



**1933 INDUSTRIES INC.**

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

For the six months ended January 31, 2019

(Expressed in Canadian Dollars)

**Notice to Readers:**

These unaudited consolidated interim financial statements of 1933 Industries Inc. (the "Company") have not been reviewed by the auditors of the Company. This notice is being provided in accordance with Section 4.3 (3) (a) of National Instrument 51-102 - Continuous Disclosure Obligations.

**1933 INDUSTRIES INC.**

## INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(EXPRESSED IN CANADIAN DOLLARS)

AS AT

	<i>Note</i>	January 31, 2019	July 31, 2018
<b>ASSETS</b>			
<b>Current</b>			
Cash		\$ 8,811,807	\$ 5,056,183
Restricted cash	9	4,922,613	4,425,602
Receivables		1,793,787	1,316,562
Inventory	7	2,435,023	1,933,061
Biological assets	8	162,440	311,037
Prepaid expenses and deposits		505,917	311,533
Deferred financing costs		-	45,000
		18,631,587	13,398,978
<b>Non-Current</b>			
Property and equipment	9	16,184,014	6,666,034
Goodwill	10	19,421,626	21,274,604
<b>Total assets</b>		<b>\$ 54,237,227</b>	<b>\$ 41,339,616</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current</b>			
Accounts payable and accrued liabilities		\$ 3,148,966	\$ 1,078,807
Notes payable	12	39,695	39,339
Income taxes payable		101,209	1,272,942
Convertible debentures	5	983,925	-
		4,273,795	2,391,088
<b>Non-Current</b>			
Convertible debentures	5	10,833,271	1,965,031
		15,107,066	4,356,119
<b>Equity</b>			
Share capital	11	51,381,467	47,338,683
Reserves	11	5,939,741	1,846,376
Non-controlling interest	6	368,925	231,439
Accumulated other comprehensive loss		(8,071)	(138,081)
Deficit		(18,551,901)	(12,294,920)
Total equity		39,130,161	36,983,497
<b>Total liabilities and equity</b>		<b>\$ 54,237,227</b>	<b>\$ 41,339,616</b>

Nature of operations (Note 1)

Commitments (Note 16)

Subsequent events (Note 20)

Approved on behalf of the Board of Directors and authorized for issuance on April 1, 2019:

"Signed"

Cam Watt, Director

"Signed"

Brayden Sutton, Director

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

# 1933 INDUSTRIES INC.

## INTERIM CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS (EXPRESSED IN CANADIAN DOLLARS)

	Note	Six months ended		Three months ended	
		January 31, 2019	January 31, 2018	January 31, 2019	January 31, 2018
<b>Revenue</b>		\$ 8,337,805	\$ 5,427,186	\$ 3,720,993	\$ 2,962,699
<b>Cost of sales</b>					
Inventory expensed to cost of sales		4,554,171	2,700,577	1,682,171	1,379,698
<b>Gross margin, excluding fair value items</b>		3,783,634	2,726,609	2,038,822	1,583,001
Fair value adjustment on sale of inventory		148,597	-	63,928	-
Fair value adjustment on growth of biological assets	8	(213,133)	13,503	(113,846)	3,874
<b>Gross margin</b>		3,848,170	2,713,106	2,088,740	1,579,127
<b>Expenses</b>					
General and administration	19	2,659,653	1,061,822	1,239,347	756,479
Management and consulting fees	15	999,267	620,645	511,301	236,192
Wages and benefits		1,876,536	474,902	1,290,540	349,205
Professional fees	15	620,201	1,145,335	325,682	526,927
Share-based compensation	11, 15	1,616,767	348,220	234,076	227,332
Interest expense	5	755,843	304,044	559,487	161,334
Accretion expense	5	436,081	92,931	310,525	46,426
Depreciation	9	224,530	121,040	(116,368)	57,951
Foreign exchange		(8,824)	(168,869)	(10,214)	(32,822)
Total expenses		9,180,054	4,000,070	4,344,376	2,329,024
Goodwill impairment	10	2,000,000	-	2,000,000	-
Loss before income taxes		(7,331,884)	(1,286,964)	(4,255,636)	(749,897)
Income tax expense (recovery)		(1,185,335)	62,875	(1,328,654)	360
<b>Net loss for the period</b>		\$ (6,146,549)	\$ (1,349,839)	\$ (2,926,981)	\$ (750,257)
<b>Other comprehensive loss</b>					
Translation adjustment		157,064	(414,537)	(183,799)	120,871
<b>Comprehensive loss for the period</b>		\$ (5,989,485)	\$ (1,764,376)	\$ (3,110,780)	\$ (629,386)
<b>Comprehensive income (loss) attributable to:</b>					
Net loss - shareholders of the Company		(6,256,981)	(1,460,799)	(2,955,857)	(832,342)
Net income - non-controlling interest		110,432	110,960	28,876	82,085
Translation adjustment - shareholders of the Company		130,010	(407,747)	(194,554)	138,415
Translation adjustment - non-controlling interest		27,054	(6,790)	10,755	(17,544)
		\$ (5,989,485)	\$ (1,764,376)	\$ (3,110,780)	\$ (629,386)
<b>Loss per share</b>					
Basic and diluted		\$ (0.03)	\$ (0.01)	\$ (0.01)	\$ (0.00)
<b>Weighted average number of common shares</b>					
Basic and diluted		235,734,926	164,385,346	238,522,578	177,813,101

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

**1933 INDUSTRIES INC.**INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS  
(EXPRESSED IN CANADIAN DOLLARS)

		Six months ended	
	Note	January 31, 2019	January 31, 2018
<b>Operating activities</b>			
Net loss		\$ (6,146,549)	\$ (1,349,839)
Items not affecting cash:			
Unrealized gain from change in fair value of biological assets	8	(213,133)	13,503
Share-based compensation	11	1,616,767	348,220
Accretion	5	436,081	92,931
Depreciation	9	224,530	121,040
Shares issued for interest	11	81,124	-
Accrued interest		154,758	122,129
Goodwill impairment	10	2,000,000	-
Changes in non-cash working capital:			
Inventory and biological assets		(5,651)	(283,881)
Assets and liabilities held for sale		-	(108,959)
Receivables		(474,207)	(398,599)
Prepaid expenses		(194,384)	17,442
Deferred financing costs		45,000	-
Accounts payable and accrued liabilities		1,631,540	330,070
Due to related parties		-	(420,747)
Income taxes payable		(1,185,335)	(3,538)
Cash flows used in operating activities		(2,029,459)	(1,520,228)
<b>Investing activities</b>			
Property and equipment	9	(9,698,835)	(852,298)
Restricted cash		(497,011)	-
Cash flows used in investing activities		(10,195,846)	(852,298)
<b>Financing activities</b>			
Common shares issued for cash - exercise of stock options	11	74,000	295,000
Common shares issued for cash - exercise of warrants and agent unit options	11	43,597	12,312,618
Convertible debenture units, net	5	15,581,987	6,060,776
Repayment of notes payable		-	(947,407)
Cash flows from financing activities		15,699,584	17,720,987
Effect of exchange rate changes on cash		281,345	(193,963)
<b>Increase in cash</b>		<b>3,755,624</b>	<b>15,154,498</b>
<b>Cash, beginning of period</b>		<b>5,056,183</b>	<b>598,641</b>
<b>Cash, end of period</b>		<b>\$ 8,811,807</b>	<b>\$ 15,753,139</b>

Supplemental cash flow information (Note 17)

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

## 1933 INDUSTRIES INC.

### INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (EXPRESSED IN CANADIAN DOLLARS)

	Number of common shares	Share Capital	Reserves	Translation adjustment reserve	Non-controlling interest	Deficit	Total equity
<b>Balance, July 31, 2017</b>	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	1,966,668	295,000	-	-	-	-	295,000
Shares issued - exercise of warrants	41,748,330	12,312,618	-	-	-	-	12,312,618
Shares issued - conversion of convertible debentures \$0.25	13,968,000	3,492,000	-	-	-	-	3,492,000
Equity portion of convertible debenture	-	-	631,990	-	-	-	631,990
Agent options and warrants issued as finders' fees	-	-	283,661	-	-	-	283,661
Share-based compensation	-	-	348,220	-	-	-	348,220
Translation adjustment	-	-	-	(414,537)	270	-	(414,267)
Non-controlling interest	-	-	-	-	110,690	-	110,690
Net loss for the period	-	-	-	-	-	(1,460,799)	(1,460,799)
<b>Balance, January 31, 2018</b>	207,324,347	\$ 37,531,564	\$ 3,249,066	\$ (1,460,354)	\$ 196,619	\$ (7,910,903)	\$ 31,605,992
<b>Balance, July 31, 2018</b>	227,962,060	\$ 47,338,683	\$ 1,846,376	\$ (138,081)	\$ 231,439	\$ (12,294,920)	\$ 36,983,497
Shares issued - exercise of options	493,333	128,267	(54,267)	-	-	-	74,000
Shares issued - exercise of warrants	132,288	41,397	-	-	-	-	41,397
Shares issued - exercise of agent options	4,888	2,200	-	-	-	-	2,200
Equity portion of convertible debenture	-	-	2,550,084	-	-	-	2,550,084
Shares issued - conversion of convertible debentures \$0.25	4,628,000	1,073,880	(34,121)	-	-	-	1,039,759
Shares issued - conversion of convertible debentures \$0.45	6,871,101	2,715,916	(457,093)	-	-	-	2,258,823
Shares issued for interest	238,600	81,124	-	-	-	-	81,124
Share-based compensation	-	-	1,616,767	-	-	-	1,616,767
Agent options issued as finders' fees	-	-	471,995	-	-	-	471,995
Translation adjustment	-	-	-	130,010	27,054	-	157,064
Non-controlling interest	-	-	-	-	110,432	-	110,432
Net loss for the period	-	-	-	-	-	(6,256,981)	(6,256,981)
<b>Balance, January 31, 2019</b>	240,330,270	\$ 51,381,467	\$ 5,939,741	\$ (8,071)	\$ 368,925	\$ (18,551,901)	\$ 39,130,161

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

## 1933 INDUSTRIES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JANUARY 31, 2019

(EXPRESSED IN CANADIAN DOLLARS)

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### 1. NATURE OF OPERATIONS

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

The Company operates in the medical and recreational cannabis sectors in Nevada, USA. Alternative Medicine Association ("AMA"), a 91% owned subsidiary of the Company is licensed in the State of Nevada as 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.

The Company also holds a 100% interest in Spire Global Strategies Inc., a provider of customized security programs, compliance, information technology, buildout design, and due diligence services for the legal cannabis, mining and investment sectors.

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.

For more information regarding the foregoing and the other risk factors applicable in respect of an investment in the Company, please see "Description of the U.S. Legal Cannabis Industry" and "Risk Factors" in the Company's Annual Information Form filed on [www.sedar.com](http://www.sedar.com).

## 1933 INDUSTRIES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JANUARY 31, 2019

(EXPRESSED IN CANADIAN DOLLARS)

### 2. BASIS OF PRESENTATION

#### Statement of compliance

The interim consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) for interim information, specifically International Accounting Standards (“IAS”) 34 - Interim Financial Reporting. In addition, the interim consolidated financial statements have been prepared using interpretations issued by the International Financial Reporting Interpretation Committee (“IFRIC”) and the same accounting policies and methods of their application as the most recent annual financial statements of the Company. These interim consolidated financial statements do not include all disclosures normally provided in the annual financial statements and should be read in conjunction with the Company’s audited financial statements for the year ended July 31, 2018.

#### Basis of measurement

These interim 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 interim 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 interim 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
1933 Management Services Inc.	FNM	USA	100%	USD	Holding company for Infused
FN Pharmaceuticals LLC	FNPharm	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
AMA Productions LLC	AMA Pro	USA	100%	USD	Holding company
Spire Secure Logistics Inc.	Spire	Canada	100%	CAD	Security and logistics services
QuickFlo 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.



## 1933 INDUSTRIES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JANUARY 31, 2019

(EXPRESSED IN CANADIAN DOLLARS)

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### 2. BASIS OF PRESENTATION (cont'd)

#### New accounting policies

Effective August 1, 2018, the Company adopted the following accounting standards:

#### IFRS 9, *Financial Instruments* ("IFRS 9")

IFRS 9 is required for reporting periods beginning on or after January 1, 2018, with retrospective application. The Company applied IFRS 9 on August 1, 2018, and in accordance with the transition requirements, comparative periods have not been restated. The adoption of IFRS 9 did not have a significant impact on the carrying amounts of financial instruments as at August 1, 2018.

IFRS 9 replaces the classification and measurement models in IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39"), with a single model under which financial assets are classified and measured at amortized cost, fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL"). This classification is based on the business model in which a financial asset is managed, as well as its contractual cash flow characteristics, and eliminates the IAS 39 categories of held-to-maturity, loans and receivables, and available for-sale.

All other financial assets and financial liabilities will continue to be measured on the same basis as is currently adopted under IAS 39. We have assessed the classification and measurement of our financial instruments under IFRS 9, with reference to the former classification under IAS 39, as follows:

<b>Financial Assets</b>	<b>IFRS 9</b>	<b>IAS 39</b>
Cash	FVTPL	FVTPL
Restricted cash	FVTPL	FVTPL
Accounts receivable	Amortized cost	Loans and receivables
<b>Financial Liabilities</b>	<b>IFRS 9</b>	<b>IAS 39</b>
Accounts payable and accrued liabilities	Amortized cost	Other financial liabilities
Convertible debt	Amortized cost	Other financial liabilities
Notes payable	Amortized cost	Other financial liabilities

IFRS 9 uses a single approach to determine whether a financial asset is classified and measured at amortized cost or fair value. The classification and measurement of financial assets is based on the Company's business models for managing its financial assets and whether the contractual cash flows represent solely payments for principal and interest.

The adoption of the new "expected credit loss" impairment model under IFRS 9, as opposed to an incurred credit loss model under IAS 39, did not have an impact on the carrying amounts of financial assets.

## 1933 INDUSTRIES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(EXPRESSED IN CANADIAN DOLLARS)

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### 2. BASIS OF PRESENTATION (cont'd)

#### New accounting policies (cont'd)

##### IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15")

IFRS 15 was issued by the IASB in May 2014 and specifies how and when revenue should be recognized based on a five-step model, which is applied to all contracts with customers. On April 12, 2016, the IASB published final clarifications to IFRS 15 with respect to identifying performance obligations, principal versus agent considerations, and licensing. The Company has applied IFRS 15 retrospectively and determined that there is no change to the comparative periods or transitional adjustments required as a result of the adoption of this standard.

##### New accounting standards and interpretations issued but 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 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 interim consolidated financial statements is as follows:

## 1933 INDUSTRIES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(EXPRESSED IN CANADIAN DOLLARS)

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### 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*

The Company utilizes the Black-Scholes Option Pricing Model ("Black-Scholes") to estimate the fair value of stock options granted to directors, officers, employees, consultants and charities. The use of Black-Scholes requires management to make various estimates and assumptions that impact the value assigned to the stock options including the forecast future volatility of the stock price, the risk-free interest rate, dividend yield and the expected life of the stock options. Any changes in these assumptions could have a material impact on the Share-based compensation calculation value, however the most significant estimate is the volatility. Expected future volatility can be difficult to estimate as the Company has a limited operating history and is in an emerging industry. Due to the emerging nature of the industry, volatility estimates require significant estimates. The Company estimated volatility based on historic share prices of companies with significant operating history in the cannabis industry. Historical volatility is not necessarily indicative of future volatility. The expected life of stock options was determined based on the estimate that they would be exercised evenly over their term.

##### *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.

## 1933 INDUSTRIES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(EXPRESSED IN CANADIAN DOLLARS)

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### 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### Critical accounting estimates and judgements (cont'd)

##### *Business combinations (Cont'd)*

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.

##### *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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(EXPRESSED IN CANADIAN DOLLARS)

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### 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### 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.

#### Financial instruments

##### Financial assets

On initial recognition, financial assets are recognized at fair value and are subsequently classified and measured at: (i) amortized cost; (ii) fair value through other comprehensive income ("FVOCI"); or (iii) fair value through profit or loss ("FVTPL"). The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. A financial asset is measured at fair value net of transaction costs that are directly attributable to its acquisition except for financial assets at FVTPL where transaction costs are expensed. All financial assets not classified and measured at amortized cost or FVOCI, are measured at FVTPL. On initial recognition of an equity instrument that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income.

The classification determines the method by which the financial assets are carried on the statement of financial position subsequent to inception and how changes in value are recorded.

## 1933 INDUSTRIES INC.

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### 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### Financial instruments (Cont'd)

##### Impairment

An 'expected credit loss' impairment model applies which requires a loss allowance to be recognized based on expected credit losses. The estimated present value of future cash flows associated with the asset is determined and an impairment loss is recognized for the difference between this amount and the carrying amount as follows: the carrying amount of the asset is reduced to estimated present value of the future cash flows associated with the asset, discounted at the financial asset's original effective interest rate, either directly or through the use of an allowance account and the resulting loss is recognized in profit or loss for the period.

In a subsequent period, if the amount of the impairment loss related to financial assets measured at amortized cost decreases, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

##### Financial liabilities

Financial liabilities are designated as either: (i) FVTPL; or (ii) other financial liabilities. All financial liabilities are classified and subsequently measured at amortized cost except for financial liabilities at FVTPL. The classification determines the method by which the financial liabilities are carried on the statement of financial position subsequent to inception and how changes in value are recorded. Accounts payable and accrued liabilities is classified as other financial liabilities and carried on the statement of financial position at amortized cost.

#### 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.

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### 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### 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.

#### Revenue

The Company's accounting policy for revenue recognition under IFRS 15 is as follows:

To determine the amount and timing of revenue to be recognized, the Company follows a 5-step process:

1. Identifying the contract with a customer
2. Identifying the performance obligations
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations
5. Recognizing revenue when/as performance obligation(s) are satisfied.

Revenue from the direct sale of cannabis and infused hemp products for a fixed price is recognized when the Company transfers control of the good to the customer upon delivery.

#### Inventory

Inventories of harvested cannabis and 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.

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### 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### Inventory (Cont'd)

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 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 overhead costs such as rent 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.

#### 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.



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### **3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

#### **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.

#### **Share capital**

Common shares are classified as shareholders' equity. Incremental costs directly attributable to the issue of common shares and other equity instruments are recognized as a deduction from shareholders' equity (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.

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### 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### 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.

### 4. ACQUISITION OF SPIRE GLOBAL STRATEGY INC.

Effective March 2, 2018, the Company acquired a 100% interest in Spire Global Strategy Inc. ("Spire"), a private Canadian company. Spire is a provider of the security and logistics services. Pursuant to the Combination 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:

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

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. During the period ended January 31, 2019 the Company recognized an impairment charge of \$2,000,000 in relation to the above goodwill (Note 10).

### 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.

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### 5. CONVERTIBLE DEBENTURES(Cont'd)

#### **\$5,500,000 convertible debenture units (Cont'd)**

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.

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 was \$304,054 and was recorded as a transaction cost. The fair value of the Agent Options and 800,000 warrants issued as part of the Agent Units 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.

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**5. CONVERTIBLE DEBENTURES (cont'd)****\$1,000,000 convertible debenture units (Cont'd)**

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 \$42,534 and issued 24,000 warrants exercisable at a price of \$0.25 to certain arm's-length parties in the connection with the offering.

The equity component of the convertible debenture was determined to be \$624,360 net of transaction costs of \$86,503. Convertible debentures with a principal balance of \$1,157,000 were converted into 4,628,000 common shares of the Company (Note 11) during the period. The principal balance outstanding as at January 31, 2019 is \$1,068,000.

The following is a continuity of the Company's \$1,000,000 and \$5,500,000 convertible debentures

<b>Balance July 31, 2017</b>	\$	-
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)
<b>Balance July 31, 2018 - (non-current)</b>		<b>1,965,031</b>
Converted to common shares		(1,039,759)
Interest expense		130,017
Accretion expense		58,653
Interest paid - cash		(70,367)
Interest paid - shares		(59,650)
<b>Balance January 31, 2019 (current)</b>	\$	<b>983,925</b>

## 1933 INDUSTRIES INC.

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### 5. CONVERTIBLE DEBENTURES (cont'd)

#### **\$17,250,000 convertible debenture units**

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

The Company paid cash fees of \$1,668,014 in payment of the Agent's commission, corporate finance fees and other expenses. In addition, the Agent received options (the "Agent's Options") to acquire 3,066,666 units of the Company at an exercise price of \$0.45 per unit. Each Unit is comprised of one common share and one common shares purchase warrant exercisable at a price of \$0.65 per share subject to the same terms and conditions as the warrants. The fair value of the Agent's Options was \$471,996 and was recorded as a transaction cost. The fair value of the Agent's Options was determined using the Black-Scholes Valuation Model using the following assumptions: risk free interest rate 1.25%, expected life of 3 years, volatility of 75%.

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

The equity component of the \$17,250,000 convertible debenture was determined to be \$2,550,084 net of transaction costs of \$361,165. Convertible debentures with a principal balance of \$3,091,995 were converted into 6,871,101 common shares of the Company (Note 11) during the period. The principal balance outstanding as at January 31, 2019 is \$14,158,004.

The following is a continuity of the Company's \$17,250,000 convertible debentures:

	<b>January 31, 2019</b>
Convertible debentures issued	17,250,000
Equity component	(2,911,250)
Transaction costs - non-cash	(392,337)
Transaction costs - cash	(1,386,506)
Interest expense	604,350
Accretion expense	377,428
Converted to common shares	(2,258,822)
Interest paid - cash	(449,592)
<b>Balance - (non-current)</b>	<b>10,833,271</b>

**1933 INDUSTRIES INC.**

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**6. NON-CONTROLLING INTEREST**

The following table presents summarized financial information for the non-wholly owned subsidiaries as at January 31, 2019 and July 31, 2018:

AMA and Infused - Non-controlling interest 9%	January 31, 2019	July 31, 2018
<b>Assets</b>		
Current	\$ 3,859,929	\$ 5,493,247
Non-current	12,928,117	3,695,514
	16,788,046	9,188,761
<b>Liabilities</b>		
Current	1,009,911	2,354,720
Net assets	15,778,135	6,834,041
Non-controlling interest	368,925	231,439

**7. INVENTORY**

Inventory is comprised of:

	January 31, 2019	July 31, 2018
Harvested cannabis and trim	\$ 172,406	\$ 260,033
Cannabis oil and equivalent	1,052,515	1,010,948
Finished goods	710,015	66,353
Raw materials	131,042	102,232
Supplies and consumables	369,045	493,495
<b>Total</b>	\$ 2,435,023	\$ 1,933,061

**8. BIOLOGICAL ASSETS**

	January 31, 2019	July 31, 2018
Opening balance	\$ 311,037	\$ 56,578
Production costs capitalized	1,318,189	1,360,930
Change in fair value less costs to sell due to biological transformation	213,133	743,224
Transferred to inventory upon harvest	(1,697,774)	(1,868,982)
Foreign exchange	17,855	19,287
Ending balance	\$ 162,440	\$ 311,037

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:

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#### 8. BIOLOGICAL ASSETS (Cont'd)

Assumption	January 31, 2019	July 31, 2018	10% Change - January 31, 2019	10% Change - July 31, 2018
Estimated sales price per gram	\$US 4.13	\$US 4.13	27,208	48,691
Weighted average stage of growth	9 weeks	9 weeks	(1,809)	26,277
Expected yields by plant strain	96 grams	96 grams	21,650	34,467
Wastage	1%	5%	(214)	(488)
Post-harvest costs per gram	\$US 0.57	\$US 0.57	(1,861)	(6,779)

Biological assets are measured at fair value less costs to sell until harvest. All production costs are capitalized. As at January 31, 2019 the carrying value of biological assets consisted entirely of live cannabis plants. The Company values cannabis plants at cost from the date of initial clipping from mother plants until the end of the sixth week of its growing cycle. Measurement of the biological asset at fair value less costs to sell and costs to complete begins at the seventh week until harvest. On average, the grow cycle is approximately 15 weeks.

The fair value measurements for biological assets have been categorized as Level 3 (As per IFRS 13, Paragraph 93(d)) 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.

#### 9. PROPERTY AND EQUIPMENT

	Land	Construction In Progress	Leasehold Improvements	Production Equipment	Office Equipment	Total
	\$	\$	\$	\$	\$	\$
<b>Carrying amount</b>						
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
Additions	-	9,237,034	112,935	160,128	188,738	9,698,835
Foreign exchange	15,250	14,489	4,113	11,066	1,083	46,001
Balance, January 31, 2019	1,698,702	12,632,208	592,821	1,397,533	390,278	16,711,542
<b>Depreciation</b>						
Balance, July 31, 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
Depreciation	-	-	57,238	128,686	38,606	224,530
Foreign exchange	-	-	613	1,663	50	2,326
Balance, January 31, 2019	-	-	136,590	338,699	52,239	527,528
Carrying amount, July 31, 2018	1,683,452	3,380,685	397,034	1,017,989	186,874	6,666,034
Carrying amount, January 31, 2019	1,698,702	12,632,208	456,231	1,058,834	338,039	16,184,014

Restricted cash of \$4,922,613 is reserved for future construction costs.

## 1933 INDUSTRIES INC.

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### 10. GOODWILL

	<b>January 31, 2019</b>	<b>July 31, 2017</b>
Opening balance	\$ 21,274,604	\$ 15,546,958
Acquisition (Note 4)	-	5,044,866
Impairment - Spire Global Strategy Inc. (Note 4)	(2,000,000)	-
Foreign exchange variance	147,022	682,780
Ending balance	\$ 19,421,626	\$ 21,274,604

### 11. SHARE CAPITAL AND RESERVES

#### Authorized

Unlimited common shares with no par value and unlimited preferred shares issuable in series. As of January 31, 2019, there were 240,330,270 common shares outstanding (July 31, 2018 – 227,962,060).

#### Escrow Shares

The Company has shares subject to trading restrictions and escrow which are released in tranches through 2020. As at January 31, 2019, a total of 14,804,012 common shares were subject to these escrow restrictions.

#### Issued common shares

##### Fiscal 2019:

During the period ended January 31, 2019, the Company issued common shares as follows:

- a) 493,333 common shares were issued upon exercise of stock options at a price of \$0.15 per share for gross proceeds of \$74,000. In relation to the exercise of stock options \$54,267 was reallocated from reserves to share capital.
- b) 132,288 common shares were issued upon the exercise of warrants prices between \$0.30 - \$0.45 per share for gross proceeds of \$41,397.
- c) 4,888 common shares were issued upon the exercise of agent unit options at a price of \$0.45 per share for gross proceeds of \$2,200.
- d) 4,628,000 common shares were issued upon the conversion of \$1,157,000 of convertible debentures related to the 2017 \$6,500,000 debentures. In relation to the conversion \$34,121 was reallocated from reserves to share capital and \$1,073,880 was recorded as share capital representing the accreted balance of convertible debentures net of transaction costs.
- e) 6,871,101 common shares were issued upon the conversion of \$3,091,995 of convertible debentures related to the \$17,250,000 debentures. In relation to the conversion \$457,093 was reallocated from reserves to share capital and \$2,715,916 was recorded as share capital representing the accreted balance of convertible debentures net of transaction costs.
- f) 238,600 shares were issued for interest with a value of \$0.25 per share representing interest of \$56,650 in accordance with the debenture interest subscription agreement. The Company recognized a loss on the shares issued of \$21,474 which was recorded to share capital.



**1933 INDUSTRIES INC.**

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**11. SHARE CAPITAL AND RESERVES (Cont'd)****Fiscal 2018:**

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

- g) 6,041,671 common shares were issued upon exercise of stock options at a prices between \$0.15 and \$0.50 per share for gross proceeds of \$947,502. In relation to the exercise of stock options \$551,833 was reallocated from reserves to share capital.
- h) 43,684,882 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.
- i) 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.
- j) 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 \$3,950,333 was recorded as share capital representing the accreted balance of convertible debentures net of transaction costs.
- k) 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.
- l) 650,000 common shares were issued for compensation with a value of \$483,500
- m) 1,024,550 common shares were issued for interest with a value of \$0.25 per share representing interest of \$256,138 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 \$812,640.

**Reserves**

The following is a summary of changes in reserves:

	Stock options	Convertible debentures	Warrants	Total
<b>Balance, July 31, 2017</b>	\$ 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)
<b>Balance, July 31, 2018</b>	<b>1,304,370</b>	<b>71,826</b>	<b>470,180</b>	<b>1,846,376</b>
Share-based payments	1,616,767	-	-	1,616,767
Agent options issued as finders' fee	-	-	471,995	471,995
Equity portion of convertible debenture	-	2,550,084	-	2,550,084
Reclassified on conversion of convertible debentures	-	(491,214)	-	(491,214)
Reclassified on exercise of stock options	(54,267)	-	-	(54,267)
<b>Balance, January 31, 2019</b>	<b>\$ 2,866,870</b>	<b>\$ 2,130,696</b>	<b>\$ 942,175</b>	<b>\$ 5,939,741</b>

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

A summary of share purchase warrant activity is as follows:

	Number of Warrants	Weighted Average Exercise Price
<b>Balance at July 31, 2017</b>	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
<b>Balance at July 31, 2018</b>	16,852,297	\$ 0.32
Issued – convertible debentures	38,329,500	0.45
Issued – exercise of agent option	4,888	0.65
Exercised	(132,288)	0.31
<b>Balance at January 31, 2019</b>	55,054,397	\$ 0.55

The following table summarizes share purchase warrants outstanding as at January 31, 2019:

Expiry date	Number of Warrants	Weighted Average Exercise Price	Weighted Average Remaining Years
April 24, 2019	628,392	\$0.30	0.73
May 17, 2019	2,484,004	\$0.30	0.79
June 14, 2019	2,358,001	\$0.30	0.87
August 16, 2019	8,402,000	\$0.35	1.04
October 4, 2019	2,852,500	\$0.25	1.18
September 21, 2021	38,329,500	\$0.65	2.62
	55,054,397	\$0.55	

**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.

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**11. SHARE CAPITAL AND RESERVES (Cont'd)****Stock options (Cont'd)**

A summary of stock option activity is as follows:

	Number of Options	Weighted Average Exercise Price
<b>Balance at July 31, 2017</b>	15,235,000	\$ 0.16
Expired	(150,000)	0.15
Exercised	(6,041,670)	0.16
Granted	1,300,000	0.65
<b>Balance at July 31, 2018</b>	10,343,330	\$ 0.22
Granted	8,925,000	0.55
Exercised	(493,333)	0.15
<b>Balance at January 31, 2019</b>	18,774,997	\$ 0.38

The following table summarizes stock options outstanding and exercisable as at January 31, 2019:

Expiry date	Number of Options	Number of Exercisable Options	Weighted Average Exercise Price	Weighted Average Remaining Years
November 14, 2020	237,500	237,500	\$0.50	1.79
January 8, 2021	37,500	37,500	\$0.64	1.94
June 13, 2022	8,274,997	5,516,665	\$0.15	3.37
February 15, 2023	1,300,000	683,333	\$0.65	4.04
October 5, 2021	8,925,000	2,975,000	\$0.55	2.68
	18,774,997	6,474,998	\$0.22	3.06

Share-based compensation expense recognized during the period of \$1,616,767 (January 31, 2018 - \$243,076) related to options granted and vested during the period. The fair value of stock options was calculated using the Black-Scholes Option Pricing Model using the following weighted average assumptions:

	January 31, 2019	July 31, 2018
Risk-free interest rate	1.75%	1.75%
Expected life of options	3 years	4 years
Annualized volatility	75%	75%
Dividend rate	0%	0%
Weighted average fair value per option	\$0.24	\$0.37

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**11. SHARE CAPITAL AND RESERVES (cont'd)****Agent options**

A summary of agent option activity is as follows:

	Number of Options	Weighted Average Exercise Price
<b>Balance at July 31, 2017</b>	-	\$ -
Granted	2,155,200	0.25
Exercised	(2,127,300)	0.25
<b>Balance at July 31, 2018</b>	27,900	\$ 0.25
Granted	3,066,666	0.45
Exercised	(4,888)	0.45
<b>Balance at January 31, 2019</b>	3,089,678	\$ 0.45

The following table summarizes agent options outstanding and exercisable as at January 31, 2019:

Expiry date	Number of Options	Number of Exercisable Options	Weighted Average Exercise Price	Weighted Average Remaining Years
August 16, 2019*	27,900	27,900	\$0.25	0.54
September 14, 2021**	3,061,778	3,061,778	\$0.45	2.62
	3,089,678	3,089,678		

\*Each agent option entitles the holder to acquire one unit. Each unit is comprised of one common share and one share purchase warrant exercisable at \$0.35 until August 16, 2019.

\*\*Each agent option entitles the holder to acquire one unit. Each unit is comprised of one common share and one share purchase warrant exercisable at \$0.65 until September 14, 2021

**12. NOTES PAYABLE**

Certain 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 January 31, 2019 the remaining balance is \$39,695 (USD \$30,200).

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### 13. 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 in banks is held with reputable Canadian and the United States financial institutions, 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 January 31, 2019 the Company's financial liabilities consist of accounts payable and accrued liabilities, convertible debentures and income taxes payable, which have contractual maturities within one year, 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.

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### 13. FINANCIAL RISK MANAGEMENT (cont'd)

#### 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 January 31, 2019, 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 \$559,000.

#### 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.

### 14. CAPITAL RISK MANAGEMENT

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

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern in order to pursue the development of its business. The Company manages its capital structure and adjusts it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may issue new equity instruments, new debt, or acquire and/or dispose of assets. 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.

### 15. RELATED PARTY TRANSACTIONS

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

Key management personnel compensation during the periods ended January 31, 2019 and 2018, were as follows:

	January 31, 2019	January 31, 2018
Management and consulting fees	\$ 547,834	\$ 98,744
Interest expense - notes payable	-	320,495
Share-based payments	728,462	128,480
	\$ 1,276,296	\$ 547,719

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**15. RELATED PARTY TRANSACTIONS (cont'd)**

Other related party transactions:

	<b>January 31, 2019</b>	<b>January 31, 2018</b>
Legal fees - expense	\$ 38,032	\$ 306,057

Due to related parties:

	<b>January 31, 2019</b>	<b>July 31, 2018</b>
Notes payable	39,695	39,339

**16. COMMITMENTS****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 changes and 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

**17. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

The significant non-cash transactions for the period ended January 31, 2019 were as follows:

- a) Convertible debentures representing a principal value of \$1,157,000 were converted into 4,628,000 common shares of the Company (Note 5, 11). In relation to the conversion \$1,073,880 was recorded to share capital and \$34,121 was reallocated from reserves to share capital.
- b) Convertible debentures representing a principal value of \$3,091,995 were converted into 6,871,101 common shares of the Company (Note 5, 11). In relation to the conversion \$2,715,916 was recorded to share capital and \$457,093 was reallocated from reserves to share capital.
- c) The equity portion of convertible debentures was determined to be \$2,550,084 (Note 5).
- d) Non-cash transaction costs related to agent units issued in relation to the convertible debentures were valued at \$471,995 (Note 5).
- e) Reallocated \$54,267 from reserves to share capital upon exercise of stock options.

The Company made cash interest payments of \$579,611 during the period ended January 31, 2019. No income taxes were paid.

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**17. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS (cont'd)**

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

- a) The fair value of finders' warrants issued was \$283,661
- b) The equity component of convertible debentures was \$631,900

The Company made cash interest payments of \$95,624 during the period ended January 31, 2018. No income taxes were paid.

**18. 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 period ended January 31, 2019 is as follows:

Six months ended January 31, 2019	AMA (USA)	Infused MFG (USA)	Spire (Canada)	Corporate (Canada)	Total
Revenue	\$ 3,546,343	\$ 4,671,124	\$ 120,338	\$ -	\$ 8,337,805
Inventory expensed to cost of sales	3,172,522	1,381,649	-	-	4,554,171
Gross margin, excluding fair value items	373,821	3,289,475	120,338	-	3,783,634
Fair value adjustment on sale of inventory	148,597	-	-	-	148,597
Fair value adjustment on growth of biological assets	(213,133)	-	-	-	(213,133)
Gross margin	438,357	3,289,475	120,338	-	3,848,170
Expenses					
General and administration	734,320	1,091,088	63,269	770,976	2,659,653
Management and consulting fees	-	133,645	310,209	555,413	999,267
Wages and benefits	190,351	1,686,185	-	-	1,876,536
Professional fees	118,761	128,698	6,440	366,302	620,201
Share-based compensation	-	-	-	1,616,767	1,616,767
Interest expense	-	-	-	755,843	755,843
Accretion expense	-	-	-	436,081	436,081
Depreciation	93,395	129,924	-	1,211	224,530
Foreign exchange	-	-	-	(8,824)	(8,824)
Goodwill impairment	-	-	-	2,000,000	2,000,000
Total expenses	1,136,827	3,169,540	379,918	6,493,769	11,180,054
Income (loss) before tax	\$ (698,470)	\$ 119,935	\$ (259,580)	\$ (6,493,769)	\$ (7,331,884)
Property and equipment	\$ 15,142,098	\$ 996,915	\$ -	\$ 45,001	\$ 16,184,014
Goodwill	\$ -	\$ -	\$ -	\$ 19,421,626	\$ 19,421,626
Total assets	\$ 17,950,261	\$ 11,839,139	\$ 443,066	\$ 24,004,761	\$ 54,237,227
Total liabilities	\$ 824,263	\$ 2,243,522	\$ 43,228	\$ 11,996,053	\$ 15,107,066



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**18. SEGMENTED INFORMATION (cont'd)**

Three months ended January 31, 2019	AMA (USA)	Infused MFG (USA)	Spire (Canada)	Corporate (Canada)	Total
Revenue	\$ 1,289,579	\$ 2,392,981	\$ 38,433	\$ -	\$ 3,720,993
Inventory expensed to cost of sales	1,164,712	517,459	-	-	1,682,171
Gross margin, excluding fair value items	124,867	1,875,522	38,433	-	2,038,822
Fair value adjustment on sale of inventory	63,928	-	-	-	63,928
Fair value adjustment on growth of biological assets	(113,846)	-	-	-	(113,846)
Gross margin	174,785	1,875,522	38,433	-	2,088,740
Expenses					
General and administration	436,745	380,910	28,019	393,673	1,239,347
Management and consulting fees	-	54,168	167,500	289,633	511,301
Wages and benefits	190,351	1,100,189	-	-	1,290,540
Professional fees	46,243	62,191	2,590	214,658	325,682
Share-based compensation	-	-	-	234,076	234,076
Interest expense	-	-	-	559,487	559,487
Accretion expense	-	-	-	310,525	310,525
Depreciation	(82,586)	(33,782)	-	-	(116,368)
Foreign exchange	-	-	-	(10,214)	(10,214)
Goodwill impairment	-	-	-	2,000,000	2,000,000
Total expenses	590,753	1,563,676	198,109	3,991,838	6,344,376
Income (loss) before tax	\$ (415,968)	\$ 311,846	\$ (159,676)	\$ (3,991,838)	\$ (4,255,636)

**19. GENERAL AND ADMINISTRATION EXPENSE**

General and administration expenses were comprised of the following:

General and administrative	January 31, 2019	January 31, 2018
Advertising, promotion and selling costs	\$ 459,027	\$ 128,230
Investor relations	295,452	98,991
Office expenses and general administration	997,464	598,260
License fees, taxes, and insurance	668,682	170,464
Travel and entertainment	239,028	65,877
<b>Total</b>	<b>\$ 2,659,653</b>	<b>\$ 1,061,822</b>

**20. SUBSEQUENT EVENTS**

The following transactions occurred subsequent to January 31, 2019:

- a) Issued 2,164,000 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 \$541,000.
- b) Issued 4,762,599 common shares upon the exercise of warrants for gross proceeds of \$1,437,905.
- c) Issued 383,334 common shares upon the exercise of stock options for gross proceeds of \$57,500.
- d) Issued 3,028,885 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 \$1,362,998.

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### 20. SUBSEQUENT EVENTS (cont'd)

- e) In March 2019 completed a non-brokered private placement of 10,000,000 units at a price of \$0.45 per unit for gross proceeds of \$4,500,000. Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one common share at a price of \$0.50 per share for 24 months. The Company may force acceleration of the warrants on less than 30 days' notice should the trading price of the company's shares on the Canadian Securities Exchange be greater than \$0.75 for any 10 consecutive trading days.
- f) In March 2019 the Company announced that it had signed a Membership Interest Purchase Definitive Agreement ("the Agreement") between the holder of the nine percent (9%) of the issued and outstanding membership interests Infused MFG, and the Company, the beneficial holder of ninety-one percent (91%) of the issued and outstanding membership interests of Infused MFG.

Subject to the terms of the Agreement, the purchase price provides for a payment of \$1,248,000, payable through the issuance of a promissory note with a principal value of US\$940,000 and a maturity date of December 1, 2019; and the issuance of 7,000,000 common shares of the Company based on a deemed share price of \$0.45 per share. The note shall bear interest at a rate of 6.0% per annum and interest only payments shall be due on the first of each month until repaid. The maturity date of the note shall be accelerated in the event among other things the completion of a capital raise by the Company generating aggregate gross proceeds exceeding \$10,000,000.

The note shall be secured with 7% of issued and outstanding membership interest of Infused. The Shares will be subject to four month and one day hold period required by applicable securities laws in Canada and such additional restrictions as may be applicable pursuant to U.S. securities laws, but shall not be subject to escrow. The purchase price also includes the issuance by the Company of 1,000,000 non-transferable share purchase warrants with a strike price equal to the market price at closing on the trading day immediately preceding the closing date. The Warrants will have an expiration date of two years from the closing date.