory upon harvest	(1,868,982)	(8,473)
Foreign exchange	19,287	(3,229)
Ending balance	\$ 311,037	\$ 56,578

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

Assumption	July 31, 2018	July 31, 2017	10% Change as
			at July 31, 2018
			(\$)
Estimated sales price per gram	\$US 4.13	\$US 6.16	48,691
Weighted average stage of growth	9 weeks	13 weeks	26,277
Expected yields by plant	96 grams	110 grams	34,467
Wastage	5%	5%	(488)
Post-harvest costs per gram	\$US 0.57	\$US 0.57	(6,779)

Biological assets are measured at fair value less costs to sell until harvest. As at July 31, 2018, the carrying value of biological assets consisted entirely of live cannabis plants. The Company values cannabis plants at cost from the date of initial clipping from mother plants until the end of the sixth week of its growing cycle. Measurement of the biological asset at fair value less costs to sell and costs to complete begins at the seventh week until harvest. On average, the grow cycle is approximately 15 weeks. The Company accretes fair value on a straight line basis according to stage of growth. As a result, a cannabis plant that is 50% through its 15 week growth cycle would be ascribed approximately 50% of its harvest date expected fair value (subject to wastage adjustments).

The fair value measurements for biological assets have been categorized as Level 3 fair values based on the inputs to the valuation technique used. These estimates are subject to volatility in market prices and several uncontrollable factors, which will be reflected in the gain or loss on biological assets in future periods.

Increases in cost required up to the point of harvest, harvesting costs and selling costs will decrease the fair value of biological assets, while increases in sales price and expected yield for the cannabis plant will increase the fair value of biological assets. A 10% change in each of the significant assumptions as at July 31, 2017 would not result in a significant change to the fair value of biological assets.

1933 INDUSTRIES INC. (Formerly Friday Night Inc.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JULY 31, 2018

(EXPRESSED IN CANADIAN DOLLARS)

9. PROPERTY AND EQUIPMENT

	Land	Construction In Progress	Leasehold Improvements	Production Equipment	Office Equipment	Total
	\$	\$	\$	\$	\$	\$
Carrying amount						
Balance, July 31, 2016	-	-	-	-	-	-
Acquisitions through business combinations (Note 4)	-	-	394,717	954,030	101,538	1,450,285
Additions	-	-	37,330	6,826	2,182	46,338
Foreign exchange	-	-	(42,536)	(56,474)	(5,971)	(104,981)
Balance, July 31, 2017	-	-	389,511	904,382	97,749	1,391,642
Additions	1,646,231	3,305,939	64,072	274,726	100,009	5,390,977
Foreign exchange	37,221	74,746	22,190	47,231	2,699	184,087
Balance, July 31, 2018	1,683,452	3,380,685	475,773	1,226,339	200,457	6,966,706
Depreciation						
Balance, July 31, 2016	-	-	-	-	-	-
Depreciation	-	-	5,092	8,144	294	13,530
Foreign exchange	-	-	(158)	(252)	(9)	(419)
Balance, July 30, 2017	-	-	4,934	7,892	285	13,111
Depreciation	-	-	70,476	195,255	12,876	278,607
Foreign exchange	-	-	3,329	5,203	422	8,954
Balance, July 31, 2018	-	-	78,739	208,350	13,583	300,672
Carrying amount, July 31, 2017	-	-	384,577	896,490	97,464	1,378,531
Carrying amount, July 31, 2018	1,683,452	3,380,685	397,034	1,017,989	186,874	6,666,034

Restricted cash of \$4,425,602 is reserved for future construction costs.

10. GOODWILL

	July 31, 2018	July 31, 2017
Opening balance	\$ 15,546,958	\$ -
Acquisition (Note 4)	5,044,866	16,521,291
Foreign exchange variance	682,780	(974,333)
Ending balance	\$ 21,274,604	\$ 15,546,958

1933 INDUSTRIES INC. (Formerly Friday Night Inc.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JULY 31, 2018

(EXPRESSED IN CANADIAN DOLLARS)

11. INTANGIBLE ASSET AND ASSETS HELD FOR SALE

On July 27, 2015, the Company acquired all of the rights, title and interest in and to the intellectual property rights and technology rights ("IP Rights") related to an automated imaging tool for quick and appropriate triage of stroke patients by way of an intellectual property assignment agreement. The intellectual property rights include a United States provisional patent application that was filed on December 1, 2014. The technology rights comprise the right, title and interest in any technical information, know-how, processes, procedures, compositions, devices, methods, formulae, protocols, techniques, software, designs, drawings or data created.

On February 12, 2016, the Company reached agreement to enter into a worldwide non-exclusive license agreement with the University of Western Ontario ("Western") to use certain CT perfusion intellectual property that has been developed by Dr. Ting Lee, the Company's former Chief Technology Officer.

During the year ended July 31, 2016, in consideration for the license agreement, the Company issued 50,000 common shares to Western with a grant date fair value of \$0.28 per share, for total consideration of \$14,000.

On July 25, 2017, the Company entered into a letter of intent to purchase shares with the original inventors of the IP Rights, whereby the Company would dispose of its wholly-owned subsidiary QuikFlo Technologies Ltd. ("QFT"). The operations of QFT were therefore classified as discontinued operations held for sale in the Company's consolidated financial statements. This letter of intent was cancelled during the year ended July 31, 2018.

The major classes of assets and liabilities of QFT classified as held for sale are as follows:

	July 31, 2018	July 31, 2017
Cash	\$ -	\$ 3,950
Sales tax receivable	-	1,195
Intangible asset	-	389,000
Assets held for sale	-	394,145
Accounts payable and accrued liabilities	-	114,190
Liabilities associated with assets held for sale	\$ -	\$ 114,190

During the year ended July 31, 2018 the Company licensed the IP Rights to a third party on perpetual basis, together with an option to purchase the shares of QFT for \$150,000. The difference between the carrying value of \$389,000 and the license value of \$150,000 resulted in a loss of \$239,000. The results from discontinued operations of QFT during the years ended July 31, 2018 and 2017 were as follows:

The results from discontinued operations of QFT during the years ended July 31, 2018 and 2017 were as follows:

	July 31, 2018	July 31, 2017
General and administrative	\$ -	\$ 43,796
Professional fees	-	83,091
Loss on disposal	239,000	-
Loss from discontinued operations	(239,000)	(126,887)

1933 INDUSTRIES INC. (Formerly Friday Night Inc.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JULY 31, 2018

(EXPRESSED IN CANADIAN DOLLARS)

12. SHARE CAPITAL AND RESERVES

Authorized

Unlimited number of common shares without par value. Unlimited number of preferred shares issuable in series.

Escrow Shares

5,022,100	to be released November 26, 2018
14,610,480	25% released every six months starting December 16, 2018
5,769,231	961,538 released every three months starting August 1, 2018

Issued common shares

Fiscal 2018:

During the year ended July 31, 2018, the Company issued common shares as follows:

- a) 6,041,670 common shares were issued upon exercise of stock options at a prices between \$0.15 and \$0.50 per share for gross proceeds of \$947,501. In relation to the exercise of stock options \$551,833 was reallocated from reserves to share capital.
- b) 43,684,883 common shares were issued upon the exercise of warrants at prices between of \$0.10 to \$0.35 per share for gross proceeds of \$12,654,851. In relation to the exercise of warrants \$659,863 was reallocated from reserves to share capital.
- c) 2,127,300 common shares were issued upon the exercise of agent unit options at a price of \$0.25 per share for gross proceeds of \$531,815. In relation to the exercise of agent unit options fees \$218,899 was reallocated from reserves to share capital.
- d) 17,100,000 common shares were issued upon the conversion of \$4,275,000 of convertible debentures. In relation to the conversion \$552,534 was reallocated from reserves to share capital and \$4,036,835 was recorded as share capital representing the accreted balance of convertible debentures net of transaction costs.
- e) 7,692,308 common shares were issued at a fair value of \$0.65 for the acquisition of Spire for total consideration of \$5,000,000.
- f) 650,000 common shares were issued for compensation with a value of \$483,500
- g) 1,024,550 common shares were issued for interest with a value of \$0.25 per share representing interest of \$256,137 in accordance with the debenture unit subscription agreements. The Company recognized a loss on the shares issued for interest of \$565,502 which was recorded to share capital for total consideration paid of \$821,640.

Fiscal 2017:

During the year ended July 31, 2017, the Company issued common shares as follows:

- a) 159,375 units were issued at \$0.16 per unit, by way of a non-brokered private placement, for gross proceeds of \$25,500. Each unit comprises one common share and one common share purchase warrant. Each warrant is exercisable for one common share at a price of \$0.40 per share for until March 15, 2018.
- b) 45,718,356 units were issued at \$0.15 per unit, by way of a non-brokered private placement, for gross proceeds of \$6,847,754. Each unit comprises one common share and one-half of a common share purchase warrant. Each whole warrant is exercisable for one common share at a price of \$0.30 per share until March 22, 2019, April 24, 2019, May 17, 2019, or June 14, 2019, depending on when the private placement tranche closed. During the year ended July 31, 2017, 3,550,000 warrants were exercised.

1933 INDUSTRIES INC. (Formerly Friday Night Inc.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JULY 31, 2018

(EXPRESSED IN CANADIAN DOLLARS)

12. SHARE CAPITAL AND RESERVES (cont'd)**Fiscal 2017 (cont'd)**

- c) 45,425,001 common shares were issued for the acquisition of 0034 BC, with a fair value of \$0.15 per share, for a total value of \$6,813,750, and 32,750,000 common shares, plus 1,000,000 common shares were issued with a fair value of \$0.15 per share, for the acquisitions of AMA and Infused respectively, for a total value of \$4,912,500 and \$150,000 respectively. Additionally, the Company issued 1,250,000 common shares with a fair value of \$0.15 per share for a total of \$187,500 (Note 4). These common shares were issued as a signing bonus to certain employees of AMA and Infused. The issuance of these common shares does not carry any conditions. As such, the fair value is considered post-combination compensation, and recorded within share-based payments expense.
- d) 100,000 common shares were issued for investor relations services with a fair value of \$0.39 per share, for a total value of \$39,000, expensed within investor relations.
- e) 3,550,000 common shares were issued upon the exercise of warrants at an exercise price of \$0.10 per share, for total proceeds of \$355,000.

In connection with the private placements completed above, the Company incurred cash share issue costs of \$540,044. Additionally, the Company issued 2,375,660 finders' warrants with a fair value of \$128,034 recorded as share issue costs. The finders' warrants are exercisable at \$0.30 per share for a period of 24 months from their respective issuance dates.

Reserves

The following is a summary of changes in reserves:

	Stock options	Convertible debentures	Warrants	Total
Balance, July 31, 2016	\$ 519,593	\$ -	\$ 405,900	\$ 925,493
Share-based payments	420,714	-	-	420,714
Finders' warrants	-	-	128,034	128,034
0034 BC warrants on acquisition (Note 4)	-	-	783,719	783,719
Reclassification on exercise of warrants	-	-	(272,765)	(272,765)
Balance, July 31, 2017	\$ 940,307	\$ -	\$ 1,044,888	\$ 1,985,195
Share-based payments	915,896	-	-	915,896
Agent options and warrants issued as finders' fee	-	-	304,054	304,054
Equity portion of convertible debenture	-	624,360	-	624,360
Reclassified on conversion of convertible debentures	-	(552,534)	-	(552,534)
Reclassified on exercise of agent option and warrants	-	-	(878,762)	(878,762)
Reclassified on exercise of stock options	(551,833)	-	-	(551,833)
Balance, July 31, 2018	\$ 1,304,370	\$ 71,826	\$ 470,180	\$ 1,846,376

1933 INDUSTRIES INC. (Formerly Friday Night Inc.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JULY 31, 2018

(EXPRESSED IN CANADIAN DOLLARS)

12. SHARE CAPITAL AND RESERVES (cont'd)**Warrants**

A summary of share purchase warrant activity is as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance at July 31, 2016	-	\$ -
Issued – attached to units	22,985,220	0.30
Issued – finders' warrants	2,375,660	0.30
0034 BC warrants on acquisition	10,200,000	0.10
Exercised	(3,550,000)	0.10
Balance at July 31, 2017	32,010,880	\$ 0.26
Issued – finders' warrants	824,000	0.35
Issued – convertible debentures	26,000,000	0.33
Issued – exercise of agent unit options	2,127,300	0.35
Expired	(425,000)	0.10
Exercised	(43,684,883)	0.29
Balance at July 31, 2018	16,852,297	\$ 0.32

The following table summarizes share purchase warrants outstanding as at July 31, 2018:

Expiry date	Number of Warrants	Weighted Average Exercise Price	Weighted Average Remaining Years
April 24, 2019	680,792	\$0.30	0.73
May 17, 2019	2,559,003	\$0.30	0.79
June 14, 2019	2,358,002	\$0.30	0.87
August 16, 2019	8,402,000	\$0.35	1.04
October 4, 2019	2,852,500	\$0.25	1.18
	16,852,297	\$0.32	

1933 INDUSTRIES INC. (Formerly Friday Night Inc.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JULY 31, 2018

(EXPRESSED IN CANADIAN DOLLARS)

12. SHARE CAPITAL AND RESERVES (cont'd)**Stock options**

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

The aggregate number of stock options granted shall not exceed 10% of the issued and outstanding common shares of the Company at the time of shareholder approval of the plan, with no one individual being granted more than 5% of the issued and outstanding common shares. In addition, the exercise price of stock options granted under the plan shall not be lower than the exercise price permitted by the CSE, and all stock options granted under the plan will have a maximum term of five years.

A summary of stock option activity is as follows:

	Number of	Weighted
	Options	Average
	Exercise Price	
Balance at July 31, 2016	2,362,500	\$ 0.24
Forfeited	(1,737,500)	0.25
Expired	(50,000)	0.50
Granted	11,250,000	0.15
Granted - 0034 BC on acquisition	3,410,000	0.15
Balance at July 31, 2017	15,235,000	\$ 0.16
Expired	(150,000)	0.15
Exercised	(6,041,670)	0.16
Granted	1,300,000	0.65
Granted - Agent option	2,155,200	0.25
Exercised - Agent option	(2,127,300)	0.25
Balance at July 31, 2018	10,371,230	\$ 0.22

The following table summarizes stock options outstanding and exercisable as at July 31, 2018:

Expiry date	Number of	Number of	Weighted	Weighted
			Average	
	Options	Exercisable Options	Exercise Price	Remaining Years
August 16, 2019	27,900	27,900	0.25	1.04
November 14, 2020	237,500	237,500	\$0.50	2.29
January 8, 2021	37,500	37,500	\$0.64	2.44
June 13, 2022	8,768,330	5,845,553	\$0.15	3.87
February 15, 2023	1,300,000	683,333	\$0.65	4.55
	10,371,230	6,831,786	\$0.22	3.91

1933 INDUSTRIES INC. (Formerly Friday Night Inc.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JULY 31, 2018

(EXPRESSED IN CANADIAN DOLLARS)

12. SHARE CAPITAL AND RESERVES (cont'd)**Stock options (cont'd)**

Share-based compensation expense recognized during the year of \$915,896 (2017 - \$608,214) related to options granted and vested during the year. The fair value of stock options was calculated using the Black-Scholes Option Pricing Model using the following weighted average assumptions:

	July 31, 2018	July 31, 2017
Risk-free interest rate	1.75%	1.00%
Expected life of options	4 years	5 years
Annualized volatility	75%	100%
Dividend rate	0%	0%
Weighted average fair value per option	\$0.37	\$0.11

13. NOTES PAYABLE

- a) Effective June 15, 2017, the Company issued a note in the amount of USD \$400,000 in connection with the acquisition of the power equipment (Note 9). The note bears interest at 12% per annum, with the full principal amount due on June 15, 2021. The principal amount of the note is expected to be paid in full during the year ended July 31, 2018, and has been classified as a current liability accordingly. The note carries interest-only payments of \$4,000 per month commencing June 15, 2017. During the year ended July 31, 2018 the note was repaid in full.
- b) Effective June 15, 2017 the Company issued a note in the amount of \$ USD \$600,000. The note bears interest at 12% per annum, with the full principal amount due on June 15, 2018. The loan is secured by the Company's 91% membership interest in Infused. During the year ended July 31, 2018 the note was repaid in full.
- c) Certain of shareholders of the Company's subsidiaries, AMA and Infused, advanced USD \$240,000 to the Company by way of promissory notes. The amounts accrued interest at 6% per annum, are unsecured, and due on demand. As at July 31, 2018 the remaining balance is \$39,339 (USD \$30,200).
- d) Effective January 24, 2017, AMA issued a promissory note in the amount of USD \$100,000. The note bears interest at USD \$500 per month, with the full principal amount due on July 8, 2017. The loan is secured by the certain assets of AMA. During the year ended July 31, 2018 the note was repaid in full.

The notes payable balance is summarized as follows:

	July 31, 2018	July 31, 2017
Loan principal	\$ 39,339	\$ 1,709,486
Accrued interest	-	74,675
	\$ 39,339	\$ 1,784,161

1933 INDUSTRIES INC. (Formerly Friday Night Inc.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JULY 31, 2018

(EXPRESSED IN CANADIAN DOLLARS)

14. FINANCIAL RISK MANAGEMENT

The Company's risk exposures and the impact on the Company's financial instruments are summarized below.

Fair value of financial assets and liabilities

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

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

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

Financial instrument risk management

The Company's exposures and the impact on its financial instruments are summarized below:

Credit risk

Credit risk is the risk of loss associated with counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash, and receivables. Cash is held with reputable Canadian and the United States financial institutions, and in safes, from which management believes the risk of loss is remote. Receivables include of amounts due from the Government of Canada in which management believes the credit risk to be minimal and trade receivables which the Company feels there is minimal risk of non-collection. The Company does not have significant credit risk with respect to customers. The Company's maximum credit risk exposure is equivalent to the carrying value of these instruments. The Company has been granted a license pursuant to the laws of the State of Nevada with respect to cultivating cannabis. Presently, this industry is illegal under United States federal law. The Company has, and intends, to adhere strictly to the state statutes in its operations.

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at July 31, 2018 the Company's financial liabilities consist of accounts payable and accrued liabilities, convertible debentures, notes payable, and due to related parties, which have no fixed terms of repayment. The Company manages liquidity risk by reviewing its capital requirements on an ongoing basis. The Company regards liquidity risk to be low as it has sufficient working capital to for at least the next twelve months.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency rates. As at July 31, 2018, the Company had cash, restricted cash, receivables, accounts payable and accrued liabilities, and notes payable, denominated in United States dollars ("USD"). The Company does not undertake currency hedging activities to mitigate its foreign currency risk. The impact on the Company's comprehensive loss resulting from a 10% fluctuation in foreign exchange rates would be approximately \$594,000.

1933 INDUSTRIES INC. (Formerly Friday Night Inc.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JULY 31, 2018

(EXPRESSED IN CANADIAN DOLLARS)

14. FINANCIAL RISK MANAGEMENT (cont'd)**Interest rate risk**

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company holds cash in accounts with variable interest rates, and currently does not carry variable interest-bearing debt. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its financial institutions. It is management's opinion that the Company is not exposed to significant interest rate risk.

15. CAPITAL RISK MANAGEMENT

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

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern in order to pursue the development of its business. The Company manages its capital structure and adjusts it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may issue new equity instruments, new debt, or acquire and/or dispose of assets. As discussed in Note 1, the Company's ability to continue as a going concern is uncertain and dependent upon the continued financial support of its shareholders, future profitable operations, the lack of adverse political developments in the United States with respect to cannabis legislation, and securing additional financing.

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

16. RELATED PARTY TRANSACTIONS

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

Key management personnel compensation during the years ended July 31, 2018 and 2017, were as follows:

	July 31, 2018	July 31, 2017
Management and consulting fees	\$ 678,588	\$ 237,584
Shares issued for salary	311,500	-
Share-based payments	492,716	31,125
	\$ 1,482,804	\$ 268,709

Other related party transactions:

	July 31, 2018	July 31, 2017
Legal fees - expense	\$ 459,662	\$ 24,424
Legal fees - share issue costs	-	152,145
Legal fees - transaction costs (Note 4)	-	179,135
Legal fees - capitalized to convertible debenture	48,572	-
Interest expense – notes payable	66,823	-
Legal fees – acquisition of Spire	30,000	-

1933 INDUSTRIES INC. (Formerly Friday Night Inc.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JULY 31, 2018

(EXPRESSED IN CANADIAN DOLLARS)

16. RELATED PARTY TRANSACTIONS (cont'd)**Due to related parties:**

	July 31, 2018	July 31, 2017
Legal fees – accounts payable and accrued liabilities	\$ -	\$ 428,463
Notes payable (Note 13)	39,339	817,559

The acquisition of 0034 as part of the Combination (Note 4), involved a former director of the Company. All balances are unsecured, non-interest bearing, with no fixed terms of repayment.

17. COMMITMENTS AND CONTINGENCIES**Lease commitment**

In April 2014, the Company entered into a lease agreement for its operating facility for AMA in central Las Vegas, Nevada. The Company amended the lease agreement in June 2015. The amended lease agreement is for a term to March 2022, with an option to extend for an additional two years. Base rent ranges from USD \$6,100 to USD \$6,800 per month over the life of the lease agreement, plus maintenance. The rent under the two-year option period, if exercised will be USD \$6,800 per month.

Future required minimum lease payments on the facility are as follows (approximate):

2019	\$ 97,000
2020	\$ 100,000
2021	\$ 104,000
2022	\$ 105,000

Construction commitment

In connection with the Company's construction in progress (Note 9), the Company has future construction commitments within the next fiscal period of approximately USD \$8,930,000.

Legal contingencies

The Company is from time to time involved in various claims, legal proceedings and complaints arising in the ordinary course of business. The Company does not believe that adverse decisions in any pending or threatened proceedings related to any matter, or any amount which it may be required to pay by reason thereof, will have a material effect on the financial condition or future results of operations of the Company.

1933 INDUSTRIES INC. (Formerly Friday Night Inc.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JULY 31, 2018

(EXPRESSED IN CANADIAN DOLLARS)

18. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

The significant non-cash transactions for the year ended July 31, 2018 were as follows:

- a) Convertible debentures of \$4,275,000 were converted into 17,100,000 common shares of the Company (Note 5, 12). In relation to the conversion \$552,534 was reallocated from reserves to share capital.
- b) The equity portion of convertible debentures was determined to be \$624,360 (Note 5).
- c) Non-cash transaction costs related to agent options and warrants issued to agents in relation to the convertible debentures were valued at \$304,054 (Note 5).
- d) Issued 1,024,550 common shares for interest valued at \$821,640 (Note 5)
- e) Reallocated \$551,833 from reserves to share capital upon exercise of stock options (Note 12).
- f) Reallocated \$659,863 from reserves to share capital upon the exercise of agent warrants.
- g) Reallocated \$218,899 from reserves to share capital upon the exercise of agent unit options.

The Company made cash interest payments of \$220,695 during the period ended July 31, 2018. No income taxes were paid.

The significant non-cash transactions for the year ended July 31, 2017 were as follows:

- a) The fair value of finders' warrants issued was \$128,034
- b) Share issuance costs included in accounts payable and accrued liabilities were \$60,310

The Company made cash interest payments of \$Nil during the period ended July 31, 2017. No income taxes were paid.

1933 INDUSTRIES INC. (Formerly Friday Night Inc.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JULY 31, 2018

(EXPRESSED IN CANADIAN DOLLARS)

19. SEGMENTED INFORMATION

The Company operates in four segments, referred to as AMA, Infused MFG, Spire, and Corporate. AMA is focused on the cultivation and sale of medical and adult use cannabis products, Infused MFG is focused on the manufacturing of Hemp derived CBD products, and Spire is focused on the provision of secure logistics services. The corporate head office and operations of Spire are located in Canada while the operations of AMA and Infused MFG are located in the United States. Segmented info as at and for the year ended July 31, 2018 is as follows:

	AMA (USA)	Infused MFG (USA)	Spire (Canada)	Corporate (Canada)	Total
Revenue	\$ 8,214,915	\$ 4,335,768	\$ 99,243	\$ -	\$ 12,649,926
Cost of sales	4,942,212	1,257,005	-	-	6,199,217
Gross margin	3,272,703	3,078,763	99,243	-	6,450,709
Expenses					
General and administration	1,535,409	984,045	123,591	830,699	3,473,744
Management and consulting fee	-	355,390	280,000	1,503,105	2,138,495
Wages and benefits	-	1,384,720	-	-	1,384,720
Professional fees	98,028	209,712	19,654	603,731	931,125
Bad debt expense	120,914	-	-	-	120,914
Share-based compensation	-	-	-	915,896	915,896
Interest expense	14,115	30,102	-	433,365	477,582
Accretion expense	-	-	-	364,542	364,542
Loss on shares issued for interest	-	-	-	565,502	565,502
Depreciation	150,752	126,998	-	857	278,607
Foreign exchange	-	-	1,714	109,479	111,193
Total expenses	1,919,218	3,090,967	424,959	5,327,176	10,762,320
Income (loss) before tax	\$ 1,353,485	\$ (12,204)	\$ (325,716)	\$ (5,327,176)	\$ (4,311,611)
Income taxes	\$ 364,129	\$ 814,312	\$ -	\$ -	\$ 1,178,441
Property and equipment	\$ 5,770,360	\$ 851,540	\$ -	\$ 44,134	\$ 6,666,034
Goodwill	\$ -	\$ -	\$ 5,044,866	\$ 16,229,738	\$ 21,274,604
Long term liabilities	\$ -	\$ -	\$ -	\$ 1,965,031	\$ 1,965,031

1933 INDUSTRIES INC. (Formerly Friday Night Inc.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JULY 31, 2018

(EXPRESSED IN CANADIAN DOLLARS)

20. GENERAL AND ADMINISTRATION EXPENSE

General and administration expenses were comprised of the following:

General and administrative	July 31, 2018	July 31, 2017
Advertising, promotion and selling costs	\$ 671,370	\$ 42,351
Investor relations	409,368	73,063
Office expenses and general administration	831,197	155,421
License fees, taxes, and insurance	1,245,427	42,580
Travel and entertainment	316,382	228,365
Total	\$ 3,473,744	\$ 541,780

21. INCOME TAXES

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

The Canadian income tax rate declined during the year due to changes in the law that reduced corporate income tax rates in Canada/British Columbia. The US federal income tax expense is due to the fact that Canadian and US losses are not able to be consolidated for tax disclosure & reporting purposes. Taxes payable at July 31, 2018 was \$1,272,942 due to foreign exchange translation.

	July 31, 2018	July 31, 2017
Loss for the year	\$ (4,311,611)	\$ (2,546,689)
Expected income tax (recovery)	\$ (960,000)	\$ (680,000)
Change in statutory, foreign tax, foreign exchange rates and other	(355,559)	68,081
Permanent Difference	1,013,000	174,000
Financing fees	210,000	(140,000)
Adjustment to prior years provision versus statutory tax returns and expiry of non-capital losses	(91,000)	(69,000)
Change in unrecognized deductible temporary differences	1,362,000	714,000
Total income tax expense (recovery)	\$ 1,178,441	\$ 67,081

The significant components of the Company's deferred tax assets and liabilities are as follows:

	July 31, 2018	July 31, 2017
Deferred Tax Assets (liabilities)		
Property and equipment	\$ 122,000	\$ 57,000
Share issuance costs	261,000	(117,000)
Capital Loss carryforward	46,000	-
Debt with accretion	(339,000)	-
Investments	-	44,000
Allowable capital losses	-	122,000
Non-capital losses	2,572,000	1,194,000
	2,662,000	1,300,000
Unrecognized deferred tax assets	(2,662,000)	(1,300,000)
Net deferred tax assets	\$ -	\$ -

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

1933 INDUSTRIES INC. (Formerly Friday Night Inc.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JULY 31, 2018

(EXPRESSED IN CANADIAN DOLLARS)

21. INCOME TAXES (cont'd)

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

	July 31, 2018	Expiry Date Range	July 31, 2017	Expiry Date Range
Temporary Differences				
Property and equipment	\$ 579,000	No expiry date	\$ 170,000	No expiry date
Financing fees	968,000	2018 to 2022	449,000	2017 to 2021
Investments	-	No expiry date	341,000	No expiry date
Capital loss carryforward	344,000	No expiry date	471,000	No expiry date
Debt with accretion	(1,254,000)	No expiry date	-	No expiry date
Non-capital losses available for future period	10,588,000	2029 to 2038	4,579,000	2029 to 2037
Canada	10,022,000	2029 to 2038	4,522,000	2029 to 2037
USA	566,000	2020 to 2033	57,000	2020 to 2033

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

1933 INDUSTRIES INC. (Formerly Friday Night Inc.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JULY 31, 2018

(EXPRESSED IN CANADIAN DOLLARS)

22. SUBSEQUENT EVENTS

The following transactions were entered subsequent to July 31, 2018:

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

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

The Agents were paid a cash commission of \$1,380,000, a corporate finance fee of \$50,000 and were issued 3,066,666 broker warrants. Each Broker Warrant entitles the holder to one unit. Each Broker Unit is comprised of one Common Share and one common share purchase warrant, bearing the same exercise price and term as the warrants.

- b) Issued 4,628,000 common shares upon the conversion of convertible debentures at a conversion price of \$0.25 per share. The conversion represented a reduction in principal value of \$1,157,000.
- c) Issued 52,400 common shares upon the exercise of warrants for gross proceeds of \$15,720.
- d) Issued 143,109 common shares upon the exercise of stock options for gross proceeds of \$32,877.
- e) Issued 6,182,214 common shares upon the conversion of convertible debentures at a conversion price of \$0.45 per share. The conversion represented a reduction in principal value of \$2,781,996.
- f) Granted 8,925,000 stock options with an exercise price of \$0.55 for a period of three years. One third vest on grant, one third vest October 5, 2019, and one third vest on October 5, 2020.