



1933 INDUSTRIES INC.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended October 31, 2020 and 2019

(Expressed in Canadian Dollars)

(Unaudited)

Notice of Disclosure of Non-auditor Review of the Condensed Interim Consolidated Financial Statements for the three months ended October 31, 2020.

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

The accompanying unaudited condensed interim consolidated financial statements of 1933 Industries Inc. (“the Company” or “1933 Industries”) for the interim period ended October 31, 2020, have been prepared in accordance with the International Accounting Standard 34 – *Interim Financial Reporting* as issued by the International Accounting Standards Board and are the responsibility of the Company’s management.

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

December 29, 2020

1933 INDUSTRIES INC.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Expressed in Canadian dollars) - Unaudited

	Note	October 31, 2020	July 31, 2020
ASSETS			
Current			
Cash		\$ 2,044,573	\$ 2,761,542
Receivables		1,159,118	988,009
Inventory	4	2,315,503	2,274,307
Biological assets	5	546,946	810,332
Prepaid expenses and deposits	6,11(e)	1,166,219	954,730
Total current assets		7,232,359	7,788,920
Property and equipment	7	21,605,610	22,094,842
Goodwill	8	16,593,556	16,700,708
Total assets		\$ 45,431,525	\$ 46,584,470
LIABILITIES AND EQUITY			
Current			
Accounts payable and accrued liabilities	15	\$ 1,901,053	\$ 1,387,547
Current portion of lease liability	10	267,442	295,088
Current portion of convertible debentures	10	10,050,831	-
Total current liabilities		12,219,326	1,682,635
Lease liability	9	14,494,949	14,526,481
Convertible debentures	10	-	10,923,172
Total liabilities		26,714,275	27,132,288
EQUITY			
Share capital	11	72,741,818	70,887,770
Reserves	11(d)	6,993,665	6,653,522
Accumulated other comprehensive income		715,761	817,190
Deficit		(60,679,416)	(57,996,162)
Equity attributable to shareholders of the Company		19,771,828	20,362,320
Non-controlling interest	12	(1,054,578)	(910,138)
Total equity		18,717,250	19,452,182
Total liabilities and equity		\$ 45,431,525	\$ 46,584,470

Approved on behalf of the Board of Directors and authorized for issuance on December 29, 2020:

 "Signed"
 Brian Farrell, Director

 "Signed"
 Terry Taouss, Director

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

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

For the three months ended October 31, 2020 and 2019

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

	Note	2020	2019
Revenues		\$ 2,687,516	\$ 3,881,183
Cost of sales			
Inventory expensed to cost of sales		1,845,811	2,401,411
Gross margin, excluding fair value items		841,705	1,479,772
Fair value adjustment on sale of inventory		(666,939)	-
Fair value adjustment on biological assets	5	553,934	605,332
Gross margin		728,700	2,085,104
Expenses			
General and administration	18	1,228,567	2,337,219
Management and consulting fees	15	79,505	367,028
Wages and benefits	15	566,139	980,655
Professional fees		211,042	228,134
Share-based compensation	11,15	253,682	554,594
Interest expense	9,10	707,545	667,908
Accretion expense	10	40,122	276,527
Depreciation	7	463,426	489,570
Foreign exchange gain		(5,341)	(233)
		3,544,687	5,901,402
Net loss from continuing operations		(2,815,987)	(3,816,298)
Net loss from discontinued operations	19	(2,590)	-
Net loss for the period		\$ (2,818,577)	\$ (3,816,298)
Net loss from continuing operations attributable to:			
Shareholders of the Company		\$ (2,680,664)	\$ (3,757,703)
Non-controlling interest		\$ (135,323)	\$ (58,595)
Net loss attributable to:			
Shareholders of the Company		\$ (2,683,254)	\$ (3,757,703)
Non-controlling interest		\$ (135,323)	\$ (58,595)
Net loss from continuing operations per share			
Basic and Diluted		\$ (0.01)	\$ (0.01)
Net loss per share			
Basic and Diluted		\$ (0.01)	\$ (0.01)
Weighted average number of shares outstanding			
Basic and Diluted		320,970,618	284,779,959

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

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

For the three months ended October 31, 2020 and 2019

(Expressed in Canadian dollars) - Unaudited

	2020	2019
Net loss for the period	\$ (2,818,577)	\$ (3,816,298)
Other comprehensive loss		
Foreign currency translation adjustment	(110,546)	(146,002)
Comprehensive loss for the period	(2,929,123)	(3,962,300)
Comprehensive loss attributable to:		
Shareholders of the Company	(2,683,254)	(3,757,703)
Non-controlling interest	(135,323)	(58,595)
Translation adjustment – Shareholders of the Company	(101,429)	(143,151)
Translation adjustment – Non-controlling interest	(9,117)	(2,851)
	\$ (2,929,123)	\$ (3,962,300)

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

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

For the three months ended October 31, 2020 and 2019

(Expressed in Canadian dollars) - Unaudited

	Note	2020	2019
Operating Activities			
Net loss from continuing operations		\$ (2,815,987)	\$ (3,816,298)
Adjustments to non-cash items:			
Fair value adjustment on sale of inventory		666,939	-
Fair value adjustment on growth of biological assets	5	(553,934)	(605,332)
Share-based compensation	11(f)	253,682	554,594
Accretion expense	10	40,122	276,527
Depreciation	7	463,426	489,570
Accrued interest	10	247,944	310,967
Warrants issued for professional fees	11(e)	11,712	20,614
Shares issued for compensation	11(c)	-	170,752
Changes in non-cash working capital items:			
Inventory and biological assets		159,979	(972,193)
Receivables		(164,174)	(91,186)
Prepaid expenses and deposits		(178,679)	871,445
Accounts payable and accrued liabilities		517,208	(774,639)
Cash used in operating activities of continuing operations		(1,351,762)	(3,565,179)
Cash used in operating activities of discontinued operations	19	(2,590)	-
Investing Activities			
Property and equipment	7	(118,189)	(153,670)
Cash used in investing activities		(118,189)	(153,670)
Financing Activities			
Common shares issued for cash – private placement	11(c)	788,253	-
Common shares issued for cash – exercise of stock options	11(c)	-	12,000
Common shares issued for cash – exercise of warrants	11(c)	-	1,181,806
Share issue costs	11(c)	(6,037)	-
Lease repayment	9	(156,263)	(43,976)
Cash provided by financing activities		625,953	1,149,830
Effect of exchange rate changes on cash		129,619	(172,604)
Decrease in cash		(716,969)	(2,741,623)
Cash, beginning of period		2,761,542	17,613,900
Cash, end of period		\$ 2,044,573	\$ 14,872,277

Supplemental disclosure with respect to cash flows (note 16)

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

1933 INDUSTRIES INC.

CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

	Note	Number	Issued capital	Reserves	Accumulated other comprehensive income (loss)	Deficit	Non- controlling interest	Total
Balance, July 31, 2019		81,509,693	\$ 67,467,929	\$ 6,329,323	\$ (8,444)	\$ (36,310,938)	\$ (289,466)	\$ 37,188,404
Adjustment on application of IFRS 16		-	-	-	-	(76,725)	-	-
Balance, August 1, 2019		281,509,693	\$ 67,467,929	\$ 6,329,323	\$ (8,444)	\$ (36,387,663)	\$ (289,466)	\$ 37,111,679
Shares issued - exercise of options	11	80,000	21,616	(9,616)	-	-	-	12,000
Shares issued - exercise of warrants	11	3,376,588	1,181,806	-	-	-	-	1,181,806
Shares issued - conversion of convertible debentures \$0.45	11,10	44,444	18,766	(2,904)	-	-	-	15,862
Shares issued - bonus	11,15	467,814	170,752	-	-	-	-	170,752
Share-based compensation	11,15	-	-	554,594	-	-	-	554,594
Warrants issued - services	11	-	-	240,500	-	-	-	240,500
Translation adjustment		-	-	-	(143,151)	-	(2,851)	(146,002)
Net loss for the period		-	-	-	-	(3,757,703)	(58,595)	(3,816,298)
Balance, October 31, 2019		285,478,539	\$ 68,860,869	\$ 7,111,897	\$ (151,595)	\$ (40,145,366)	\$ (350,912)	\$ 35,324,893

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

1933 INDUSTRIES INC.

CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

	Note	Number	Issued capital	Reserves	Accumulated other comprehensive income (loss)	Deficit	Non- controlling interest	Total
Balance, July 31, 2020		305,647,546	\$ 70,887,770	\$ 6,653,522	\$ 817,190	\$ (57,996,162)	\$ (910,138)	\$ 19,452,182
Shares issued - conversion of convertible debentures \$0.10	10,11	11,817,739	1,181,774	(23,481)	-	-	-	1,158,293
Shares issued – private placement	11	10,510,040	679,147	109,106	-	-	-	788,253
Share-based compensation	11	-	-	253,682	-	-	-	253,682
Share issue costs	11	-	(6,873)	836	-	-	-	(6,037)
Translation adjustment		-	-	-	(101,429)	-	(9,117)	(110,546)
Non-controlling interest		-	-	-	-	-	(135,323)	(135,323)
Net loss for the year		-	-	-	-	(2,683,254)	-	(2,683,254)
Balance, October 31, 2020		327,975,325	\$ 72,741,818	\$ 6,993,665	\$ 715,761	\$ (60,679,416)	\$ (1,054,578)	\$ 18,717,250

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

1933 INDUSTRIES INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2020 and 2019

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

1. NATURE OF OPERATIONS

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

The Company operates in the medical and recreational cannabis sectors in Nevada, USA. Alternative Medicine Association ("AMA"), a 91% owned subsidiary of the Company is licensed in the State of Nevada as (i) a cultivation facility; and (ii) a production facility for edible, or cannabis-infused products. On November 4, 2020, the Company acquired the remaining 9% interest in AMA Production LLC ("AMA Pro") from the holders to make the Company's share in AMA Pro 100% (note 22). Infused Mfg ("Infused"), a 100% owned subsidiary of the Company, is focused on developing, acquiring and designing hemp and CBD-infused products and brands for retail sale and use in jurisdictions where permitted. On April 1, 2019, the Company acquired the remaining 9% interest in Infused from the holder to make the Company's share in Infused 100%.

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

On January 4, 2018, United States Attorney General Jeff Sessions issued a memorandum to United States district attorneys (the "Sessions Memorandum") which rescinded previous guidance from the United States Department of Justice specific to cannabis enforcement in the United States, including the Cole Memorandum. With the Cole Memorandum rescinded, United States federal prosecutors no longer have guidance relating to the exercise of their discretion in determining whether to prosecute cannabis related violations of United States federal law. In response to the Sessions Memorandum, on April 13, 2018, the United States President Donald Trump promised Colorado Senator Cory Gardner that he will support efforts to protect states that have legalized cannabis. Former United States Attorney General Sessions resigned on November 7, 2018 and was replaced by William Barr on February 14, 2019. In a written response to questions from U.S. Senator Cory Booker as nominee, Attorney General Barr stated, "I do not intend to go after parties who have complied with state law in reliance on the Cole Memorandum." Nevertheless, a significant change in the federal government's enforcement policy with respect to current federal laws applicable to cannabis could cause significant financial damage to the Company. The Company may be irreparably harmed by a change in enforcement policies of the federal government depending on the nature of such change.

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

In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak and any related adverse public health developments may adversely affect workforces, economies, and financial markets globally, potentially leading to an economic downturn. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company's business or results of operations at this time.

2. BASIS OF PRESENTATION

a) Statement of compliance

These unaudited condensed interim consolidated financial statements ("interim financial statements") were approved by the Board of Directors and authorized for issue on December 29, 2020.

These interim financial statements have been prepared in accordance with International Accounting Standard 34 - *Interim Financial Reporting* using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). As such, these interim financial statements do not contain all the disclosures required by IFRS for annual financial statements and should be read in conjunction with the Company's audited annual consolidated financial statements for the years ended July 31, 2020 and 2019 ("annual financial statements").

1933 INDUSTRIES INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2020 and 2019

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

2. BASIS OF PRESENTATION (continued)

b) Basis of measurement

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

c) Functional and presentation currency

These interim financial statements are presented in Canadian dollars. The functional currency of the Company is the Canadian dollar. See "Basis of consolidation" for the functional currency of the Company's subsidiaries.

d) Basis of consolidation

All inter-company balances, transactions, revenues and expenses have been eliminated on consolidation. These interim financial statements incorporate the accounts of the Company and the following subsidiaries:

Name of subsidiary	Abbreviation	Country of Incorporation	Percentage Ownership	Functional Currency	Principal Activity
1080034 B.C. Ltd.	0034 BC	Canada	100%	CAD	Holding company
1933 Management Services Inc.	FNM	USA	100%	USD	Holding company
1933 Legacy Inc. ⁽¹⁾	Legacy	USA	100%	USD	Holding Company Hemp and CBD – Infused products
Infused Mfg LLC	Infused MFG	USA	100%	USD	
FN Pharmaceuticals LLC	FNP	USA	100% ⁽²⁾	USD	Holding company Cannabis cultivation and production
Alternative Medicine Association LLC	AMA	USA	91%	USD	
AMA Productions LLC ⁽³⁾	AMA Pro	USA	91%	USD	Holding Company
Spire Secure Logistics Inc.	Spire	Canada	100%	CAD	Inactive

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

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

⁽³⁾ On November 4, 2020, the Company acquired the remaining 9% interest in AMA Pro from the holders to make the Company's share in AMA Pro 100% (note 20).

e) Reclassification of prior year amounts

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

4. INVENTORY

	October 31, 2020	July 31, 2020
Harvested cannabis and trim	\$ 651,971	\$ 612,432
Cannabis oil and equivalent	1,080,287	1,005,160
Finished goods	276,157	316,088
Raw materials	307,088	340,627
	<u>\$ 2,315,503</u>	<u>\$ 2,274,307</u>

1933 INDUSTRIES INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2020 and 2019

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

5. BIOLOGICAL ASSETS

	October 31, 2020		July 31, 2020
Balance, beginning of period	\$ 810,332	\$	168,400
Production costs capitalized	1,208,002		4,583,766
Change in fair value less costs to sell	553,934		(310,281)
Transferred to inventory upon harvest	(2,018,255)		(3,622,410)
Unrealized foreign exchange loss	(7,067)		(9,143)
Balance, end of period	\$ 546,946	\$	810,332

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	October 31, 2020		July 31, 2020
Estimated sales price per gram	USD\$ 3.29	USD\$	3.57
Weighted average stage of growth	11 weeks		9 weeks
Expected yields by plant strain	95 grams		95 grams
Wastage	13%		5%
Post – harvest cost per gram	USD\$ 0.57	USD\$	0.29

Biological assets are measured at fair value less costs to sell until harvest. All production costs are capitalized. As at October 31, 2020 the carrying value of biological assets consisted entirely of live cannabis plants. The Company values cannabis plants at cost from the date of initial clipping from mother plants until the end of the sixth week of its growing cycle. Measurement of the biological asset at fair value less costs to sell and costs to complete begins at the seventh week until harvest. On average, the grow cycle is approximately 17 weeks.

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

Increases in cost required up to the point of harvest, harvesting costs and selling costs will decrease the fair value of biological assets, while increases in sales price and expected yield for the cannabis plant will increase the fair value of biological assets.

6. PREPAID EXPENSES AND DEPOSITS

	October 31, 2020		July 31, 2020
Prepaid expenses	\$ 716,866	\$	508,618
Security deposit	449,353		446,112
	\$ 1,166,219	\$	954,730

1933 INDUSTRIES INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2020 and 2019

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

7. PROPERTY AND EQUIPMENT

	Land	Construction in Progress	Leasehold Improvements	Production Equipment	Office Equipment	Right of Use	Total
Cost							
Balance, July 31, 2019	\$ 1,128,961	\$ 2,701,409	\$ 809,108	\$ 4,331,694	\$ 255,675	\$ 12,973,886	\$ 22,200,733
Adoption of IFRS 16	-	-	-	-	-	1,832,615	1,832,615
Additions	-	465,074	79,208	800,494	20,877	-	1,365,653
Disposals	-	-	-	(140,378)	-	-	(140,378)
Foreign exchange gain	21,982	43,763	56,283	237	3,665	281,759	407,689
Balance, July 31, 2020	\$ 1,150,943	\$ 3,210,246	\$ 944,599	\$ 4,992,047	\$ 280,217	\$ 15,088,260	\$ 25,666,312
Additions	-	-	-	451	117,738	-	118,189
Foreign exchange loss	(7,384)	(20,597)	(6,061)	(32,026)	(638)	(85,573)	(152,279)
Balance, October 31, 2020	\$ 1,143,559	\$ 3,189,649	\$ 938,538	\$ 4,960,472	\$ 397,317	\$ 15,002,687	\$ 25,632,221
Accumulated depreciation							
Balance, July 31, 2019	\$ -	\$ -	\$ 127,879	\$ 500,255	\$ 141,912	\$ 109,894	\$ 879,940
Adoption of IFRS 16	-	-	-	-	-	447,561	447,561
Depreciation	-	-	94,430	334,378	41,123	1,715,709	2,185,640
Disposals	-	-	-	(10,449)	-	-	(10,449)
Foreign exchange gain	-	-	1,123	13,893	380	53,382	68,778
Balance, July 31, 2020	\$ -	\$ -	\$ 223,432	\$ 838,077	\$ 183,415	\$ 2,326,546	\$ 3,571,470
Additions	-	-	20,186	218,760	9,285	215,195	463,426
Foreign exchange gain (loss)	-	-	132,886	365,295	731	(507,196)	(8,284)
Balance, October 31, 2020	\$ -	\$ -	\$ 376,504	\$ 1,422,132	\$ 193,431	\$ 2,034,545	\$ 4,026,612
Carrying amount							
Balance, July 31, 2020	\$ 1,150,943	\$ 3,210,246	\$ 721,167	\$ 4,153,970	\$ 96,802	\$ 12,761,714	\$ 22,094,842
Balance, October 31, 2020	\$ 1,143,559	\$ 3,189,649	\$ 562,034	\$ 3,538,340	\$ 203,886	\$ 12,968,142	\$ 21,605,610

1933 INDUSTRIES INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2020 and 2019

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

8. GOODWILL

	October 31, 2020		July 31, 2020
Balance, beginning of period	\$ 16,700,708	\$	16,381,744
Unrealized foreign exchange (loss) gain	(107,152)		318,964
Balance, end of period	\$ 16,593,556	\$	16,700,708

9. LEASE LIABILITY

	October 31, 2020		July 31, 2020
Balance, beginning of period	\$ 14,821,569	\$	13,077,791
Adoption of IFRS 16	-		1,539,523
Repayment of lease obligation	(615,864)		(1,548,652)
Interest expense	459,601		1,396,525
Unrealized foreign exchange loss	97,085		356,382
Balance, end of period	14,762,391		14,821,569
Less: Non-current portion	14,494,949		14,526,481
Current portion of lease liability	\$ 267,442	\$	295,088

Total expenses during the three months ended October 31, 2020 relating to short-term leases and low-value leases totaled \$3,117 (three months ended October 31, 2019 - \$70,526).

10. CONVERTIBLE DEBENTURES

	October 31, 2020		July 31, 2020
Balance, beginning of period	\$ 10,923,172	\$	9,879,125
Modification of convertible debenture	-		1,356,868
Interest expense	247,944		1,234,346
Accretion expense	40,122		1,067,107
Converted to common shares	(1,087,633)		(1,889,323)
Interest paid – cash	-		(622,050)
Interest paid – shares	(72,774)		(102,901)
Balance, end of period	10,050,831		10,923,172
Less: non-current portion	-		10,923,172
Current portion of convertible debentures	\$ 10,050,831	\$	-

\$17,250,000 convertible debenture units

On September 14, 2018, the Company closed a short form prospectus offering of convertible debenture units raising gross proceeds of \$17,250,000. Pursuant to the offering, the Company issued an aggregate of 17,250 debenture units at a price per debenture unit of \$1,000. Each debenture unit consisted of: (i) one 10.0% unsecured convertible debenture of the Company in the principal amount of \$1,000 convertible into common shares at a conversion price of \$0.45 per common share at the option of the holder, with interest payable semi-annually in arrears on June 30 and December 31 of each year and maturing on September 14, 2021; and (ii) 2,222 common share purchase warrants expiring September 14, 2021.

Each warrant will entitle the holder thereof to purchase one common share at an exercise price of \$0.65 per share until September 14, 2021, subject to adjustment in certain events.

The Company paid cash fees of \$1,668,014 in payment of the Agent's commission, corporate finance fees and other expenses of which \$45,000 was paid prior to July 31, 2019 and recorded as a deferred financing cost. In addition, the Agent received options (the "September 2018 Agent's Options") to acquire 3,066,666 units of the Company at an exercise price of \$0.45 per unit. Each unit is comprised of one common share and one common share purchase warrant exercisable at a price of \$0.65 per share subject to the same terms and conditions as the warrants. The fair value of the September 2018 Agent's Options was \$738,547 and was recorded as a transaction cost. The fair value of the September 2018 Agent's Options was determined using the Black-Scholes Valuation Model using the following assumptions: risk free interest rate 1.25%, expected life of 3 years, volatility of 75%.

1933 INDUSTRIES INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2020 and 2019

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

10. CONVERTIBLE DEBENTURES (continued)

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

On June 28, 2020, the Company amended the terms of the convertible debentures. The following were the significant amendments:

- the conversion price applicable to the debentures was amended from \$0.45 per common share to \$0.10 per common share;
- the price at which the Company may require a forced conversion of the debentures is amended from \$0.70 per common share to \$0.15 per common share, with any such conversion to be made at the amended conversion price of \$0.10 per common share;
- the Company is authorized, at its discretion, to pay interest due on the debentures in cash or through the issuance of its common shares, at a price of \$0.10 per common share; and
- payment of interest is amended from being payable semi-annually in arrears on the last day of June and December in each year to being payable at the maturity date of the debentures.

The equity component of the \$17,250,000 convertible debenture was initially determined to be \$2,505,099 net of transaction costs of \$406,151. At June 28, 2020, the remaining equity component of the original convertible debenture was \$1,805,415. The Company determined that the June 28, 2020 modification was a substantial modification as defined by IFRS 9, *Financial Instruments*, and as a result derecognized the debt obligation and equity component (conversion option). The equity component of the remaining principal balance of the convertible debentures of \$12,432,007 was determined to be \$263,220. The Company did not incur any transaction costs associated with the amendment. As a result of the amendment, the Company recognized a gain on debt modification of \$185,327 which is the result of the amendment to the equity component of \$1,542,195 less the amendment to the debt obligation of \$1,356,868.

During the three months ended October 31, 2020, convertible debentures with a principal balance of \$1,100,000 and interest payable of \$72,774 were converted into 11,817,739 common shares of the Company (note 11). The principal and interest balance outstanding as at July 31, 2020 is \$9,418,000 and \$684,595, respectively. The balance per the statement of financial position at October 31, 2020 of \$10,050,831 represents the principal balance, which has been discounted for the equity component. The balance will be increased each period through accretion expense to increase the balance to the principal and interest balance outstanding over the remaining term of the convertible debentures.

11. SHARE CAPITAL AND RESERVES

a) Authorized

Unlimited common shares with no par value and unlimited preferred shares issuable in series. As of October 31, 2020, there were 327,975,325 common shares outstanding (July 31, 2020 – 305,647,546).

b) Escrow shares

The Company has 10,510,040 shares subject to a regulatory hold period expiring on January 5, 2021. The Company does not have any shares subject to escrow restrictions.

c) Issued common shares

The Company had the following common share transactions during the three months ended October 31, 2020:

- On September 4, 2020, pursuant to the closure of its private placement, the Company issued 10,510,040 Units at a price of \$0.075 per Unit for gross proceeds of \$788,253. Each Unit consists of one common share of the Company and one-half share purchase warrant. Each warrant entitles the holder to acquire one common share of the Company at an exercise price of \$0.125 per Unit until September 4, 2022. Share issue costs included cash payment for finders' fees of \$6,037 and the issuance of 40,250 share purchase warrants valued at \$836 using the Black-Scholes option pricing model with the following assumptions: a two-year expected average life, share price of \$0.06; 100% volatility; risk-free interest rate of 0.25%; and an expected dividend yield of 0%. Consideration of \$109,106 was recorded to warrant reserve and the residual amount of \$679,147 was recorded to share capital.

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11. SHARE CAPITAL AND RESERVES (continued)

- The Company issued 11,817,739 common shares pursuant to the conversion of \$1,109,000 of convertible debentures and interest payable on the convertible debentures of \$72,774. In relation to the conversion \$23,481 was reallocated from reserves to share capital and \$1,181,774 was recorded as share capital representing the accreted balance of convertible debentures net of transaction costs.

The Company had the following common share transactions during the year ended July 31, 2020:

- On September 4, 2019, the Company issued 44,444 common shares pursuant to the conversion of \$20,000 of convertible debentures. In relation to the conversion \$2,904 was reallocated from reserves to share capital and \$18,766 was recorded as share capital representing the accreted balance of convertible debentures net of transaction costs.
- On September 19, 2019, the Company issued 291,901 common shares with a fair value of \$106,544 as share-based compensation to the Chairman of the Board.
- On September 19, 2019, the Company issued 175,913 common shares with a fair value of \$64,208 as share-based compensation to the CEO.
- The Company issued 20,169,007 common shares pursuant to the conversion of \$1,914,000 of convertible debentures and interest payable of \$102,901. In relation to the conversion \$40,525 was reallocated from reserves to share capital and \$2,016,901 was recorded as share capital representing the accreted balance of convertible debentures net of transaction costs.
- The Company issued 80,000 common shares upon exercise of stock options at a price of \$0.15 per share for gross proceeds of \$12,000. In relation to the exercise of stock options \$9,616 was reallocated from reserves to share capital.
- The Company issued 3,376,588 common shares upon the exercise of warrants at a price of \$0.35 per share for gross proceeds of \$1,181,806.
- The Company received \$10,000 related to a share issuance during the year ended July 31, 2019. The amount has been allocated to share capital.

d) Reserves

The following is a summary of changes in reserves:

	Stock options	Convertible debentures	Warrants	Total
Balance, July 31, 2019	\$ 3,255,449	\$ 1,808,319	\$ 1,265,555	\$ 6,329,323
Share-based payments	1,782,803	-	-	1,782,803
Warrants issued for services	-	-	136,636	136,636
Convertible debenture modification	-	(1,542,195)	-	(1,542,195)
Reclassified on conversion of convertible debentures	-	(43,429)	-	(43,429)
Reclassified on exercise of stock options and Agents options	(9,616)	-	-	(9,616)
Balance, July 31, 2020	\$ 5,028,636	\$ 222,695	\$ 1,402,191	\$ 6,653,522
Warrants issued for services	253,682	-	-	253,682
Warrants issued for share issue costs	-	-	836	836
Warrants issued on private placement	-	-	109,106	109,106
Reclassified on conversion of convertible debentures	-	(23,481)	-	(23,481)
Balance, October 31, 2020	\$ 5,282,318	\$ 199,214	\$ 1,512,133	\$ 6,993,665

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11. SHARE CAPITAL AND RESERVES (continued)**e) Warrants**

A summary of share purchase warrant activity is as follows:

	Number of Warrants	Weighted Average Exercise Price (\$)
Balance, July 31, 2019	50,287,316	0.62
Issued – services	650,000	0.37
Expired	(16,750)	0.35
Exercised	(50,000)	0.35
Balance, July 31, 2020	50,870,566	0.61
Issued – private placement	5,295,270	0.13
Balance, October 31, 2019	56,165,836	0.57

For warrants issued for services during the year ended July 31, 2020, the Company recorded an expense to professional fees during the three months ended October 31, 2020 of \$11,712 (2019 - \$20,614) on the consolidated statement of loss for services received. As at October 31, 2020, the Company recorded a prepaid expense of \$78,077 (July 31, 2020 - \$89,789) with respect to prepaid services.

The following table summarizes share purchase warrants outstanding as at October 31, 2020:

Expiry date	Number of Warrants	Weighted Average Exercise Price (\$)	Weighted Average Remaining Years
March 14, 2021	10,000,000	0.50	0.37
March 28, 2021	1,000,000	0.53	0.41
September 14, 2021	39,220,566	0.65	0.87
June 13, 2022	650,000	0.37	1.62
September 4, 2022	5,255,020	0.125	1.84
September 4, 2022	40,250	0.125	1.84
	56,165,836	0.57	0.87

f) Stock options

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

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

A summary of stock option activity is as follows:

	Number of Options	Weighted Average Exercise Price (\$)
Balance, July 31, 2019	17,196,666	0.41
Granted	8,050,000	0.35
Exercised	(80,000)	0.15
Cancelled	(7,996,666)	0.36
Balance, July 31, 2020	17,170,000	0.40
Granted	9,200,000	0.075
Cancelled	(5,340,000)	0.40
Balance, October 31, 2020	21,030,000	0.26

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11. SHARE CAPITAL AND RESERVES (continued)

The following table summarizes stock options outstanding and exercisable as at October 31, 2020:

Expiry date	Number of Options	Number of Exercisable Options	Weighted Average Exercise Price (\$)	Weighted Average Remaining Years
November 14, 2020	50,000	50,000	0.50	0.04
May 31, 2021	500,000	500,000	0.50	0.58
October 4, 2021	2,890,000	2,856,667	0.55	0.93
June 13, 2022	2,450,000	2,450,000	0.15	1.62
June 13, 2022	240,000	240,000	0.15	1.62
August 15, 2022	3,050,000	1,900,000	0.35	1.79
January 19, 2023	250,000	83,333	0.35	2.22
February 15, 2023	1,300,000	1,300,000	0.65	2.29
February 25, 2023	1,000,000	333,333	0.35	2.32
May 2, 2024	100,000	100,000	0.55	3.50
August 6, 2025	9,200,000	-	0.075	4.77
	21,030,000	9,813,333	0.26	2.99

Share-based compensation expense recognized during the three months ended October 31, 2020 of \$253,682 (2019 - \$554,594) related to options granted and vested during the period. The Company granted 9,200,000 stock options during the three months ended October 31, 2020 (2019 - 6,800,000). The fair value of stock options was calculated using the Black-Scholes Option Pricing Model using the following weighted average assumptions:

	2020	2019
Risk-free interest rate	0.26%	1.39%
Expected life of options	3 years	3 years
Annualized volatility	100%	100%
Dividend rate	0%	0%
Weighted average fair value per option	\$0.03	\$0.16

g) Agent Options

A summary of Agent Option activity is as follows:

	Number of Options	Weighted Average Exercise Price (\$)
Balance, July 31, 2019	2,198,112	0.45
Expired	(7,000)	0.25
Balance, July 31, 2020 and October 31, 2020	2,191,112	0.45

The following table summarizes Agent Options outstanding and exercisable as at October 31, 2020:

Expiry date	Number of Options	Number of Exercisable Options	Weighted Average Exercise Price (\$)	Weighted Average Remaining Years
September 14, 2021 ⁽¹⁾	2,191,112	2,191,112	0.45	0.87
	2,191,112	2,191,112	0.45	0.87

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

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12. NON-CONTROLLING INTEREST

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

	October 31, 2020		July 31, 2020
Assets			
Current	\$ 3,518,985	\$	3,597,027
Non-current	20,616,593		21,110,905
	24,135,578		24,707,932
Liabilities			
Current	724,054		707,797
Non-current	13,710,334		13,801,919
	14,434,388		14,509,716
Net assets	9,701,190		10,198,216
Non-controlling interest	\$ (1,054,578)	\$	(910,138)
2020			
Revenues	\$ 1,636,043	\$	6,225,206
Net loss	\$ (1,112,320)	\$	(6,266,100)

13. FINANCIAL RISK MANAGEMENT

Fair value of financial assets and liabilities

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

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

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

14. CAPITAL RISK MANAGEMENT

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

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

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

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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 for the three months ended October 31, 2020 and 2019, was as follows:

	2020	2019
Management and consulting fees	\$ 84,300	\$ 224,917
Directors fees	54,230	-
Shares issued for compensation	-	170,752
Share-based payments	195,803	457,848
	\$ 334,333	\$ 853,517

Other related party transactions for the three months ended October 31, 2020 and 2019, were as follows:

	2020	2019
Legal fees	\$ 2,344	\$ 7,524
Rent	-	17,921
Wages and benefits	136,795	164,711
	\$ 139,139	\$ 190,155

16. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

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

- Convertible debentures of \$1,100,000 and interest payable on the convertible debentures of \$72,774 were converted into 11,817,739 common shares of the Company (notes 10 and 11(c)). In relation to the conversion \$1,181,774 was recorded to share capital and \$23,481 was reallocated from reserves to share capital.
- Share issue costs included \$836 with respect to 40,250 warrants issued as finders fees (note 11(c)).
- The Company made cash interest payments of \$nil. No income taxes were paid.

The significant non-cash transactions for the three months ended October 31, 2019 were as follows:

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

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17. SEGMENTED INFORMATION

The Company operates in three segments, referred to as AMA, Infused MFG, and Corporate. AMA is focused on the cultivation and sale of medical and adult use cannabis products, and Infused MFG is focused on the manufacturing of Hemp derived CBD products. The corporate head office is located in Canada while the operations of AMA and Infused MFG are located in the United States. Segmented information for the three months ended October 31, 2020 and 2019 is as follows:

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

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17. SEGMENTED INFORMATION (continued)

Three months ended October 31, 2019	AMA		Infused MFG		Corporate		Total
Revenues	\$	1,759,367	\$	2,121,816	\$	-	\$ 3,881,183
Cost of sales		862,091		933,988		-	1,796,079
Gross margin		897,276		1,187,828		-	2,085,104
Expenses							
General and administration		503,137		673,354		1,160,728	2,337,219
Management and consulting fees		-		-		367,028	367,028
Wages and benefits		-		261,032		719,623	980,655
Professional fees		81,535		65,700		80,899	228,134
Share-based compensation		-		-		554,594	554,594
Interest expense		340,930		7,431		319,547	667,908
Accretion expense		-		-		276,527	276,527
Depreciation		387,009		51,210		51,351	489,570
Foreign exchange gain		-		-		(233)	(233)
		1,312,611		1,058,727		3,530,064	5,901,402
Income (loss) from continuing operations before income tax	\$	(415,335)	\$	129,101	\$	(3,530,064)	\$ (3,816,298)
As at October 31, 2019							
Property and equipment	\$	17,663,325	\$	1,727,019	\$	3,339,762	\$ 22,730,106
Goodwill		4,593,804		11,788,025		-	16,381,829
Total assets		27,680,469		18,785,002		14,893,137	61,358,608
Total liabilities	\$	13,909,177	\$	1,118,106	\$	11,006,432	\$ 26,033,715

18. GENERAL AND ADMINISTRATION EXPENSE

General and administration expense information for the three months ended October 31, 2020 and 2019 is as follows:

	2020		2019	
Advertising, promotion and selling costs	\$	109,913	\$	574,598
Investor relations		91,022		575,654
Office expenses and general administration		492,367		736,678
License fees, taxes, and insurance		519,665		361,497
Travel and entertainment		15,600		88,792
	\$	1,228,567	\$	2,337,219

19. DISCONTINUED OPERATIONS

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

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19. DISCONTINUED OPERATIONS (continued)

The components of net loss from discontinued operations included in these consolidated financial statements for the years ended October 31, 2020 and 2019 relating to Legacy are as follows:

	2020	2019
Management and consulting fees	\$ 2,380	\$ -
General and administration	210	-
	\$ 2,590	\$ -

20. SUBSEQUENT EVENTS

On November 2, 2020, pursuant to the closure of its private placement, the Company issued 13,920,000 Units at a price of \$0.066 (USD\$0.05) per Unit for gross proceeds of \$918,720 (USD\$696,000). Each Unit consists of one common share of the Company and one share purchase warrant. Each warrant entitles the holder to acquire one common share of the Company at an exercise price of \$0.106 (USD\$0.08) per Unit until November 2, 2023. All securities issued in connection with the private placement are subject to a regulatory hold period expiring on March 4, 2021.

On November 9, 2020, the Company issued 12,050,000 stock options to directors, officers, consultants and employees of the Company. The options are exercisable for a period of five years at a price of \$0.10 per share and will vest over a three-year period.

On November 4, 2020, the Company signed a Membership Interest Purchase Definitive Agreement (the "Agreement") to purchase the remaining 9% interest in AMA Pro thereby resulting in the Company's 100% ownership of the subsidiary which contains the property located at 5035 Geist Ave., Las Vegas, Nevada. Subject to the terms of the Agreement, in consideration of the acquisition of the remaining 9%, the Company issued, in the aggregate, 3,700,000 non-transferable share purchase warrants, exercisable at a price of \$0.075 per share expiring on June 13, 2024. The warrants, and any shares exercised pursuant to the warrants, are subject to a four month and one day hold period as required by applicable securities laws in Canada and such additional restrictions as may be applicable pursuant to U.S. securities laws. As part of the transaction, a total of 1,400,000 warrants and 2,050,000 stock options were cancelled, and the operating agreement for AMA was amended to concede complete managerial control of AMA to the Company.

On November 14, 2020, 50,000 stock options with an exercise price of \$0.50 expired.

On November 17, 2020, the Company cancelled 100,000 stock options with an average exercise price of \$0.55 related to a former employee of the Company.

The Company issued 10,869,531 common shares pursuant to the conversion of \$998,000 of convertible debentures and interest payable on the convertible debentures of \$88,953.