MANAGEMENT DISCUSSIONS AND ANALYSIS

FOR THE THREE AND SIX MONTHS ENDED JANUARY 31, 2021 AND 2020

(in Canadian Dollars, except where noted)

The following Management's Discussion and Analysis ("MD&A") for 1933 Industries Inc., together with its wholly-owned subsidiaries ("1933" or "the Company") is prepared as of March 30, 2021, and relates to the financial condition and results of operations for the three and six months ended January 31, 2021 and 2020. Past performance may not be indicative of future performance. This MD&A should be read in conjunction with the unaudited interim condensed consolidated financial statements ("consolidated financial statements") and related notes for the three and six months ended January 31, 2021 and 2020, which have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS" or "GAAP").

The first, second, third and fourth quarters of the Company's fiscal years are referred to as "Q1", "Q2", "Q3" and "Q4", respectively. The years ended July 31, 2021 and 2020, are also referred to as "fiscal 2021" and "fiscal 2020", respectively. All amounts are presented in Canadian dollars, the Company's presentation currency, unless otherwise stated. References to "USD" are to United States dollars.

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

We are publicly traded on the Canadian Securities Exchange ("Exchange") under the symbol TGIF and quoted on the OTCQX under the symbol "TGIFF". Continuous disclosure materials are available on the Company's website at www.1933industries.com, and on SEDAR at www.sedar.com.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This document contains certain "forward-looking statements" which may include, but are not limited to, statements with respect to the future financial or operating performance of the Company. Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates", or "believes" or variation (including negative variations) of such words and phrases, or statements that certain actions, events, or results "may", "could", "would", "might", or "will" be taken, occur or to achieve. Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company and/or its subsidiaries to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, among others, the Company's business model; U.S. regulatory landscape and enforcement related to cannabis, including political risks; risks related to capital raising due to heightened regulatory scrutiny; risks related to quantifying the Company's target market; risks related to access to banks and credit card payment processors; risks related to lack of U.S. federal trademark and patent protection; risks related to the enforceability of contracts; risks related to potential violation of laws by banks and other financial institutions; risks related to service providers withdrawing or suspending services under threat of prosecution; risks related to tax liabilities; and heightened scrutiny by Canadian regulatory authorities.

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

OUTLOOK AND THE PATH FORWARD

The Company has set as key priorities the goals of achieving profitability, becoming cash-flow positive and building shareholder value.

Over the reporting period, the Company continued to make progress in improving and streamlining operations across all departments in an effort to right-size costs, improve the balance sheet and drive revenue. The Company's focus has been to bring its assets into continuous production, develop premium strains, expand its extraction capacities, expand distribution for its CBD line, and improve margins.

The Company has continued to minimize non-revenue generating costs and is carefully managing its cash position. With a marked improvement over its performance over the previous year, the Company continues to position itself as a leading supplier of craft cannabis flower to the Nevada market and as an innovative manufacturer of high-quality hemp and CBD wellness products.

During the reporting period, the Company expanded the output of high-quality flower and concentrates resulting in record sales in January 2021. Revenues increased by 27% from the previous quarter, demonstrating the strength of local demand for cannabis products. Management expects that the availability of high-quality cannabis flower cultivated in-house will increase demand for the Company's products and have a positive impact on the Company's gross margins going forward. The Company anticipates increasing the volume of cannabis flower produced each month. The Company is looking to grow its market share in its core market of Nevada, where it is well-positioned to take advantage of a large addressable consumer market, a limited licensing regime and attractive cannabis flower pricing. The loss of tourism in Las Vegas due to COVID-19 and the impact of the pandemic on brick-and-mortar retail across the US had an effect on Canna Hemp™ sales. The Company believes that growth of the brand will come from its e-commerce efforts and will continue to build on its online presence. Management expects that the benefits of these operational efficiencies and expanded sales networks will result in substantial improvements that will be realized in fiscal 2021.

The Company cautions that the current global uncertainty with respect to the spread of the COVID-19 virus and its effect on the Nevada economy, and the broader global economy, may have a negative effect on the Company and its operations. The global uncertainty may have a material adverse effect on economic activity, and result in disruption to financial markets, operations and travel, domestically and internationally, all of which could continue to impact the Nevada tourist market, which in turn could affect the results of operations and other factors relevant to the Company. Furthermore, the risk of COVID-19 could cause customers to reduce their spending on Company products and avoid public places, including retail outlets that carry the Company's products.

In light of the continuing COVID-19 pandemic, the Company continues to adapt its business strategies to meet the challenges of the economic conditions. All of these noted efforts will continue as management maintains a keen eye on fiscal responsibility.

COMPANY OVERVIEW AND DESCRIPTION OF THE BUSINESS

1933 Industries Inc. is a vertically integrated, brand-focused cannabis company with operations in the United States, with cultivation, extraction and manufacturing facilities based in Las Vegas, Nevada. Operating through two subsidiary companies, the Company owns leading cannabis brands as well as licensed cannabis cultivation, extraction, processing, and manufacturing assets. On October 31, 2020, the Company owned 91% of both Alternative Medicine Association LC ("AMA") and AMA Production LLC, and 100% of Infused MFG. ("Infused"). On November 4, 2020, the Company purchased the remaining 9% interest in AMA Production LLC thereby resulting in the Company's 100% ownership of the subsidiary.

In Nevada, the Company operates two subsidiaries: AMA, a licensed cannabis cultivator, extractor and product manufacturer, and Infused, a manufacturer of CBD wellness products. The Company operates in three sought-after verticals:

- Craft cannabis flower cultivation;
- Extraction of cannabis concentrates and;

- Manufacturing of proprietary CBD branded goods.

AMA’s wholesale cannabis products include premium craft-style cannabis, infused pre-rolls, full spectrum oils, high quality distillates, proprietary blends of terpenes, vaporizer products and boutique concentrates such as shatter, crumble, batter, sugar wax, diamonds, and cured and live resins, all sold under the AMA brand. AMA cultivates its own cannabis plants and wholesales its products to regulated medical and adult-use dispensaries in the state. With an extensive selection of products, the AMA brand has strong penetration into dispensaries throughout Nevada, where it appeals to a wide range of both medical and recreational consumers. The AMA brand combines craft style cultivation, top genetics and operational expertise. AMA also licenses other brands that contribute to the product offering and compliment the AMA brand.

Cannabis flower is cultivated in the Company’s 67,000 sq. ft., purpose-built, state-of-the-art facility, serving the Las Vegas market. Biomass (remaining parts of the plant that contain THC such as sugar leaf trim and popcorn/small buds)) is utilized to produce AMA’s extensive line of concentrates. During the reporting period, the Company focused on increasing the production and sale of premium smokable flower and pre-rolls, which make up the largest portion of cannabis sales in Nevada. The Company continues to build its inventory and improve its plant genetics with the introduction of new cultivars to achieve the desired quality of flower that is in demand in the market. The Company anticipates increases in demand for its cannabis flower and cannabis products as it expands cultivation in fiscal 2021.

Infused develops proprietary formulations for its Canna Hemp™ line of CBD wellness products. It manufactures and distributes products under four distinct brands in a variety of verticals and consumption formats, including: tinctures, lotions, creams, vape pens and cartridges, lip balms, and capsules. Infused distributes its branded products through wholesale and retail channels in Nevada and across the US via its e-commerce platform. The Company is focusing on increasing marketing efforts by strengthening its e-commerce business and by working in conjunction with dispensaries and specialized distributors to increase brand awareness and promote its products.

With over 50 products in its portfolio, Canna Hemp™ delivers a wide range of high-quality product offerings in a variety of formats that meet the changing needs of consumers. High-grade CBD and a proprietary blend of cannabis terpenes formulated for specific effects are key differentiators for the Canna Hemp™ line.

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

The Company’s common shares, debentures and certain warrants are listed for trading on the Canadian Securities Exchange under the symbol “TGIF”, “TGIF.DB” and “TGIF.WT’ respectively. The Company’s common shares also trade on the OTC Markets under the symbol “TGIFF”.

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

AMA – Cultivation and Extraction Segment

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

Market Plans and Strategies

The Company's business model is based on servicing the existing medicinal cannabis patient base in Nevada (which has approximately 3.0 million residents) and the recreational cannabis consumers, including those who visit Las Vegas each year (about 42.9 million visitors). The Company is an established wholesale supplier of unique branded flower and extraction products as well as several third-party brands to licensed dispensaries and cannabis stores. As this branded image and reputation is well established, the Company may license or acquire other cannabis businesses in the United States that have legalized medicinal cannabis and/or recreational cannabis specific brands with recurring sales to a loyal and growing clientele.

The Company believes that the constantly evolving regulatory environment for the production and distribution of recreational cannabis within the U.S., and the dispensing of both medicinal and recreational cannabis will be disruptive for both producers and consumers, transforming the current industry into one of commercial scale. The Company is focused on establishing a portfolio of high quality, premium cannabis products that have wide appeal to a growing and varied consumer base. The Company wholesales its products via its own distribution channels to regulated dispensaries in Nevada and continues to build market share as it increases flower and extraction production and adds new brands to its portfolio of products.

The Company has developed a comprehensive marketing program to create visibility and awareness in the market for its products. AMA markets its products locally, via social media, in-store programs, as well as via targeted marketing campaigns in conjunction with dispensaries and educational programs targeting budtenders and consumers.

CBD Products Segment

The Company, through Infused, is focused on developing, formulating, and producing CBD products and brands for retail sale and use in jurisdictions where permitted by law and regulation in the US.

CBD, as utilized by Infused, is extracted from industrial hemp, sourced from legal suppliers in the United States. Infused manufactures and distributes its products under four distinct brands:

1. Canna Hemp™ - a wellness line of CBD products that include: tinctures, lotions, creams, vape pens and cartridges, lip balms, and capsules;

2. Canna Hemp X™- a sports line of products targeting the action sports vertical, including: pre and post workout tinctures, recovery creams and lip balms;

3. Canna Hemp™ PLUS – selected products offered as 'extra strength', containing approximately double the amount of CBD as its regular counterparts;

4. Canna Hemp™ HEMP, a line of products containing hemp-seed oil and free of CBD. These products are distributed via online marketplaces such as Amazon.com, Walmart.com and others.

The Canna Hemp™ line is marketed in conjunction with distributor partners, through a variety of brick-and-mortar retail outlets, such as health food stores, vape storefronts and retail dispensaries under its various brands, and direct to consumers via its e-commerce platforms. The Canna Hemp™ line has a robust social media outreach and educational programs. The Company believes that its success in the market has been achieved by offering a broad range of premium quality products with wide-range appeal at competitive prices and delivered through outstanding client service under a well identified brand.

Both the AMA and Canna Hemp™ brands offer over 100 different products. The Company has been focused on cultivating craft flower that commands a premium in the market with an extensive line of news strains soon to be introduced. The Company believes that carrying a consistent base of high-quality strains and cannabis products, including CBD products and hemp-based products, is essential to its long-term success.

DESCRIPTION AND OUTLOOK OF THE UNITED STATES LEGAL CANNABIS INDUSTRY

For a detailed description of the U.S. legal cannabis industry that the Company operates within, please refer to the Company's MD&A for the years ended July 31, 2020 and 2019.

Q2 2021 CONSOLIDATED OPERATING FINANCIAL HIGHLIGHTS

- Total revenues were $3.4 million for Q2 2021 and $3.1 million for Q2 2020.
- Expenses were $3.1 million for Q2 2021 and $5.6 million for Q2 2020 as the Company has made strategic cost reductions. It is the priority of the Company's executive management to continue to reduce costs, with the goal of reaching profitability in the near future.
- Gross margin was $1.7 million or 50% for Q2 2021 and gross margin loss was $0.8 million for Q2 2020 due to the Company's enhanced ability to produce saleable flower and biomass from AMA's cultivation facility.
- Net loss from continuing operations attributable to shareholders of the Company was $1.4 million or $0.00 per share for Q2 2021 and $6.4 million or $0.02 per share for Q2 2020.
- Adjusted EBITDA loss was $0.1 million for Q2 2021 and $4.8 million for Q2 2020.

Q2 2021 CONSOLIDATED BALANCE SHEET FINANCIAL HIGHLIGHTS

- Cash at January 31, 2021 was $1.7 million, compared to $2.8 million at July 31, 2020, a decrease of 39%.
- Total assets at January 31, 2021 were $43.5 million, compared to $46.6 million at July 31, 2020, a decrease of 7%.
- Working capital at January 31, 2021 was a deficiency of $3.7 million, compared to working capital surplus of $6.1 million at July 31, 2020, a decrease of 161%, primarily due to the reclassification of $10.0 million in convertible debentures to current liabilities as they mature on September 14, 2021.

Q2 2021 KEY DEVELOPMENTS

Corporate Developments

- The Company announced that its Chief Executive Officer, Mr. Paul Rosen, has been appointed to the Board of Directors and that Mr. Eugene Ruiz is no longer President of 1933 Industries.
- The Company signed a Membership Interest Purchase Definitive Agreement among the Company, its subsidiary FN Pharmaceuticals, E. Mark Zobrist and Linmark Enterprises Corp., to purchase the remaining 9% interest in AMA Production LLC, thereby resulting in the Company's 100% ownership of the subsidiary which contains the property located in Las Vegas, Nevada. 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, will be 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. In addition, as part of the transaction, a total of 1,650,000 outstanding warrants and 2,050,000 options were cancelled, and the operating agreement for AMA was amended to concede complete managerial control of AMA to the Company.
- With the goal of enhancing the user-experience, the Company launched a new Canna Hemp™ website, featuring more intuitive navigation and improved education to assist consumers select products that suit their individual lifestyles and needs. Featuring a large selection of high-quality hemp and CBD products with specific outcomes and delivery formats, the new Canna Hemp™ was launched to bring natural wellness to consumers across the United States.

Financing Activities

- On November 3, 2020, pursuant to the closure of its private placement, the Company issued 13,920,000 Units at a price of $0.066 (US$0.05) per Unit for gross proceeds of $918,720 (US$696,000). All proceeds were raised and paid in US dollars. The warrant exercise price is also payable in US dollars and as a result, the actual Canadian dollar equivalent of cash received may vary having regard for the current foreign exchange rates. Each Unit consists of one common share of the Company and one transferable share purchase warrant. Each warrant entitles the holder to acquire one common share of the Company at an exercise price of $0.106 (US$0.08) per Unit for a period of 18 months from the closing date. The Units shall be subject to a four month and one day hold period, expiring on March 4, 2021.
- The Company issued 30,489,128 common shares pursuant to the conversion of $2,813,000 of convertible debentures and interest payable on the convertible debentures of $235,913.

DEVELOPMENTS SUBSEQUENT TO JANUARY 31, 2021

Financing Activities

- On March 4, 2021, the Company closed a bought deal private placement of units for aggregate gross proceeds of $4,955,052 (the "Offering"). Pursuant to the Offering, the Company sold a total of 45,045,929 units at a price of $0.11 per unit. Each unit is comprised of one common share of the Company and one common share purchase warrant. Each common share purchase warrant will be exercisable to acquire one common share of the Company at an exercise price of $0.16 per common share of the Company until March 4, 2023, subject to a warrant acceleration right exercisable by the Company if, at any time following the date that is four months and one day from the closing date of the Offering, the daily volume weighted average trading price of the common shares on the CSE is greater than $0.30 for the preceding 10 consecutive trading days and shall be exercised by notice in writing to the holders of common share purchase warrants and the underwriter. Pursuant to Canadian securities laws, all securities in respect of the Offering will be subject to a four month and one day hold period expiring on July 5, 2021.
- In connection with the Offering, the Company issued 2,638,869 broker warrants and 514,346 advisory warrants (the “Compensation Warrants”). Each Compensation Warrant entitles the holder to purchase one additional unit of the Company (each a "Compensation Unit") at a price of $0.11 per Compensation Unit until March 4, 2023. The Compensation Units have the same terms as the Units sold pursuant to the Offering.
- On March 14, 2021, 10,000,000 share purchase warrants expired.
- The Company issued 48,913,159 common shares pursuant to the conversion of $4,395,000 of its convertible debentures and $496,317 in accrued interest. There is an aggregate of $3,876,000 principal balance of convertible debentures outstanding as of the date of this MD&A.

REVIEW OF QUARTERLY RESULTS

		Q2 2021		Q1 2021		Q4 2020		Q3 2020
Revenue	**$**	**3,406,826**	$	2,687,516	$	2,388,010	$	2,554,067
Net loss	**$**	**(1,409,063)**	$	(6,402,933)	$	(7,236,277)	$	(4,729,687)
Basic / diluted loss per share	**$**	**(0.00)**	$	(0.01)	$	(0.03)	$	(0.02)
Number of weighted average shares		**339,996,131**		320,970,618		286,550,173		285,478,539

		Q2 2020		Q1 2020		Q4 2019		Q3 2019
Revenue	**$**	**3,139,265**	$	3,881,183	$	5,244,946	$	4,597,361
Net loss	**$**	**(6,421,360)**	$	(3,816,298)	$	(5,688,422)	$	(7,277,021)
Basic / diluted loss per share	**$**	**(0.02)**	$	(0.01)	$	(0.02)	$	(0.03)
Number of weighted average shares		**285,478,539**		284,779,959		278,109,966		245,861,993

(In Canadian dollars, except where noted)

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

SUMMARY OF RESULTS

Review of Consolidated Financial Information for Q2 2021 compared to Q2 2020

Results of Operations		**Q2 2021**		Q2 2020
Revenues	**$**	**3,406,826**	$	3,139,265
Gross margin		**1,694,994**		(775,917)
General and administration		**(934,154)**		(2,141,769)
Management and consulting fees		**(115,142)**		(402,166)
Wages and benefits		**(492,251)**		(1,070,705)
Professional fees		**(320,018)**		(422,482)
Share-based compensation		**(360,947)**		(230,042)
Other expenses		**(881,642)**		(1,362,853)
Loss from continuing operations		**(1,409,160)**		(6,405,933)
Loss from discontinued operations		**97**		(15,427)
Net loss		**(1,409,063)**		(6,421,360)
Foreign currency translation adjustment		**(1,336,024)**		389,532
Comprehensive loss		**(2,745,087)**		(6,031,828)
Basic and diluted loss per share	**$**	**(0.00)**	$	(0.02)

Revenues

The Company recorded revenues of $3,406,826 compared to $3,139,265 during Q2 2020. The increase in revenues for the quarter as compared to Q2 2020 was primarily due to gradual recovery from the COVID-19 pandemic.

Gross margin

Gross margin was $1,694,994 (50%), compared to a loss of $775,917 during Q2 2020. The increase in the gross margin percentage from the prior year is primarily due to the Company's enhanced ability to produce saleable flower and biomass from its cultivation facility is expected to substantially improve realized gross margins going forward.

General and administration expenses

General and administration expenses ("G&A") were $934,154, compared to $2,141,769 during Q2 2020. This change over the prior year is primarily driven by decreased advertising, investor relations, office expense, and travel and entertainment. Offsetting these decreases was an increase in license fees, taxes, and insurance. The key driver for the decrease in G&A is the Company making strategic cost reductions. It is the priority of the Company's executive management to continue to reduce costs, with the goal of reaching profitability in the near future.

Management and consulting fees

Management and consulting fees were $115,142, compared to $402,166 during Q2 2020. This change as compared to prior year is primarily due to the Company making strategic reductions in its management personnel and outside consultants. It is the priority of the Company's newly appointed executive management to continue to reduce costs, with the goal of reaching profitability in the near future.

Wages and benefits

Wages and benefits were $492,251, compared to $1,070,705 during Q2 2020. During fiscal 2020, the Company experienced significant growth in all entities comprising the 1933 group, along with significant hiring initiatives across corporate support functions and operations management prior to the opening of AMA's new cultivation facility.

(In Canadian dollars, except where noted)

The expense was reduced in Q2 2021 as the Company continues to reduce costs, with the goal of reaching profitability in the near future.

Professional fees

Professional fees were $320,018, compared to $422,482 during Q2 2020.

Share-based compensation

Share-based payments, a non-cash expense, were $360,947, compared to $230,042 during Q2 2020. This change over the prior period is due to an increase in the number of stock options issued and the timing of vesting.

Other expenses

Other expenses were $881,642, compared to $1,362,853 during Q2 2020. The components of other expense include interest expense, accretion expense, depreciation, foreign exchange gains and losses and income tax expense. This change over the prior year is primarily driven by a decrease in accretion expense due to the modification of the convertible debentures in Q4 2020.

Foreign currency translation adjustment

As part of the consolidation process, IFRS requires that foreign exchange gains and losses generated from the translation of subsidiaries with functional currencies different from the parent entity's must be recorded as other comprehensive income. As a result of the consolidation process for Q2 2021, the Company had an unrealized foreign exchange loss of $1,336,024, compared to a gain of $389,532 during Q2 2020, due to the favorable movement in the Canadian dollar against the U.S. dollar. This amount is recorded in other comprehensive income.

Review of Consolidated Financial Information for YTD 2021 compared to YTD 2020

Results of Operations		**YTD 2021**		YTD 2020
Revenues	**$**	**6,094,342**	$	7,020,448
Gross margin		**2,423,694**		1,309,187
General and administration		**(2,162,721)**		(4,478,988)
Management and consulting fees		**(194,647)**		(769,194)
Wages and benefits		**(1,058,390)**		(2,051,360)
Professional fees		**(531,060)**		(650,616)
Share-based compensation		**(614,629)**		(784,636)
Other expenses		**(2,087,394)**		(2,796,625)
Loss from continuing operations		**(4,225,147)**		(10,222,231)
Loss from discontinued operations		**(2,493)**		(15,427)
Net loss		**(4,227,640)**		(10,237,658)
Foreign currency translation adjustment		**(1,446,570)**		243,530
Comprehensive loss		**(5,674,210)**		(9,994,128)
Basic and diluted loss per share	**$**	**(0.01)**	$	(0.04)

Revenues

The Company recorded revenues of $6,094,342 compared to $7,020,448 during YTD 2020, a decrease of 13%. The decrease in revenues for the quarter as compared to the prior year was primarily due to severe loss of tourism in Las Vegas. While showing signs of recovery, COVID-19 continues to have an effect on sales across its Canna Hemp™ product lines.

Gross margin

Gross margin was $2,423,694 (40%), compared to $1,309,187 (19%) during YTD 2020. The increase in the gross margin percentage from the prior year is primarily due to the Company's enhanced ability to produce saleable flower and biomass from its cultivation facility which is expected to substantially improve realized gross margins going forward.

General and administration expenses

General and administration expenses were $2,162,721, compared to $4,478,988 during YTD 2020. This change over the prior year is primarily driven by decreased advertising, investor relations, office expense, and travel and entertainment. Offsetting these decreases was an increase in license fees, taxes, and insurance. The key driver for the decrease in G&A is the Company making strategic cost reductions. It is the priority of the Company's executive management to continue to reduce costs, with the goal of reaching profitability in the near future.

Management and consulting fees

Management and consulting fees were $194,647, compared to $769,194 during YTD 2020. This change as compared to prior year is primarily due to the Company making strategic reductions in its management personnel and outside consultants. It is the priority of the Company's newly appointed executive management to continue to reduce costs, with the goal of reaching profitability in the near future.

Wages and benefits

Wages and benefits were $1,058,390, compared to $2,051,360 during YTD 2020. During fiscal 2020, the Company experienced significant growth in all entities comprising the 1933 group, along with significant hiring initiatives across corporate support functions and operations management prior to the opening of AMA's new cultivation facility. The expense was reduced in YTD 2021 as the Company continues to reduce costs, with the goal of reaching profitability in the near future.

Professional fees

Professional fees were $531,060, compared to $650,616 during YTD 2020.

Share-based compensation

Share-based payments, a non-cash expense, were $614,629, compared to $784,636 during YTD 2020. This change over the prior period is due to a decrease the valuation of options granted and timing of vesting.

Other expenses

Other expenses were $2,087,394, compared to $2,796,625 during YTD 2020. The components of other expense include interest expense, accretion expense, deprecation, foreign exchange gains and losses and income tax expense. This change over the prior year is primarily driven by a decrease in accretion expense due to the modification of the convertible debentures in Q4 2020.

Foreign currency translation adjustment

As part of the consolidation process, IFRS requires that foreign exchange gains and losses generated from the translation of subsidiaries with functional currencies different from the parent entity's must be recorded as other comprehensive income. As a result of the consolidation process for Q2 2021, the Company had an unrealized foreign exchange loss of $1,446,570, compared to a gain of $243,530 during YTD 2020, due to the favorable movement in the Canadian dollar against the U.S. dollar. This amount is recorded in other comprehensive income.

LIQUIDITY, CASH FLOWS AND CAPITAL RESOURCES

Liquidity

(In Canadian dollars, except where noted)

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

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

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

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

At January 31, 2021 and July 31, 2020, the Company had the following liquidity related financial information:

		January 31, 2021		July 31, 2020
Cash	**$**	**1,687,752**	$	2,761,542
Liquid assets (1)	**$**	**5,370,931**	$	6,023,858
Quick ratio (2)		**0.49**		3.58
Working capital	**$**	**(3,708,119)**	$	6,106,285
Working capital ratio (3)		**0.66**		4.63
Convertible debt	**$**	**-**	$	10,923,172

(1) Liquid assets include cash, receivables, and inventory.
(2) Quick ratio is defined as liquid assets divided by current liabilities. The decline in the quick ratio since July 31, 2020 is a direct result of the convertible debentures becoming current liabilities at January 31, 2021 from long-term liabilities at July 31, 2020 as they mature on September 14, 2021, which is within 12 months of the January 31, 2021.
(3) Working capital ratio is defined as current assets divided by current liabilities.

Cash flow

Net cash provided by (used in)		**Q2 2021**		Q2 2020		**YTD 2021**		YTD 2020
Operating activities from continuing operations	**$**	**(305,482)**	$	(3,404,997)	**$**	**(1,197,643)**	$	(6,613,601)
Operating activities from discontinued operations		**97**		(15,427)		**(2,493)**		(15,427)
Investing activities		**(86,514)**		(1,550,615)		**(204,703)**		(1,704,285)
Financing activities		**678,026**		(1,018,711)		**844,378**		(225,456)
Effect of exchange rate changes on cash		**(642,950)**		261,943		**(513,331)**		89,339
Cash, beginning		**2,044,573**		14,872,277		**2,761,542**		17,613,900
Cash, end	**$**	**1,687,750**	$	9,144,470	**$**	**1,687,750**	$	9,144,470

Review of cash flow Q2 2021 compared to Q2 2020:

Cash used in operating activities from continuing operations was $305,482 compared to $3,404,997 during Q2 2020:

- Net loss from continuing operations was $1,409,160, compared to $6,405,933 during Q2 2020. Included in net loss are non-cash items of $1,169,012, compared to $2,113,650 for Q2 2020.
- Movements in inventory and biological assets increased cash by $234,373, compared to $646,251 during Q2 2020.
- Movements in receivables decreased cash by $484,374, compared to increasing cash by $8,061 during Q2 2020.
- Movements in prepaid expenses and deposits increased cash by $37,352 compared to $219,989 during Q2 2020.
- Movements in accounts payable and accrued liabilities increased cash by $147,315 compared to $12,072 during Q2 2020.
- Movements in income taxes payable increased cash by $nil compared to $913 during Q2 2020.

Cash provided by operating activities from discontinued operations was $97 during Q2 2021, compared to cash used by operating activities from discontinued operations of $15,427 during Q2 2020. Funds were used to pay expenses for Green Spectrum LLC, per the Management Agreement between Green Spectrum (in California) and 1933 Legacy Inc. Management has terminated the Management Agreement and anticipates dissolving 1933 Legacy Inc; therefore, nominal future costs are anticipated.

Cash used in investing activities of continuing operations was $86,514 during Q2 2021 compared to $1,550,615 during Q2 2020, as a result of cash spend on production equipment and office equipment.

Cash provided by financing activities was $678,026, compared to cash used in financing activities of $1,018,711 during Q2 2020:

- Common shares issued pursuant to private placement increased cash by $918,720, compared to $nil during Q2 2020.
- Share issued costs related to the private placement were $196,030, compared to $nil during Q2 2020.
- Interest paid on convertible debentures was $nil, compared to $622,050 during Q2 2020.
- Lease principal repayment of $44,664, compared to $396,661 during Q2 2020.

Review of cash flow YTD 2021 compared to YTD 2020:

Cash used in continuing operating activities was $1,197,643, compared to $6,613,601 during YTD 2020:

- Net loss from continuing operations was $4,225,147, compared to $10,222,231 during YTD 2020. Included in net loss are non-cash items of $2,758,504, compared to $3,687,917 for YTD 2020.
- Movements in inventory and biological assets increased cash by $394,352, compared to decreasing cash by $325,942 during YTD 2020.
- Movements in accounts receivables decreased cash by $648,548, compared to $83,125 during YTD 2020.
- Movements in prepaid expenses decreased cash by $141,327, compared to increasing cash by $1,091,434 during YTD 2020.
- Movements in accounts payable and accrued liabilities increased cash by $664,523, compared to decreasing cash by $762,567 during YTD 2020.
- Movements in income tax payable were $nil, compared to increasing cash by $913 during YTD 2020.

Cash used in operating activities from discontinued operations relating to Legacy operations was $2,493, compared to $15,427 during YTD 2020. Funds were used to pay expenses for Green Spectrum LLC, per the Management Agreement between Green Spectrum (in California) and 1933 Legacy Inc. Management has terminated the Management Agreement and anticipates dissolving 1933 Legacy Inc; therefore, nominal future costs are anticipated.

Cash used in investing activities of continuing operations was $204,703 during YTD 2021 compared to $1,704,285 during YTD 2020, as a result of cash spend on production equipment and office equipment.

(In Canadian dollars, except where noted)

Cash provided by financing activities was $844,378, compared to cash used in financing activities of $225,456 during YTD 2020:

- Common shares issued pursuant to private placement increased cash by $1,706,973, compared to $nil during Q2 2020.
- Common shares issued pursuant to exercises of stock options increased cash by $nil, compared to $12,000 during YTD 2020.
- Common shares issued pursuant to exercises of warrants and agent options increased cash by $nil, compared to $1,181,806 during YTD 2020.
- Share issued costs related to the private placement were $202,067, compared to $nil during Q2 2020.
- Repayment of lease liability, resulting from the adoption of IFRS 16, decreased cash by $660,528, compared to $797,212 during YTD 2020.

Capital Resources

The capital of the Company consists of consolidated equity, notes payable, and convertible debentures, net of cash.

		January 31, 2020		July 31, 2020
Equity	**$**	**18,843,782**	$	19,452,182
Convertible debentures		**-**		10,923,172
		18,843,782		30,375,354
Less: cash		**(1,687,752)**		(2,761,542)
	$	**17,099,214**	$	27,613,812

The board of directors of the Company has overall responsibility for the establishment and oversight of the Company's risk management policies on an annual basis. The Company's board of directors identifies and evaluates the Company's financial risks and is charged with the responsibility of establishing controls and procedures to ensure financial risks are mitigated.

The Company's objectives when managing capital are to pursue and complete the identification and evaluation of assets, properties, or businesses with a view to acquisition. The Company does not have any externally imposed capital requirements to which it is subject.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new common shares or adjust the amount of cash.

The Company's investment policy is to invest excess cash in investment instruments at high credit, quality financial institutions with terms to maturity selected with regards to the expected time of expenditures from continuing operations.

Dividends

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

Outstanding share data

The authorized capital of the Company consists of an unlimited number of common shares without par value. The Company had the following securities outstanding as at the date of this MD&A:

(In Canadian dollars, except where noted)

Type of Security	At January 31, 2021	At the date of this MD&A
Common Shares	360,566,714	454,525,802
Stock Options	20,430,000	20,430,000
Broker Warrants	-	2,638,869
Compensation Warrants	-	514,346
Warrants	72,135,836	107,181,765
Agent Options	2,191,112	2,019,734
Convertible debentures - $0.10 conversion	$ 7,705,007	$ 3,876,000

As at January 31, 2021, the Company has issued various warrants and stock options as summarized below:

Description of security	Number	Exercise price ($)	Proceeds if exercised ($)	Expiry date
Warrants	10,000,000	0.50	5,000,000	14-Mar-21
Warrants	39,199,666	0.65	25,479,783	14-Sep-21
Warrants	5,255,020	0.125	656,878	3-Sep-22
Warrants	40,250	0.125	5,031	3-Sep-22
Warrants	13,920,000	0.11(1)	1,463,827	3-May-22
Warrants	3,700,000	0.075	277,500	13-Jun-24
	72,135,836	**0.46**	**32,896,604**	
Stock options	500,000	0.50	250,000	31-May-21
Stock options	1,790,000	0.55	984,500	5-Oct-21
Stock options	240,000	0.15	36,000	13-Jun-22
Stock options	2,000,000	0.35	700,000	15-Aug-22
Stock options	250,000	0.35	87,500	19-Jan-23
Stock options	1,300,000	0.65	845,000	15-Feb-23
Stock options	100,000	0.55	55,000	2-May-24
	20,430,000	**0.14**	**2,958,000**	
Agent Options	2,191,112	0.45	986,000	14-Sep-21
	2,191,112	**0.45**	**986,000**	

(1) USD$0.08

NON-GAAP MEASURES

Earnings before interest, taxes, depreciation, and amortization (“EBITDA”) and Adjusted EBITDA are non-GAAP financial measures and accordingly they are not earnings measures recognized by IFRS and do not carry standard prescribed significance. Moreover, the Company’s method for calculating Adjusted EBITDA may differ from that used by other companies using the same designation.

Accordingly, we caution readers that Adjusted EBITDA should not be substituted for determining net income (loss) as an indicator of operating results or as a substitute for cash flows from operating and investing activities. Management believes that, in addition to conventional measures prepared in accordance with GAAP, certain investors use this information to evaluate the Company’s performance and ability to generate cash flow. Accordingly, presentation of these measures is to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP.

(In Canadian dollars, except where noted)

The following table provides a reconciliation of the EBITDA loss and Adjusted EBITDA loss to the consolidated financial statements:

	Q2 2021	Q2 2020	**YTD 2021**	YTD 2020
Net loss for the period	**$ (1,409,063)**	$ (6,421,360)	**$ (4,227,640)**	$ (10,237,658)
Add (subtract):				
Interest expense	**433,375**	634,232	**1,140,920**	1,302,140
Accretion expense	**34,630**	284,206	**74,752**	560,733
Depreciation	**462,467**	451,363	**925,893**	940,933
EBITDA	**(478,591)**	(5,051,559)	**(2,086,075)**	(7,433,852)
Share-based compensation	**360,947**	230,042	**614,629**	784,636
(Income) loss from discontinued operations	**(97)**	15,427	**2,493**	15,427
Adjusted EBITDA	**$ (117,741)**	$ (4,806,090)	**$ (1,468,953)**	$ (6,633,789)

OFF-BALANCE SHEET ARRANGEMENTS

The Company has not entered into any material off-balance sheet arrangements such as guarantee contracts, contingent interests in assets transferred to unconsolidated entities, derivative financial obligations, or arrangements with respect to any obligations under a variable interest equity arrangement.
The Company has no off-balance sheet arrangements.

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 three and six months ended January 31, 2021 and 2020, were as follows:

	Three months ended		**Six months ended**	
	2021	2020	**2021**	2020
Management and consulting fees	**$ 51,900**	$ 353,999	**$ 136,200**	**$** 578,916
Directors' fees	**37,788**	27,000	**92,018**	50,000
Shares issued for compensation	**-**	-	**-**	170,752
Share – based payments	**310,454**	148,909	**506,257**	606,757
	$ 400,142	$ 529,908	**$ 734,475**	$ 1,406,425

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

	Three months ended		**Six months ended**	
	2021	2020	**2021**	2020
Legal fees - expense	**$ (112)**	$ 5,451	**$ 2,232**	**$** 12,975
Rent	**-**	15,000	**-**	32,921
Wages and benefits	**63,104**	115,245	**199,899**	279,956
	$ 62,992	**$** 135,696	**$ 202,131**	**$** 325,852

The Company paid legal fees during the periods presented to a law firm where one of the directors was a partner.

During YTD 2020, the Company paid rent during the periods presented to a company where one of the directors was an owner.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

The consolidated financial statements have been prepared in accordance with IFRS as issued by the IASB, effective as of January 31, 2021. The accounting policies applied in the preparation of these consolidated financial statements are consistent with those applied and disclosed in note 3 to the annual financial statements.

CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

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

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

Critical judgements in applying accounting policies

Critical judgements made by management in applying the Company's accounting policies, apart from those involving estimations, that have the most significant effect on the amounts recognized in the Company's consolidated financial statements are as follows:

Functional currency
In accordance with IAS 21, *The Effects of Changes in Foreign Exchange Rates*, the Company determined its functional currency, and its Canadian subsidiaries, to be the Canadian dollar, and the functional currency of its US subsidiaries to be the United States dollar. Such determination involves certain judgements to identify the primary economic environment. The Company reconsiders the functional currency of its subsidiaries if there is a change in events and/or conditions which determine the primary economic environment.

Assessment of indicators of impairment
At the end of each reporting period, the Company assesses whether there are any indicators, from external and internal sources of information, that an asset or cash generating unit ("CGU") may be impaired, thereby requiring adjustment to the carrying value. The Company has identified the continued operating losses of AMA and Infused as an indicator of impairment.

As a result of these impairment indicators, the Company assessed the goodwill associated with the AMA CGU and the Infused CGU for impairment and concluded the recoverable value of the CGU was more than its carrying value and no impairment was required.

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.

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 valuators. The determination of these fair values involves a variety of assumptions, including revenue growth rates, expected operating income, and discount rates. The Company measures all the assets acquired and

liabilities assumed at their acquisition-date fair values. Non-controlling interests in the acquiree are measured on the basis of the non-controlling interests' proportionate share of the equity in the acquiree's identifiable net assets.

Acquisition-related costs are recognized as expenses in the periods in which the costs are incurred and the services are received (except for the costs to issue debt or equity securities which are recognized according to specific requirements). The excess of the aggregate of (a) the consideration transferred to obtain control, the amount of any non-controlling interest in the acquiree over (b) the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed, is recognized as goodwill as of the acquisition date.

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 note components is based on interpretations of the substance of the contractual arrangement and therefore requires judgement 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.

Revenue recognition as a result of adopting IFRS 15

Determination of performance obligations

The Company applied judgement to determine if a good or service that is promised to a customer is distinct based on whether the customer can benefit from the good or service on its own or together with other readily available resources and whether the good or service is separately identifiable. Based on these criteria, the Company determined the primary performance obligation relating to its sales contracts is the delivery of product to its clients.

Transfer of control

Judgement is required to determine when transfer of control occurs relating to the sale of the Company's goods to its clients. Management based its assessment on a number of indicators of control, which include, but are not limited to whether the Company has present right of payment, and whether the physical possession of the goods, significant risks and rewards and legal title have been transferred to the customer.

Key sources of estimation uncertainty

Significant assumptions about the future and other major sources of estimation uncertainty at the end of the reporting period that may result in a material adjustment to the carrying amounts of the Company's assets and liabilities are as follows:

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.

Assessment of indicators of impairment

At the end of each reporting period, the Company assesses whether there are any indicators, from external and internal sources of information, that an asset or CGU may be impaired, thereby requiring adjustment to the carrying value. The Company has identified the continued operating losses of AMA and Infused as an indicator of impairment.

As a result of these impairment indicators, the Company assessed the goodwill associated with the AMA CGU and the Infused CGU for impairment and concluded the recoverable value of the CGU was more than its carrying value and no impairment was required.

Current and deferred taxes
The Company's provision for income taxes is estimated based on the expected annual effective tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The current and deferred components of income taxes are estimated based on forecasted movements in temporary differences.

Changes to the expected annual effective tax rate and differences between the actual and expected effective tax rate and between actual and forecasted movements in temporary differences will result in adjustments to the Company's provision for income taxes in the period changes are made and/or differences are identified.

In assessing the probability of realizing income tax assets recognized, 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.

Forecasted cash flows from operations based on production and customer demand are internally developed and reviewed by management. Weight is attached to tax planning opportunities that are within the Company's control and are feasible and implementable without significant obstacles. The likelihood that tax positions taken will be sustained upon examination by applicable tax authorities is assessed based on individual facts and circumstances of the relevant tax position evaluated 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. At the end of each reporting period, the Company reassesses unrecognized income tax assets.

Equity-settled 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, and consultants.

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.

Contingencies
Due to the nature of the Company's operations, various legal and tax matters can arise from time to time. In the event that management's estimate of the future resolution of these matters changes, the Company will recognize the effects of the changes in its consolidated financial statements for the period in which such changes occur.

Leases as a result of adopting IFRS 16

Identifying whether a contract includes a lease
IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset. The Company had to apply judgment on certain factors, including whether the supplier has substantive substitution rights, does the Company obtain substantially all of the economic benefits and who has the right to direct the use of that asset.

Estimate of lease term
When the Company recognizes a lease, it assesses the lease term based on the conditions of the lease and determines whether it will extend the lease at the end of the lease contract or exercise an early termination option. As it is not reasonably certain that the extension or early termination options will be exercised, the Company determined that the term of its leases are the lesser of original lease term or the life of the asset. This significant estimate could affect future results if the Company extends the lease or exercises an early termination option.

Incremental borrowing rate
When the Company recognizes a lease, the future lease payments are discounted using the Company's incremental borrowing rate. This significant estimate impacts the carrying amount of the lease liabilities and the interest expense recorded on the consolidated statement of loss and comprehensive loss.

FINANCIAL RISK MANAGEMENT

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

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

Credit Risk

Credit risk primarily arises from the Company's cash and receivables. The risk exposure is limited to their carrying amounts at the statement of financial position date.

Cash is held as cash deposits on hand and deposits with financial institutions. The Company does not invest in asset-backed deposits or investments and does not expect any credit losses. The Company periodically assesses the credit quality of its financial institutions and is satisfied with the credit ratings of its banks.

Receivable primarily consists of trade receivables and goods and services tax ("GST") credits. The objective of managing counterparty credit risk is to minimize potential losses in trade receivables. The Company assesses the quality of its customers, taking into account their credit worthiness and reputation, past performance and other factors. The counterparty for the GST credits is the government of Canada and therefore credit risk is low.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company ensures there is sufficient capital to meet short term business requirements. One of management's goals is to maintain an optimal level of liquidity through the active management of assets, liabilities and cash flows.

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

Currency Risk

The Company has administration in Canada and operations in the U.S. and is exposed to foreign exchange risk due to fluctuations in the U.S. dollar and Canadian dollar. Foreign exchange risk arises from financial assets and liabilities denominated in currency other than the U.S. dollar. A change of 1% in the CAD/USD exchange rate would impact loss and comprehensive loss by $64,000. The Company has not entered into any agreements or purchased any foreign currency hedging instruments to hedge possible currency risks at this time. Management believes the foreign exchange risk derived from currency conversions is not significant, and therefore, does not hedge its foreign exchange risk.

Interest Rate Risk

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

RISKS AND UNCERTAINTIES

For a detailed listing of the risk factors faced by the Company, please refer to the Company's MD&A for the year ended July 31, 2020.