



MANAGEMENT DISCUSSIONS AND ANALYSIS

FOR THE YEARS ENDED JULY 31, 2022 AND 2021

(in Canadian Dollars, except where noted)

The following Management Discussion and Analysis (“MD&A”) for 1933 Industries Inc., together with its wholly-owned subsidiaries (“1933” or “the Company”) is prepared as of July 31, 2022, and relates to the financial condition and results of operations for the years ended July 31, 2022 and 2021. Past performance may not be indicative of future performance. This MD&A should be read in conjunction with the audited consolidated financial statements (“consolidated financial statements”) and related notes for the years ended July 31, 2022 and 2021, which have been prepared in accordance with International Financial Reporting Standards (“IFRS” or “GAAP”) as issued by the International Accounting Standards Board (“IASB”).

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, 2022 and 2021, are also referred to as “fiscal 2022” and “fiscal 2021”, 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 under the symbol “TGIF” and quoted on the OTCQB under the symbol “TGIF”. 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.

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OUTLOOK AND THE PATH FORWARD

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

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

During fiscal 2022, the Company made substantial enhancements to its cannabis cultivation facility with the aim of improving the quality and yield of its flower and input for its extracted products, resulting in higher productivity and performance. The Company deployed strategic capital to make the necessary improvements to optimize its cultivation and production facilities, and hired operations and sales leadership, which resulted in improved output and added self-space in dispensaries. Output from its cultivation has been drastically increasing and yield has almost doubled from a year ago. Focus was also placed on reducing the cost of goods, which in turn increased gross margins. These changes led the Company to achieve higher revenues compared to its previous year and laid the foundation for improved performance going forward. The Company has proven to be an experienced operator with a well-positioned cultivation facility that can continue to scale.

The Company faced continued wholesale pricing pressure in Nevada, where prices have steadily declined since its highs in 2020. The Nevada Department of Taxation reported taxable total sales of \$71.6 million in June and \$71.9 million in July of this year. Compared to reported taxable sales of \$91.8 million in June 2021 and \$93 million in July 2021, this represents approximately a 22% reduction in monthly sales from a year ago.¹ According to Nevada's Cannabis Compliance Board (CCB), the licensed adult-use cannabis retail stores and medical dispensaries generated \$965,091,123 in taxable sales in fiscal 2022, representing a 4% decrease as compared to over \$1 billion in taxable sales from its 2021 fiscal year². The average price per ounce in Nevada is reported at \$270.93³. Headset reported that cannabis "sales surged early in the COVID-19 pandemic due to a temporary increase in consumer demand for cannabis. That demand began to recede in late 2021 and the industry has been experiencing a market correction ever since. Softer consumer demand and increased competitive pressures at both the producer and retail levels have combined to cause dramatic drops in price."⁴

While the sales of cannabis products has declined, AMA has seen consistent or increased sales compared to 2021 with a 4% increase in flower sales and 34% increase in concentrate and vape sales.

Despite wholesale pricing pressure and intense competition in Nevada, the Company continued to secure shelf space in dispensaries and consistently ranked among top sold brands in the state based on the strength of AMA value offerings and premium products in the Las Vegas market. As prices normalize to pre-pandemic levels, the Company remains confident for strong growth in 2023 and expects the demand for flower and extracted products to accelerate as adult-use consumption lounges are launched.

Sales of the Company's hemp-infused consumer packaged goods remained soft during fiscal 2022 due to decreased wholesale demand in dispensaries and brick and mortar accounts and macro-economic headwinds. The Company's online sales have remained steady, as the Company continues to focus on increasing site traffic and conversions on e-commerce and introduces new in-demand cannabinoids in new formulas and form factors. The Company has responded to changing consumer trends by introducing products containing CBG and CBN to support outcomes such

¹ https://tax.nv.gov/Publications/Cannabis_Statistics_and_Reports/

² <https://ccb.nv.gov/wp-content/uploads/2022/09/CCB-DoT-Release-Annual-Cannabis-Taxable-Sales-Data-FY22-for-release.pdf>

³ <https://www.statista.com/statistics/589688/medical-marijuana-prices-by-state/>

⁴ <https://www.headset.io/industry-reports/an-analysis-of-declining-growth-in-recent-us-cannabis-sales>

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as relief and sleep management. The Company will continue to offer new and updated formulations, including CBG and CBN to differentiate its brand and capture market share.

Improved financial performance as well as revenue growth continue to be key priorities for 1933 Industries, and the improvements that the Company has set in motion are now reflecting in increased output, consistency and quality and improved margins. The Company remains on the right path to improve its the long-term growth and reach profitability in fiscal 2023 and beyond.

COMPANY OVERVIEW AND DESCRIPTION OF THE BUSINESS

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

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

- Craft cannabis flower cultivation;
- Extraction of cannabis concentrates and;
- Manufacturing of proprietary cannabinoid branded goods, focusing on CBD, CBG and CBN.

AMA’s wholesale cannabis products include premium craft-style cannabis, infused pre-rolls, full spectrum oils, high quality distillates, proprietary blends of terpenes, vaporizer products and boutique concentrates such as shatter, crumble, batter, sugar wax, diamonds, and cured and live resins, sold under the AMA brand and the Company’s premium brand, Level X. 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, high quality and competitive pricing, while the Level X brand offers exclusive strains and premium quality.

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 increased the production and sale of concentrate and vape products by 34% from the previous 2021. 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 continued demand for its cannabis flower and cannabis products as it increases yields and develops new strains in fiscal 2023.

Infused develops proprietary formulations for its Canna Hemp™ line of wellness products. With over 65 products in its portfolio, Infused manufactures and distributes products in a variety of verticals and consumption formats, including: effects-based tinctures, lotions, creams, vape pens and cartridges, gummies, and capsules for Sleep, Relief, Calm, Focus, Energy and exercise recovery. High-grade CBD and a proprietary blend of cannabis terpenes formulated for specific effects are key differentiators for the Canna Hemp™ line. The Company recently introduced previously untapped cannabinoids Cannabigerol (CBG) and Cannabinol (CBN) to its portfolio of products.

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

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

The Company’s common shares are listed for trading on the Canadian Securities Exchange under the symbol “TGIF”. The Company’s common shares also trade on the OTC Markets under the symbol “TGIF”.

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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 pre-Covid-19 pandemic). The Company is an established wholesale supplier of unique branded flower and extraction products to licensed dispensaries and cannabis stores. As its branded image and reputation is well established, the Company may license or acquire other cannabis businesses in the United States that have legalized medicinal cannabis and/or recreational cannabis specific brands with recurring sales to a loyal and growing clientele.

The Company believes that the constantly evolving regulatory environment for the production and distribution of recreational cannabis within the U.S., and the dispensing of both medicinal and recreational cannabis will be disruptive for both producers and consumers, transforming the current industry into one of commercial scale. The Company is focused on establishing a portfolio of high quality, premium cannabis products that have wide appeal to a growing and varied consumer base.

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

CBD Products Segment

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

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

1. Canna Hemp™ - a wellness line of CBD products that include tinctures, lotions, creams, vape pens and cartridges, gummies, and capsules;
2. Canna Hemp X™ - a sports line of products targeting the action sports vertical, including pre and post workout tinctures, and recovery creams;
3. Canna Hemp™ CBG and CBN Natural Line; expansion of hemp-derived cannabinoids;
4. Canna Hemp™ HEMP, a line of products containing hemp-seed oil and free of CBD.

The Canna Hemp™ line is marketed through a variety of brick-and-mortar retail outlets, and retail dispensaries in Nevada and Arizona under its various 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 is achieved by offering a broad range of premium quality products with wide-range appeal at competitive prices and delivered through outstanding client service under a well identified brand.

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

DESCRIPTION AND OUTLOOK OF THE UNITED STATES LEGAL CANNABIS INDUSTRY

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

Regulation of Cannabis in the United States Federally

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

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

Nonetheless, as of the date of this MDA, 40 states and the District of Columbia in the United States have legalized some form cannabis for medical use, while 21 states and the District of Columbia have legalized the adult use of cannabis for recreational purposes, although several do not yet have recreational sales. As more and more states legalized medical and/or adult-use marijuana, the federal government attempted to provide clarity on the incongruity between federal prohibition under the CSA and these state-legal regulatory frameworks. Until 2018, the federal government provided guidance to federal law enforcement agencies and banking institutions through a series of United States Department of Justice (“DOJ”) memoranda. One such memorandum was drafted by former Deputy Attorney General James Cole on August 29, 2013 (the “Cole Memorandum”).

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

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

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

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

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

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

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

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

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

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

- ensure that its operations are compliant with all licensing requirements as established by the applicable state, county, municipality, town, township, borough, and other political/administrative divisions;
- ensure that its cannabis related activities adhere to the scope of the licensing obtained (for example: in the states where cannabis is permitted only for adult-use, the products are only sold to individuals who meet the requisite age requirements);
- implement policies and procedures to ensure that cannabis products are not distributed to minors;
- implement policies and procedures in place to ensure that funds are not distributed to criminal enterprises, gangs, or cartels;
- implement adequate inventory tracking system and necessary procedures in place to ensure that such compliance system is effective in tracking inventory or preventing diversion of cannabis and cannabis products into those states where cannabis is not permitted by state law, or cross any state lines in general;
- ensure that its state-authorized cannabis business activity is not used as a cover or pretense for trafficking of other illegal drugs, is engaged in any other illegal activity or any activities that are contrary to any applicable anti-money laundering statutes; and
- ensure that its products comply with applicable regulations and contain necessary disclaimers about the contents of the products to prevent adverse public health consequences from cannabis use and prevent impaired driving.

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

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

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

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

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

In July 2020, the House of Representatives passed the “Blumenauer-McClintock-Norton-Lee Amendment”, to the Commerce, Justice, Science (CJS) appropriations bill, which continued the Joyce/Leahy Amendment’s protections for state medical cannabis programs. It also extended protections to include recreational programs in such states where recreational cannabis is legal. Although the House of Representatives passed the CJS appropriations bills, it was not heard in the Senate, as then Majority Leader Mitch McConnell opposes marijuana legalization. The Senate agreed to continue protections for medical cannabis-only programs and any proposals to include adult-use programs remains to be seen with the upcoming US election.

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

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

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

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

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

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

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

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

The customer due diligence steps include:

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

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

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

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

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

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

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

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

Overview of Federal CBD and Hemp Derived Regulations

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

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

Compliance with Applicable State Law in the United States

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

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

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

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illegal in all circumstances, according to the survey, conducted Sept. 3 to 15, 2020, on Pew Research Center's American Trends Panel.

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

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

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

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

Regulatory Risks

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

As a result of the conflicting views between State legislatures and the federal government regarding cannabis, investments in cannabis businesses in the United States are subject to inconsistent legislation and regulation. The response to this inconsistency was addressed in the Cole Memorandum addressed to all United States district attorneys acknowledging that notwithstanding the designation of cannabis as a controlled substance at the federal level in the

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United States, several states have enacted laws relating to cannabis for medical purposes. The Cole Memorandum outlined certain priorities for the United States Department of Justice relating to the prosecution of cannabis offenses. In particular, the Cole Memorandum noted that in jurisdictions that have enacted laws legalizing cannabis in some form and that have also implemented strong and effective regulatory and enforcement systems to control the cultivation, distribution, sale and possession of cannabis, conduct in compliance with those laws and regulations is less likely to be a priority at the federal level. Notably, however, the United States Department of Justice has never provided specific guidelines for what regulatory and enforcement systems it deems sufficient under the Cole Memorandum standard. In light of limited investigative and prosecutorial resources, the Cole Memorandum concluded that the United States Department of Justice should be focused on addressing only the most significant threats related to cannabis. States where medical cannabis had been legalized were not characterized as a high priority.

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

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

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

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

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

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not change the current enforcement policy and decide to strongly enforce the federal laws. The Company regularly monitors the activities of the current administration in this regard.

Money Laundering Laws and Access to Banking

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

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

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

United States Border Entry

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

Ability to Access Public and Private Capital

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

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

Compliance with Nevada State Law

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

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

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

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

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

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

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Reporting Requirements

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

FISCAL 2022 CONSOLIDATED OPERATING FINANCIAL HIGHLIGHTS

- Total revenues were \$12.5 million for fiscal 2022 and \$12.0 million for fiscal 2021.
- Expenses were \$20.2 million for fiscal 2022 and \$10.6 million for fiscal 2021. The increase was primarily due to the non-cash goodwill impairment expense related to Infused and an increase in cannabis transferred to production which increased state taxes payable to the state of Nevada related to AMA. It is the priority of the Company's executive management to continue to reduce costs, with the goal of maintaining consistent profitability in the near future.
- Gross margin was \$2.7 million or 22% for fiscal 2022 and \$4.8 million or 40% for fiscal 2021.
- Net loss was \$18.1 million for fiscal 2022 and \$6.3 million for fiscal 2021. The increase was due primarily to the non-cash goodwill impairment expense related to Infused.
- Adjusted EBITDA loss was \$3.7 million for fiscal 2022 and \$2.2 million for fiscal 2021.

FISCAL 2022 KEY DEVELOPMENTS

- The Company announced the resignation of Mr. Mark Baynes from its Board of Directors and the appointment of Mr. Ranson K. Shepherd as a director of the Company. As a highly experienced leader, Mr. Shepherd brings enterprise level proficiency in developing and executing strategies for operating and scaling businesses, by providing process and data driven management, planning, and business development solutions. Mr. Shepherd has led several fundraising rounds raising over \$100 million in venture capital to finance multiple cannabis companies across the United States. He has also brought to market some of the most valued brands in the industry and is a co-founder of The Qanvus Group, an infrastructure services and outsourced solutions provider focused specifically on the industrialization of cannabis operations. Mr. Shepherd also participates in numerous Native American ventures providing a wide range of services within the cannabis industry, focusing on bringing employment opportunities and in creating a positive impact in needed communities.
- The Company announced the sale of Nevada real estate assets for total net proceeds of USD\$1.27 million. The Company completed the sale of two parcels consisting of 2.78 acres of M1 zoned land, located in Las Vegas. The Company originally purchased the lots for USD\$835,000 in 2017. Proceeds from the sale were used for general working capital.
- The Company and Day One Beverages, Inc. mutually agreed to terminate the binding Letter of Intent between the parties for the Company to acquire 100% of all of the authorized and issued shares of Day One Beverages, Inc. After a full due diligence review, the parties mutually agreed that it would be in their best interests to not move forward with acquisition. The Company entered into a loan agreement with Day One (the "Agreement") where the Company agreed to loan up to USD\$500,000 through a line of credit. The line of credit is non-interest bearing until January 31, 2022. Subsequent to January 31, 2022, any borrowing will accrue interest at a rate of 10% per annum until paid in full. Any principal together with all accrued interest and fees thereon, is due and payable on or before December 31, 2022. The Agreement was terminated. Pursuant to the termination, the loan receivable plus accrued interest in the amount of USD\$480,515 was due and payable in full on or before June 30, 2022 (the "Loan Repayment"). In addition, on or before June 9, 2022, the Company will be reimbursed for costs incurred of USD\$30,052. While intended to be a full and final settlement of the terms of the Agreement, in the event the Loan Repayment is not made by June 30, 2022, the Company will retain all its rights under the Agreement, including the right to convert the loan balance into shares of common stock of the borrower at a pre-negotiated valuation of USD\$4,500,000. On June 28, 2022, the Company received the Loan Repayment and reimbursement for costs incurred.

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- The Company issued 372,666 common shares pursuant to the conversion of \$32,000 of convertible debentures and interest payable on the convertible debentures of \$5,267.

DEVELOPMENTS SUBSEQUENT TO JULY 31, 2022

- On August 15, 2022, 750,000 outstanding stock options expired unexercised.
- On August 24, 2022, debenture holders approved the amendment of the conversion price applicable to the convertible debentures to \$0.05 per share being the lowest price at which the Company is permitted to amend the conversion price, the reduction of the price per share for interest payments on the Debentures from \$0.10 to \$0.05 per share, if the Company in its sole discretion elects to pay such interest through the issuance of its common shares, and the extension of the maturity date for the Debentures from September 14, 2022 to December 31, 2023.
- On September 3, 2022, 5,295,270 outstanding warrants expired unexercised.
- September 9, 2022, the Company obtained a line of credit of up to \$1,282,400 (USD\$1,000,000) (the "Loan"), provided by Mr. Paul Rosen, Chairman and CEO of the Company. The Company has agreed to provide Mr. Rosen (the "Lender") senior first priority security interests in all of its assets as collateral for the Loan. Withdrawals from the line of credit must be approved by the Lender and must include the requested amount and the use of the funds (the "Principal"). Interest on the Principal will commence to accrue on the date of each withdrawal, with an interest rate of 11% per annum accrued until the Principal is paid in full. The Loan has a one-year term (the "Maturity Date"). The Principal, together with all accrued interest and fees is due and payable on or before the Maturity Date. However, a minimum interest rate of 2% of the Principal will be paid on the event that the Loan is paid back prior to the end of the term.
- On September 27, 2022, the Company completed the sale of a building for net proceeds of USD\$2.43 million after selling costs. Proceeds from the sale will be used for general working capital.
- The Company issued 3,495,376 common shares pursuant to the conversion of \$127,007 of convertible debentures and interest payable on the convertible debentures of \$47,762.

SELECTED ANNUAL INFORMATION

	2022	2021	For the years ended July 31,	
			2020	2019
	\$	\$	\$	\$
Revenue	12,537,937	11,975,021	11,962,525	18,059,774
Gross margin	2,690,425	4,819,967	2,284,674	5,296,980
Net loss	(18,065,674)	(6,287,423)	(22,203,622)	(19,111,991)
Comprehensive loss	(17,759,356)	(8,458,259)	(23,070,361)	(19,011,564)
Basic / diluted loss per share	(0.04)	(0.02)	(0.08)	(0.08)

	July 31, 2022	July 31, 2021	July 31, 2020	As at, July 31, 2019
	\$	\$	\$	\$
Current assets	12,347,016	11,149,216	7,788,920	23,966,423
Total assets	29,009,677	45,353,816	46,584,470	61,654,094
Current liabilities	8,670,738	2,709,806	1,682,635	1,429,439
Total liabilities	21,486,952	20,121,280	27,132,288	24,465,690

1933 INDUSTRIES INC.

MANAGEMENT DISCUSSION AND ANALYSIS

For the years ended July 31, 2022 and 2021

(In Canadian dollars, except where noted)

REVIEW OF QUARTERLY RESULTS

	Q4 2022	Q3 2022	Q2 2022	Q1 2022
	\$	\$	\$	\$
Revenue	2,607,511	4,256,280	3,208,082	2,466,064
Net loss	(3,921,644)	(12,375,391)	(819,814)	(948,825)
Basic / diluted loss per share	(0.01)	(0.03)	(0.00)	(0.00)
Number of weighted average shares	450,699,319	450,699,319	450,699,319	450,640,574

	Q4 2021	Q3 2021	Q2 2021	Q1 2021
	\$	\$	\$	\$
Revenue	2,510,169	3,370,510	3,406,826	2,687,516
Net (loss) income	(2,642,456)	582,673	(1,409,063)	(2,818,577)
Basic / diluted (loss) income per share	(0.01)	0.00	(0.00)	(0.01)
Number of weighted average shares	449,723,437	365,763,894	339,996,131	320,970,618

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

Results of Operations	Q4 2022	Q4 2021
	\$	\$
Revenues	2,607,511	2,510,169
Gross margin	(1,893,656)	(70,881)
General and administration	(856,384)	81,656
License fees, taxes, and insurance	(182,472)	(1,058,468)
Management and consulting fees	(55,976)	(111,837)
Wages and benefits	(152,260)	(158,188)
Professional fees	(162,858)	(361,057)
Share-based compensation	(4,232)	(94,843)
Other expenses	(613,806)	(871,331)
Loss from continuing operations after income taxes	(3,921,644)	(2,644,949)
Income from discontinued operations after income taxes	-	2,493
Net loss for the period	(3,921,644)	(2,642,456)
Foreign currency translation adjustment	166,173	372,123
Comprehensive loss	(3,755,471)	(2,270,333)
Basic and diluted loss per share	(0.01)	(0.00)

Review of Consolidated Financial Information for Q4 2022 compared to Q4 2021

Revenues

The Company recorded revenues of \$2,607,511, compared to \$2,510,169 during Q4 2021. The increase in revenues for the quarter as compared to Q4 2021 was primarily due to an increase in AMA revenues as cannabis sales begin to normalize to pre-pandemic levels with the full return of tourism to the state of Nevada.

1933 INDUSTRIES INC.

MANAGEMENT DISCUSSION AND ANALYSIS

For the years ended July 31, 2022 and 2021

(In Canadian dollars, except where noted)

Gross margin

Gross margin was a loss of \$1,893,656 (73%), compared to a loss of \$70,881 (3%) during Q4 2021. The losses resulted from refinements to the Company's inventory estimates which has resulted in the reclassification of certain costs from inventory and general and administration expenses to cost of sales and a net realizable value adjustment related to certain AMA inventories.

General and administration expenses

General and administration expenses ("G&A") were \$856,384, compared to a recovery of \$81,656 during Q4 2021. This increase above the prior year is primarily driven by an increase in advertising, promotion and selling costs as the Company began to normalize cannabis sales to pre-pandemic levels with the return of full tourism to the state of Nevada and an increase in office and general costs as the Company reclassified certain costs from general and administration expenses to cost of sales and inventory in Q4 2021 resulting in a recovery during the period. Offsetting these increases was a decrease in investor relations and travel and entertainment. The Company continues to make strategic cost reductions. It is the priority of the Company's executive management to continue to reduce costs, with the goal of reaching consistent profitability in the near future.

License fees, taxes, and insurance

License fees, taxes, and insurance were \$182,472, compared to \$1,058,468 during Q4 2021. This decrease is due to a decrease in cannabis transferred to production due to timing of harvest which decreased state taxes payable to the state of Nevada related to AMA sales.

Management and consulting fees

Management and consulting fees were \$55,976, compared to \$111,837 during Q4 2021. The balance is consistent period over period based on the level of operations of the Company.

Wages and benefits

Wages and benefits were \$152,260, compared to \$158,188, during Q4 2021. The Company continues to make strategic cost reductions. It is the priority of the Company's executive management to continue to reduce costs, with the goal of reaching consistent profitability in the near future.

Professional fees

Professional fees were \$162,858, compared to \$361,057 during Q4 2021. The Company continues to make strategic cost reductions. It is the priority of the Company's executive management to continue to reduce costs, with the goal of reaching consistent profitability in the near future.

Share-based compensation

Share-based payments, a non-cash expense, were \$4,232, compared to \$94,843 during Q4 2021. This change over the prior period is due to the timing of vesting of previously issued stock options. There were no new stock options issued during the quarter.

Other expenses

Other expenses were \$613,806, compared to other expenses of \$871,331 during Q4 2021. The components of other expenses include interest expense, accretion expense, depreciation, gain on change in fair value of warrant liability, gain on disposal of property and equipment, goodwill impairment, interest income, other income, foreign exchange gains and losses and income tax expense. This decrease over the prior year is primarily driven due to the reclassification of certain costs from inventory and general and administration expenses to cost of sales which was partially offset by an increase in income tax expense related to AMA. Cases before the federal courts have resulted in the denial of the application of non-capital losses where Section 280E of the Tax Code applies. This is an uncertain tax position and management will review the applicable case law and make a final determination on the utilization of the non-capital losses when filing the corporate income tax returns.

1933 INDUSTRIES INC.

MANAGEMENT DISCUSSION AND ANALYSIS

For the years ended July 31, 2022 and 2021

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In addition, the Company recorded a gain on sale of property and equipment pursuant to the sale of production equipment which was not in use and an increase in depreciation expense as Q4 2021 included a recovery to reclassify building depreciation to inventory and cost of sales.

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 Q4 2022, the Company had an unrealized foreign exchange gain of \$166,173, compared to a gain of \$372,123 during Q4 2021, due to the favorable movement in the Canadian dollar against the U.S. dollar. This amount is recorded in other comprehensive income (loss).

Review of Consolidated Financial Information for Fiscal 2022 compared to Fiscal 2021

Results of Operations	Fiscal 2022	Fiscal 2021
	\$	\$
Revenues	12,537,937	11,975,021
Gross margin	2,690,425	4,819,967
General and administration	(2,017,108)	(1,354,453)
License fees, taxes, and insurance	(2,800,352)	(2,406,515)
Management and consulting fees	(377,653)	(417,064)
Wages and benefits	(865,688)	(1,497,013)
Professional fees	(1,135,317)	(1,241,853)
Share-based compensation	(12,370)	(1,025,074)
Other expenses	(13,547,611)	(3,165,418)
Net loss for the period	(18,065,674)	(6,287,423)
Foreign currency translation adjustment	306,318	(2,170,836)
Comprehensive loss	(17,759,356)	(8,458,259)
Basic and diluted loss per share	(0.04)	(0.02)

Revenues

The Company recorded revenues of \$12,537,937, compared to \$11,975,021 during fiscal 2021. The increase in revenues for fiscal 2022 as compared to fiscal 2021 was primarily due to an increase in AMA revenues as cannabis sales begin to normalize to pre-pandemic levels with the full return of tourism to the state of Nevada.

Gross margin

Gross margin was \$2,690,425 (22%), compared to gross margin of \$4,819,967 (40%) during fiscal 2021. The decrease in the gross margin percentage from the prior year is due to refinements to the Company's inventory estimates which has resulted in the reclassification of certain costs from inventory to cost of sales and a net realizable value adjustment related to certain AMA inventories.

General and administration expenses

G&A were \$2,017,108, compared to \$1,354,453 during fiscal 2021. This increase from the prior year is primarily driven by increased office expenses and advertising due to an increase in AMA revenues as cannabis sales begin to normalize to pre-pandemic levels with the full return of tourism to the state of Nevada. Offsetting these increases was a decrease in investor relations and travel and entertainment. It is the priority of the Company's executive management to continue to reduce costs, with the goal of reaching consistent profitability in the near future.

License fees, taxes, and insurance

License fees, taxes, and insurance were \$2,800,352, compared to \$2,406,515 during fiscal 2021. This increase is due to an increase in cannabis transferred to production which increased state taxes payable to the state of Nevada related to AMA sales.

1933 INDUSTRIES INC.

MANAGEMENT DISCUSSION AND ANALYSIS

For the years ended July 31, 2022 and 2021

(In Canadian dollars, except where noted)

Management and consulting fees

Management and consulting fees were \$377,653, compared to \$417,064 during fiscal 2021. The balance is consistent period over period based on the level of operations of the Company.

Wages and benefits

Wages and benefits were \$865,688, compared to \$1,497,013, during fiscal 2021. The expense reduced over the prior year as the Company continues to reduce costs, with the goal of reaching profitability in the near future.

Professional fees

Professional fees were \$1,135,317, compared to \$1,241,853 during fiscal 2021. The expense reduced over the prior year as the Company continues to reduce costs, with the goal of reaching profitability in the near future.

Share-based compensation

Share-based payments, a non-cash expense, were \$12,370, compared to \$1,025,074 during fiscal 2021. This change over the prior period is due to the timing of vesting of previously issued stock options. There were no new stock options issued during the year resulting in lower current period expense.

Other income (expenses)

Other expense was \$13,547,611, compared to other expenses of \$3,165,418 during fiscal 2021. The components of other expenses include interest expense, accretion expense, depreciation, gain on change in fair value of warrant liability, gain on disposal of property and equipment, goodwill impairment, interest income, other income, foreign exchange gains and losses and income tax expense. This change over the prior year is primarily driven due to the non-cash goodwill impairment expense of \$11.5 million related to Infused. Partially offsetting the increased expense noted above was a gain on sale of property and equipment pursuant to the sale of a parcel of land and a gain on change in fair value of warrant liability as the fair value decreased as the warrants approached maturity.

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 fiscal 2022, the Company had an unrealized foreign exchange gain of \$306,318, compared to a loss of \$2,107,836 during fiscal 2021, due to the favorable movement in the Canadian dollar against the U.S. dollar. This amount is recorded in other comprehensive income (loss).

LIQUIDITY, CASH FLOWS AND CAPITAL RESOURCES

Liquidity

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

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

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

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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 July 31, 2022 and 2021, the Company had the following liquidity related financial information:

	July 31, 2022	July 31, 2021
Cash	363,274	4,405,849
Liquid assets (1)	7,567,941	9,539,808
Quick ratio (2)	0.87	3.52
Working capital	3,676,278	8,439,410
Working capital ratio (3)	1.42	4.11
Convertible debentures	4,574,279	4,234,819

- (1) Liquid assets include cash, receivables, and inventory.
(2) Quick ratio is defined as liquid assets divided by current liabilities.
(3) Working capital ratio is defined as current assets divided by current liabilities.

As at July 31, 2022, working capital and the working capital ratio decreased as compared July 31, 2021 due primarily to the reclassification of convertible debentures to current liabilities. On August 24, 2022, debenture holders approved the extension of the maturity date for the Debentures from September 14, 2022 to December 31, 2023. Subsequent to July 31, 2022, convertible debentures of \$127,007 and interest payable on the convertible debentures of \$47,762 were converted into 3,495,376 common shares of the Company.

Cash flow

Net cash provided by (used in)	Q4 2022	Q4 2021	Fiscal 2022	Fiscal 2021
	\$	\$	\$	\$
Operating activities from continuing operations	(973,196)	(1,960,596)	(5,085,387)	(4,665,801)
Operating activities from discontinued operations	-	2,493	-	-
Investing activities	622,513	(253,717)	1,581	(456,360)
Financing activities	165,071	(113,844)	1,534,698	6,059,541
Effect of exchange rate changes on cash	(417,167)	812,880	(493,467)	706,927
Cash, beginning or period	966,053	5,918,633	4,405,849	2,761,542
Cash, end of period	363,274	4,405,849	363,274	4,405,849

Review of cash flow Q4 2022 compared to Q4 2021:

Cash used in operating activities from continuing operations was \$973,196, compared to \$1,960,596 during Q4 2021:

- Net loss from continuing operations was \$4,640,012, compared to net loss from continuing operations of \$2,644,949 during Q4 2021. Included in net loss are non-cash items of \$3,882,951, compared to \$1,317,766 included in net loss for Q4 2021.
- Movements in receivables increased cash by \$425,825, compared to \$127,600 during Q4 2021 as a result of the timing of collection of receivables.
- Movements in inventory increased cash by \$682,469, compared to decreasing cash by \$1,156,017 during Q4 2021 as a result of the timing of harvests and subsequent sales of inventory.
- Movements in biological assets decreased cash by \$1,985,596, compared to \$47,654 during Q4 2021.
- Movements in prepaid expenses and deposits increased cash by \$497,779, compared to \$52,761 during Q4 2021 as a result of timing of payments related to these categories.

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MANAGEMENT DISCUSSION AND ANALYSIS

For the years ended July 31, 2022 and 2021

(In Canadian dollars, except where noted)

- Movements in accounts payable and accrued liabilities decreased cash by \$397,964, compared to \$99,002 during Q4 2021 as a result of the timing of payments of outstanding payables.
- Movements in income taxes payable increased cash by \$561,352, compared to \$488,899 during Q4 2021.

Cash provided by operating activities from discontinued operations was \$nil during fiscal 2022, compared to \$2,493 during fiscal 2021. The amounts related to a Management Agreement between Green Spectrum (in California) and 1933 Legacy Inc. Management has terminated the Management Agreement and anticipates dissolving 1933 Legacy Inc; therefore, no future costs are anticipated.

Cash provided by investing activities of continuing operations was \$622,513 during Q4 2022 related to the recovery of loan receivable which was partially offset by the purchase of property and equipment, compared to cash used by investing activities of \$253,717 during Q4 2021 related to the purchase of property and equipment.

Cash provided by financing activities was \$165,071, compared to cash using in financing activities of \$113,844 during Q4 2021:

- Cash raised from the sale of property and equipment raised \$316,007, compared to \$nil in Q4 2021.
- There were \$20,001 in cash share issuance costs related to a private placement in Q4 2021.
- Lease principal repayment related to lease payments on the Company's facilities provided a decrease in cash of \$150,936 during Q4 2022, compared to \$93,843 during Q4 2021.

Review of cash flow fiscal 2022 compared to fiscal 2021:

Cash used in operating activities from continuing operations was \$5,085,387, compared to \$4,665,801 during fiscal 2021:

- Net loss from continuing operations was \$18,065,674, compared to net loss from continuing operations of \$6,287,423 during fiscal 2021. Included in net loss are non-cash items of \$14,556,858, compared to \$2,048,353 for fiscal 2021.
- Movements in receivables decreased cash by \$340,631, compared to \$32,252 during fiscal 2021 as a result of the timing of collection of receivables.
- Movements in inventory decreased cash by \$2,494,813, compared to \$2,106,762 during fiscal 2021 as a result of the timing of harvests and subsequent sales of inventory.
- Movements in biological assets decreased cash by \$985,279, compared to increasing cash by \$1,112,955 during fiscal 2021.
- Movements in prepaid expenses and deposits increased cash by \$368,871, compared to \$57,315 during fiscal 2021 as a result of timing of payments.
- Movements in accounts payable and accrued liabilities increased cash by \$1,313,929, compared to \$53,114 during fiscal 2021 as a result of the timing of payments of outstanding payables.
- Movements in income taxes payable increased cash by \$561,352, compared to \$488,899 during fiscal 2021.

Cash provided by investing activities of continuing operations was \$1,581 during fiscal 2022 related to the recovery of the loan receivable plus accrued interest and costs incurred which was partially offset by the purchase of property and equipment, compared to \$456,360 during fiscal 2021 related to the purchase of property and equipment.

Cash provided by financing activities was \$1,534,698, compared to cash provided by financing activities of \$6,095,541 during fiscal 2021:

- Cash raised from the sale of property and equipment raised \$1,938,008 compared to \$nil in fiscal 2021.
- Cash raised from private placements raised cash of \$nil in fiscal 2022, compared to \$6,662,026 during YTD 2021. There were \$492,645 in cash share issuance costs related to the raise in fiscal 2021.
- Lease principal repayment provided a decrease in cash of \$403,310 during fiscal 2022, compared to \$109,839 during fiscal 2021 related to lease payments on the Company's facilities.

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Capital Resources

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

	July 31, 2022	July 31, 2021
	\$	\$
Equity	7,522,725	25,232,536
Convertible debentures	4,574,279	4,234,819
	12,097,004	29,467,355
Less: cash	(363,274)	(4,405,849)
	11,733,730	25,061,506

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

Dividends

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

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:

Type of Security	At July 31, 2022	At the date of this MD&A
Common Shares	450,699,319	454,194,695
Stock Options	12,100,000	11,350,000
Warrants	54,041,199	48,745,929
Agent Options	3,153,214	3,153,214
Convertible debentures - \$0.10 conversion	\$3,662,007	\$3,535,000

As at July 31, 2022, the Company has issued various warrants and stock options as summarized below:

Description of security	Number	Exercise price (\$)	Proceeds if exercised (\$)	Expiry date
Stock options	750,000	0.35	262,500	15-Aug-22
Stock options	300,000	0.075	22,500	6-Aug-25
Stock options	11,050,000	0.10	1,105,000	8-Nov-25
	12,100,000	0.11	1,390,000	
Warrants	5,255,020	0.125	656,878	3-Sep-22
Warrants	40,250	0.125	5,031	3-Sep-22
Warrants	45,045,929	0.16	7,207,349	4-Mar-23
Warrants	3,700,000	0.075	277,500	13-Jun-24
	54,041,199	0.14	8,146,757	
Agent Options	3,153,214	0.11	346,854	4-Mar-23
	3,153,214	0.11	346,854	

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MANAGEMENT DISCUSSION AND ANALYSIS

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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.

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

	Q4 2022	Q4 2021	Fiscal 2022	Fiscal 2021
	\$	\$	\$	\$
Net loss for the period	(3,921,644)	(2,642,456)	(18,065,674)	(6,287,423)
Add (subtract):				
Interest expense	413,993	418,600	1,749,132	1,999,514
Accretion expense	-	15,817	10,434	107,194
Depreciation expense (recovery)	208,764	(476,609)	499,846	498,471
Income tax (recovery) expense	(169,368)	482,000	549,000	482,000
EBITDA loss	(3,468,255)	(2,202,648)	(15,257,262)	(3,200,244)
Share-based compensation expense	4,232	94,843	12,370	1,025,074
Goodwill impairment	67,594	-	11,540,439	-
Loss from discontinued operations	-	2,493	-	-
Adjusted EBITDA loss	(3,396,429)	(2,105,312)	(3,704,453)	(2,175,170)

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 for the three months and years ended July 31, 2022 and 2021, was as follows:

	Three months ended		Year ended	
	2022	2021	2022	2021
	\$	\$	\$	\$
Management and consulting fees	174,000	159,000	348,020	295,200
Wages and benefits	-	219,896	48,350	419,795
Directors’ fees included in general and administration expense	40,602	42,416	92,820	134,434
Share-based compensation	5,174	301,156	16,747	807,413
	219,776	722,468	505,937	1,656,842

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Other related party transactions for the three months and years ended July 31, 2022 and 2021, were as follows:

	Three months ended		Year ended	
	2022	2021	2022	2021
	\$	\$	\$	\$
Legal fees (accrual reversal)	-	-	-	5,092
	-	-	-	5,092

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

For the year ended July 31, 2022, the company earned revenues of \$649,355 (2021 - \$nil) from companies related to a Director of the Company. As at July 31, 2022, \$208,903 was included in receivables (July 31, 2021 - \$nil).

INTERNATIONAL FINANCIAL REPORTING STANDARDS

The consolidated financial statements have been prepared in accordance with IFRS as issued by the IASB, effective as of July 31, 2022. The accounting policies applied in the preparation of these consolidated financial statements are consistent with those applied and disclosed in note 3 to the July 31, 2022 consolidated 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 AMA CGU was more than its carrying value and no impairment was required and that the recoverable value of the Infused CGU was less than its carrying value and recorded an impairment charge.

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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.

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.

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 AMA CGU was more than its carrying value and no impairment was required and that the recoverable value of the Infused CGU was less than its carrying value and recorded an impairment charge.

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.

Provisions of the Internal Revenue Code, Section 280E, are being applied by the Internal Revenue Service to businesses operating in the medical and adult-use marijuana industry. Section 280E of the Internal Revenue Code prohibits marijuana businesses from deducting their ordinary and necessary business expenses, forcing them to pay higher effective federal tax rates than similar companies in other industries. In addition, cases before the federal courts have resulted in the denial of the application of non-capital losses where Section 280E of the Tax Code applies. This is an uncertain tax position and management will review the applicable case law and make a final determination on the utilization of the non-capital losses. Changes in Section 280E or applicable case law related to the application of non-capital losses could significantly affect the current income tax expense.

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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

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. When it is reasonably certain that the extension or early termination options will be exercised, the Company determines that the term of its leases are the lesser of original lease term, the original lease term plus the extension option, or the remaining lease term assuming exercise of the early termination option. This significant estimate could affect future results if the Company extends the lease or exercises an early termination option.

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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 is the risk of financial loss to the Company if a counterparty fails to meet an obligation under contract. 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 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 Company does not expect significant credit losses as the Company has not had bad debts in its history due to the regulated nature of the industry.

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 following table summarizes the maturity profile of the Company's financial liabilities as at July 31, 2022:

	Total	Within 1 years	1 - 5 years	Greater than 5 years
	\$	\$	\$	\$
Accounts payable and accrued liabilities	2,755,626	2,755,626	-	-
Lease liability	27,977,058	1,520,156	4,162,303	22,294,599
Convertible debentures	4,574,279	4,574,279	-	-
	35,306,963	8,850,061	4,162,303	22,294,599

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.

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The table below summarizes the net monetary assets and liabilities held in foreign currencies:

	July 31, 2022	July 31, 2021
	\$	\$
Canadian dollar net monetary (liabilities) assets	(4,497,124)	527,391

A change of 1% in the CAD/USD exchange rate would impact loss and comprehensive loss by \$57,527. 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 cash flow interest rate volatility as its and convertible debentures are carried at a fixed interest rate throughout their term.

RISKS AND UNCERTAINTIES

Holders of securities of the Company should carefully consider the following risk factors in addition to the other information contained in this MD&A. The risks and uncertainties below are not the only ones related to the Company. There are additional risks and uncertainties that the Company does not presently know of or that the Company currently considers immaterial which could become material, may also impair the Company's business operations. If any of the following risks actually occur, the Company's business may be harmed, and its financial condition and results of operations may suffer significantly. Other risk factors are set forth in the Company's Financial Statements and AIF, which are incorporated by reference into this.

Risks Related to the Business of the Company

Risk Relating to the United States Regulatory System

The activities of the Company are subject to regulation by governmental authorities. Achievement of the Company's business objectives are contingent, in part, upon compliance with regulatory requirements enacted by these governmental authorities and obtaining all regulatory approvals, where necessary, for the sale of its products. The Company cannot predict the time required to secure or maintain all appropriate regulatory approvals for its products, or the extent of testing and documentation that may be required by governmental authorities. Any delays in obtaining, or failure to obtain regulatory approvals would significantly delay the development of markets and products and could have a material adverse effect on the business, results of operations and financial condition of the Company.

The Company operates in a new industry which is highly regulated, highly competitive and evolving rapidly. As such, new risks may emerge, and management may not be able to predict all such risks or be able to predict how such risks may result in actual results differing from the results contained in any forward-looking statements.

The Company incurs ongoing costs and obligations related to regulatory compliance. Failure to comply with regulations may result in additional costs for corrective measures, penalties or in restrictions of operations. In addition, changes in regulations, more vigorous enforcement thereof or other unanticipated events could require extensive changes to operations, increased compliance costs or give rise to material liabilities, which could have a material adverse effect on the business, results of operations and financial condition of the Company. Further, the Company may be subject to a variety of claims and lawsuits.

Adverse outcomes in some or all of these claims may result in significant monetary damages or injunctive relief that could adversely affect its ability to conduct business. The litigation and other claims are subject to inherent uncertainties and management's view of these matters may change in the future.

The industry is subject to extensive controls and regulations, which may significantly affect the financial condition of market participants. The marketability of any product may be affected by numerous factors that are beyond the control of the Company and which cannot be predicted, such as changes to government regulations, including those relating to taxes and other government levies which may be imposed. Changes in government levies, including taxes, could reduce the Company's earnings and could make future capital investments or the Company's operations uneconomic.

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The industry is also subject to numerous legal challenges, which may significantly affect the financial condition of market participants and which cannot be reliably predicted.

This MD&A involves an entity that is expected to continue to derive a significant portion of its revenues from the cannabis industry in certain states of the United States, which industry is illegal under United States federal law. Currently, the Company is directly engaged in the manufacture and possession of cannabis in the medical and recreational cannabis marketplace in the United States. The enforcement of relevant laws is a significant risk.

Violations of any United States federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from civil proceedings conducted by either the United States federal government or private citizens, or criminal charges, including, but not limited to, disgorgement of profits, cessation of business activities or divestiture. This could have a material adverse effect on the Company, including its reputation and ability to conduct business, the listing of its securities on various stock exchanges, its financial position, operating results, profitability or liquidity or the market price of its publicly traded shares. In addition, it is difficult for the Company to estimate the time or resources that would be needed for the investigation of any such matters or its final resolution because, in part, the time and resources that may be needed are dependent on the nature and extent of any information requested by the applicable authorities involved, and such time or resources could be substantial.

Risk of Heightened Scrutiny by Regulatory Authorities in Canada

For the reasons set forth above, the Company's existing investments in the United States, and any future investments, may become the subject of heightened scrutiny by regulators, stock exchanges and other authorities in Canada. As a result, the Company may be subject to significant direct and indirect interaction with public officials. There can be no assurance that this heightened scrutiny will not in turn lead to the imposition of certain restrictions on the Company's ability to invest in the United States or any other jurisdiction, in addition to those described herein.

Although the TMX MOU has confirmed that there is currently no CDS ban on the clearing of securities of issuers with cannabis-related activities in the United States, there can be no guarantee that this approach to regulation will continue in the future. If such a ban were to be implemented, it would have a material adverse effect on the ability of holders of Common Shares to make and settle trades.

In particular, the Common Shares would become highly illiquid as until an alternative was implemented, investors would have no ability to affect a trade of the Common Shares through the facilities of a stock exchange. The Company has obtained eligibility with the DTC for its Common Share quotation on the OTCQB and such DTC eligibility provides another possible avenue to clear Shares in the event of a CDS ban. Government policy changes or public opinion may also result in a significant influence over the regulation of the cannabis industry in Canada, the United States or elsewhere.

A negative shift in the public's perception of cannabis in the United States or any other applicable jurisdiction could affect future legislation or regulation. Among other things, such a shift could cause state jurisdictions to abandon initiatives or proposals to legalize cannabis, thereby limiting the number of new state jurisdictions into which the Company could expand. Any inability to fully implement the Company's expansion strategy may have a material adverse effect on the Company's business, financial condition, and results of operations.

As previously stated, violations of any federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from civil proceedings conducted by either the federal government or private citizens, or criminal charges, including, but not limited to, disgorgement of profits, cessation of business activities or divestiture. This could have a material adverse effect on the Company, including its reputation and ability to conduct business, its holding (directly or indirectly) of medical cannabis licenses in the United States, the listing of its securities on various stock exchanges, its financial position, operating results, profitability or liquidity or the market price of its publicly traded shares. In addition, it is difficult for the Company to estimate the time or resources that would be needed for the investigation of any such matters or its final resolution because, in part, the time and resources that may be needed are dependent on the nature and extent of any information requested by the applicable authorities involved, and such time or resources could be substantial.

The approach to the enforcement of cannabis laws may be subject to change or may not proceed as previously outlined.

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Changes in Laws, Regulations and Guidelines

The Company's operations are subject to a variety of laws, regulations and guidelines relating to the manufacture, management, transportation, storage and disposal of cannabis but also including laws and regulations relating to health and safety, the conduct of operations and the protection of the environment. To its knowledge, the Company is currently in compliance with such laws in all material respects. Changes to such laws, regulations, and guidelines due to matters beyond the control of the Company may cause adverse effects to the Company's operations.

While the impact of the changes is uncertain and are highly dependent on which specific laws, regulations or guidelines are changed and on the outcome of any such court actions, it is not expected that any such changes would have an effect on the Company's operations that is materially different than the effect on similar-sized companies in the same business as the Company.

Local, state, and federal laws and regulations governing marijuana for medicinal and recreational purposes are broad in scope and are subject to evolving interpretations, which could require the Company to incur substantial costs associated with bringing the Company's operations into compliance. In addition, violations of these laws, or allegations of such violations, could disrupt the Company's operations and result in a material adverse effect on its financial performance.

It is beyond the Company's scope to predict the nature of any future change to the existing laws, regulations, policies, interpretations or applications, nor can the Company determine what effect such changes, when and if promulgated, could have on the Company's business.

Risks associated with the change in U.S. Administrations

As a result of the U.S. elections and the related change in political agenda, there continues to be uncertainty as to the position the United States will take with respect to world affairs and events. This uncertainty may include issues such as enforcement of the U.S. federal laws.

Implementation by the U.S. of new legislative or regulatory regimes could impose additional costs on the Company, decrease U.S. demand for the Company's services or otherwise negatively impact the Company, which may have a material adverse effect on the Company's business, financial condition and operations.

Risks Concerning Banking

The U.S. federal prohibitions on the sale of marijuana may result in the Company and its partners being restricted from fully accessing the U.S. banking system and they may be unable to deposit funds in federally insured and licensed banking institutions. Banking restrictions could be imposed due to the Company's banking institutions not accepting payments and deposits. The Company is at risk that any bank accounts it has could be closed at any time. Such risks increase costs to the Company. Additionally, similar risks are associated with large amounts of cash at its business locations. These locations require heavy security with respect to holding and transport of cash.

The guidance provided in the FinCEN Memo may change depending on the position of the U.S. government administration at any given time and is subject to revision or retraction in the future, which may restrict the Company's access to banking services.

In the event financial service providers do not accept accounts or transactions related to the marijuana industry, it is possible that the Company may seek alternative payment solutions, including but not limited to crypto currencies such as Bitcoin. There are risks inherent in crypto currencies, most notably its volatility and security issues. If the industry were to move towards alternative payment solutions and accept payments in crypto currency the Company would have to adopt policies and protocols to manage its volatility and exchange rate risk exposures. The Company's inability to manage such risks may adversely affect the Company's operations and financial performance.

Product Liability, Operational Risk

As a manufacturer and distributor of products designed to be ingested by humans, the Company faces an inherent risk of exposure to product liability claims, regulatory action, and litigation if its products are alleged to have caused significant loss or injury. In addition, the manufacture and sale of marijuana and CBD infused products based on the Company's recipes and brands involve the risk of injury to consumers due to tampering by unauthorized third parties or product contamination. Previously unknown adverse reactions resulting from human consumption of the Company's

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products alone or in combination with other medications or substances could occur. The Company may be subject to various product liability claims, including, among others, that the Company's products caused injury or illness, include inadequate instructions for use or include inadequate warnings concerning possible side effects or interactions with other substances.

A product liability claim or regulatory action against the Company could result in increased costs, could adversely affect the Company's reputation with its clients and consumers generally, and could have a material adverse effect on the Company's results of operations and financial condition of the Company. There can be no assurances that the Company will be able to obtain or maintain product liability insurance on acceptable terms or with adequate coverage against potential liabilities. Such insurance is expensive and may not be available in the future on acceptable terms, or at all. The inability to obtain sufficient insurance coverage on reasonable terms or to otherwise protect against potential product liability claims could prevent or inhibit the commercialization of the Company potential products. Should the Federal government legalize marijuana for medical or recreational use nation-wide, it is possible that the U.S. Food and Drug Administration ("FDA") would seek to regulate the products under the Food, Drug and Cosmetics Act of 1938.

The FDA may issue rules and regulations including certified good manufacturing practices related to the growth, cultivation, harvesting and processing of medical and adult use marijuana and CBD infused products. Clinical trials may be needed to verify efficacy and safety of the medical and adult use marijuana. It is also possible that the FDA would require that facilities where medical and adult use marijuana is cultivated be registered with the applicable government agencies and comply with certain federal regulations. In the event any of these regulations are imposed, The Company cannot foresee the impact on its operations and economics. If the Company is unable to comply with the regulations and or registration as prescribed by the FDA or another federal agency, the Company may be unable to continue to operate in its current form or at all.

Product Recall Risks

Manufacturers and distributors of products are sometimes subject to the recall or return of their products for a variety of reasons, including product defects, such as contamination, unintended harmful side effects or interactions with other substances, packaging safety and inadequate or inaccurate labeling disclosure. If any of the products developed by the Company and sold by it or by licensed producers are recalled due to an alleged product defect or for any other reason, the Company could be required to incur the unexpected expense relating to the recall and any legal proceedings that might arise in connection with the recall. The Company may lose a significant amount of revenue due to a loss of and may not be able to replace that revenue at an acceptable margin or at all.

In addition, a product recall may require significant management attention. Although the Company has established procedures to test finished products (in connection with Nevada state requirements), there can be no assurance that any quality, potency or contamination problems will be detected in time to avoid unforeseen product recalls, regulatory action or lawsuits. Additionally, if one of the Company's significant brands were subject to recall, the image of that brand and the Company could be harmed. A recall for any of the foregoing reasons could lead to decreased demand for the Company's products and could have a material adverse effect on the results of operations and financial condition of the Company. Additionally, product recalls may lead to increased scrutiny of the Company's operations by the regulatory agencies, requiring further management attention and potential legal fees and other expenses.

The Company's operations can also be substantially affected by adverse publicity resulting from quality, illness, injury, health concerns, public opinion, or operating issues. The Company will attempt to manage these factors, but the occurrence of any one or more of these factors could materially and adversely affect the Company's business, financial condition, and results of operations.

Risks Inherent in an Agricultural Business

The Company's business will involve the growing of marijuana, an agricultural product. As such, the business is subject to the risks inherent in the agricultural business, such as insects, plant diseases and similar agricultural risks. Although the Company expects that its products will be grown indoors under climate-controlled conditions, carefully monitored by trained personnel, there can be no assurance that natural elements will not have a material adverse effect on the production of its products.

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Vulnerability to Rising Energy Costs

Marijuana growing operations consume considerable energy, making such operations vulnerable to rising energy costs. Rising or volatile energy costs may adversely impact the business of the Company and its ability to operate profitably.

Transportation Disruptions

Due to the perishable and premium nature of agricultural products, the Company will depend on fast and efficient courier services to distribute its product. Any prolonged disruption of this courier service could have an adverse effect on the financial condition and results of operations of the Company. Rising costs associated with the courier services used by the Company to ship its products may also adversely impact the business of the Company and its ability to operate profitably.

Unfavorable Publicity or Consumer Perception

The Company believes the marijuana industry is highly dependent upon consumer perception regarding the safety, efficacy and quality of the medical marijuana produced. Consumer perception of marijuana products can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding the consumption of medical marijuana products. There can be no assurance that future scientific research, findings, regulatory proceedings, litigation, media attention or other research findings or publicity will be favorable to the medical marijuana market or any particular product, or consistent with earlier publicity. Future research reports, findings, regulatory proceedings, litigation, media attention or other publicity that are perceived as less favorable than, or that question, earlier research reports, findings or publicity could have a material adverse effect on the demand for the Company's products and the business, results of operations, financial condition and cash flows of the Company.

The Company's dependence upon consumer perceptions means that adverse scientific research reports, findings, regulatory proceedings, litigation, media attention or other publicity, whether or not accurate or with merit, could have a material adverse effect on the Company, the demand for medical marijuana products, and the business, results of operations, financial condition and cash flows of the Company. Further, adverse publicity reports or other media attention regarding the safety, efficacy and quality of marijuana in general, or the Company's products specifically, or associating the consumption of medical marijuana with illness or other negative effects or events, could have such a material adverse effect. Such adverse publicity reports or other media attention could arise even if the adverse effects associated with such products resulted from consumers' failure to consume such products appropriately or as directed.

Uninsurable Risks

The medical and adult use marijuana business is subject to several risks that could result in damage to or destruction of properties or facilities or cause personal injury or death, environmental damage, delays in production and monetary losses and possible legal liability. It is not always possible to fully insure against such risks, and the Company may decide not to take out insurance against such risks as a result of high premiums or other reasons. Should such liabilities arise, they could reduce or eliminate any future profitability and result in increasing costs and a decline in the value of the securities of the Company. The Company does not currently have any insurance policies covering its properties or the operation of its business and any liabilities that may arise as a result any of the above noted risks may cause a material adverse effect on the financial condition of the Company.

The Company may not be able to accurately predict its future capital needs and it may not be able to secure additional financing.

The Company may need to raise significant additional funds in order to support its growth, develop new or enhanced services and products, respond to competitive pressures, acquire or invest in complementary or competitive businesses or technologies, or take advantage of unanticipated opportunities. If its financial resources are insufficient, it will require additional financing in order to meet its plans for expansion. The Company cannot be sure that this additional financing, if needed, will be available on acceptable terms, or at all. Furthermore, any debt financing, if available, may involve restrictive covenants, which may limit its operating flexibility with respect to business matters. If additional funds are raised through the issuance of equity securities, the percentage ownership of existing shareholders will be reduced, such shareholders may experience additional dilution in net book value, and such equity securities may have rights, preferences or privileges senior to those of its existing shareholders. If adequate funds are not available on acceptable terms or at all, the Company may be unable to develop or enhance its services and products, take advantage of future opportunities, repay debt obligations as they become due, or respond to competitive pressures, any of which could have a material adverse effect on its business, prospects, financial condition, and results of operations.

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Threats from illegal drug dealers

Currently, there are many drug dealers and cartels that cultivate, buy, sell, and trade marijuana in the United States, Canada and worldwide. Many of these dealers and cartels are violent and dangerous, well financed and well organized. It is possible that these dealers and cartels could feel threatened by legalized marijuana businesses such as those with whom the Company does business and could take action against or threaten the Company, its principals, employees and/or agents and this could negatively impact the Company and its business.

Reliance on Management

The success of the Company is currently dependent on the performance of its Chief Executive Officer and board of directors. The loss of the services of these persons would have a material adverse effect on the Company's business and prospects in the short term. There is no assurance the Company can maintain the services of its officers or other qualified personnel required to operate its business. Failure to do so could have a material adverse effect on the Company and its prospects.

Factors which may prevent realization of growth targets

The Company is currently in the early growth stage. There is a risk that the additional resources will be needed, and milestones will not be achieved on time, on budget, or at all, as they can be adversely affected by a variety of factors, including some that are discussed elsewhere in these risk factors and the following as it relates to the Company:

- maintaining, or conditions imposed by, regulatory approvals;
- facility design errors;
- environmental pollution;
- non-performance by third party contractors;
- increases in materials or labor costs;
- construction performance falling below expected levels of output or efficiency;
- breakdown, aging or failure of equipment or processes;
- contractor or operator errors;
- labor disputes, disruptions or declines in productivity;
- inability to attract sufficient numbers of qualified workers;
- disruption in the supply of energy and utilities; and
- major incidents and/or catastrophic events such as fires, explosions, earthquakes, or storms.

Competitive Risks

The marijuana industry is highly competitive. The Company will compete with numerous other businesses in the medical and adult use marijuana industry, many of which possess greater financial and marketing resources and other resources than the Company. The marijuana business is often affected by changes in consumer tastes and discretionary spending patterns, national and regional economic conditions, demographic trends, consumer confidence in the economy, traffic patterns, local competitive factors, cost and availability of raw material and labor, and governmental regulations. Any change in these factors could materially and adversely affect the Company's operations.

Due to the early stage of the industry in which the Company operates, the Company expects to face additional competition from new entrants. If the number of legal users of marijuana in its target jurisdictions increases, the demand for products will increase and the Company expects that competition will become more intense, as current and future competitors begin to offer an increasing number of diversified products.

To remain competitive, the Company will require a continued high level of investment in research and development, marketing, sales, and client support. The Company may not have sufficient resources to maintain research and development, marketing, sales, and client support efforts on a competitive basis which could materially and adversely affect the business, financial condition and results of operations of the Company.

Environmental and Employee Health and Safety Regulations

The Company's operations are subject to environmental and safety laws and regulations concerning, among other things, emissions and discharges to water, air and land, the handling and disposal of hazardous and non-hazardous materials and wastes, and employee health and safety. The Company will incur ongoing costs and obligations related to compliance with environmental and employee health and safety matters. Failure to comply with environmental and

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safety laws and regulations may result in additional costs for corrective measures, penalties or in restrictions on the Company's manufacturing operations.

In addition, changes in environmental, employee health and safety or other laws, more vigorous enforcement thereof or other unanticipated events could require extensive changes to the Company's operations or give rise to material liabilities, which could have a material adverse effect on the business, results of operations and financial condition of the Company.

Difficulties in Forecasting

The Company must rely largely on its own market research to forecast sales as detailed forecasts are not generally obtainable from other sources at this early stage of the marijuana industry in the U.S. A failure in the demand for its products to materialize as a result of competition, technological change, market acceptance or other factors could have a material adverse effect on the business, results of operations and financial condition of the Company.

Holding Company

As a holding company with no material assets other than the stock of the Company's operating subsidiaries and intellectual property, nearly all of the Company's funds generated from operations will be generated by the Company's operating subsidiaries.

The Company's subsidiaries are subject to requirements of various regulatory bodies, both domestically and internationally, specifically in the United States. Accordingly, if the Company's operating subsidiaries are unable, due to regulatory restrictions or otherwise, to pay the Company's dividends and make other payments to the Company when needed, the Company may be unable to satisfy the Company's obligations when they arise.

Management of Growth

The Company may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The ability of the Company to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The inability of the Company to deal with this growth may have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

Currency Fluctuations

Exchange rate fluctuations may adversely affect the Company's financial position and results. It is anticipated that a significant portion of the Company's business will be conducted in the United States using U.S. dollars. The Company's financial results are reported in Canadian Dollars and costs are incurred primarily in U.S. dollars in its marijuana and CBD infused products segments. The depreciation of the Canadian Dollar against the U.S. Dollar could increase the actual capital and operating costs of the Company's U.S. operations and materially adversely affect the results presented in the Company's financial statements. Currency exchange fluctuations may also materially adversely affect the Company's future cash flow from operations, its results of operations, financial condition, and prospects.

Enforcement of Legal Rights

In the event of a dispute arising from the Company's U.S. operations, the Company may be subject to the exclusive jurisdiction of foreign courts or may not be successful in subjecting foreign persons to the jurisdictions of courts in Canada.

Similarly, to the extent that the Company's assets are located outside of Canada, investors may have difficulty collecting from the Company any judgments obtained in the Canadian courts and predicated on the civil liability provisions of securities provisions. The Company may also be hindered or prevented from enforcing its rights with respect to a governmental entity or instrumentality because of the doctrine of sovereign immunity.

Global financial and economic conditions

Current global financial and economic conditions remain extremely volatile. Access to public and private capital and financing continues to be negatively impacted by many factors as a result of the global financial crisis and global recession. Such factors may impact the Company's ability to obtain debt and equity financing in the future on favorable

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terms or obtain any financing at all. Additionally, global economic conditions may cause a long-term decrease in asset values. If such global volatility, market turmoil and the global recession continue, the Company's operations and financial condition could be adversely impacted.

COVID-19

The novel coronavirus commonly referred to as "COVID-19" was identified in December 2019 in Wuhan, China. On January 30, 2020, the World Health Organization declared the outbreak a global health emergency, and on March 11, 2020, the spread of COVID-19 was declared a pandemic by the World Health Organization. On March 13, 2020, the spread of COVID-19 was declared a national emergency by President Donald Trump. The outbreak has spread throughout Europe, the Middle East and North America, causing companies and various international jurisdictions to impose restrictions such as quarantines, business closures and travel restrictions. While these effects are not expected to be permanent, the duration of the business disruptions internationally and related financial impact cannot be reasonably estimated at this time.

The Corporation has taken responsible measures with respect to the COVID-19 pandemic to maximize the safety of staff working at its facilities. This included reorganizing physical layouts and adjusting schedules to improve social distancing, implementing health screening measures for employees and applying rigorous standards for personal protective equipment. Certain markets important to the Company, such as Nevada, experienced a greater impact on sales due to reduction in tourism, prolonged business closures and reduced foot traffic in certain locations. The Corporation's facilities continue to be operational, and the Corporation is working closely with the authorities to ensure it is following or exceeding the stated guidelines related to COVID-19.

On February 10, 2022, the Governor of Nevada issued Emergency Declaration Director 052, which removed the mask mandate in the State of Nevada. Currently, all business, including cannabis businesses, are able to operate without restriction. As of the date of this Prospectus, the effects of COVID-19 are not having a material impact on the operations of the Corporation's business.

Conflicts of Interest

Certain officers and directors of the Company are also officers and/or directors of other entities engaged in the cannabis industry generally. As a result, situations may arise where the interest of such directors' and officers' conflict with their interests as directors and officers of other companies.

The resolution of such conflicts is governed by applicable corporate laws, which require that directors act honestly, in good faith and with a view to the best interests of the Company. Conflicts, if any, will be handled in a manner consistent with the procedures and remedies set forth in the ABCA. The ABCA provides that in the event that a director has an interest in a contract or proposed contract or agreement, the director shall disclose his interest in such contract or agreement and shall refrain from voting on any matter in respect of such contract or agreement unless otherwise provided by the ABCA.

In addition, the directors and officers are required to act honestly and in good faith with a view to the Company's best interests. However, in conflict-of-interest situations, the Company's directors and officers may owe the same duty to another company and will need to balance their competing interests with their duties to the Company. Circumstances (including with respect to future corporate opportunities) may arise that may be resolved in a manner that is unfavorable to the Company.

Success of Quality Control Systems

The quality and safety of the Company's products are critical to the success of its business and operations. As such, it is imperative that the Company's (and its service provider's) quality control systems operate effectively and successfully. Quality control systems can be negatively impacted by the design of the quality control systems, the quality training program, and adherence by employees to quality control guidelines. Although the Company strives to ensure that all of its service providers have implemented and adhere to high caliber quality control systems, any significant failure or deterioration of such quality control systems could have a material adverse effect on the Company's business and operating results.

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Inability to Renew Material Leases

The Company may be unable to renew or maintain its leases (commercial or real property) on commercially acceptable terms or at all.

An inability to renew its leases, or a renewal of its leases with a rental rate higher than the prevailing rate under the applicable lease prior to expiration, may have an adverse impact on the Company's operations, including disruption of its operations or an increase in its cost of operations. In addition, in the event of non-renewal of any of the Company's leases, the Company may be unable to locate suitable replacement properties for its facilities or it may experience delays in relocation that could lead to a disruption in its operations. Any disruption in the Company's operations could have an adverse effect on its financial condition and results of operations.

Obtaining Insurance

Due to the Company's involvement in the cannabis industry, it may have a difficult time obtaining the various insurances that are desired to operate its business, which may expose the Company to additional risk and financial liability.

Insurance that is otherwise readily available, such as general liability, and directors and officer's insurance, may be more difficult to find, and more expensive, because of the regulatory regime applicable to the industry. There are no guarantees that the Company will be able to find such insurance coverage in the future, or that the cost will be affordable. If the Company is forced to go without such insurance coverage, it may prevent it from entering into certain business sectors, may inhibit growth, and may expose the Company to additional risk and financial liabilities.

Inability to Protect Intellectual Property

The Company's success is heavily dependent upon its intangible property and technology. The Company relies upon copyrights, patents, trade secrets, unpatented proprietary know-how and continuing innovation to protect the intangible property, technology and information that is considered important to the development of the business. The Company relies on various methods to protect its proprietary rights, including confidentiality agreements with consultants, service providers and management that contain terms and conditions prohibiting unauthorized use and disclosure of confidential information. However, despite efforts to protect intangible property rights, unauthorized parties may attempt to copy or replicate intangible property, technology, or processes. There can be no assurances that the steps taken by the Company to protect its intangible property, technology and information will be adequate to prevent misappropriation or independent third-party development of the Company's intangible property, technology, or processes. It is likely that other companies can duplicate a production process similar to the Company's. Other companies may also be able to materially duplicate the Company's proprietary plant strains. To the extent that any of the above would occur, revenue could be negatively affected, and in the future, the Company may have to litigate to enforce its intangible property rights, which could result in substantial costs and divert management's attention and other resources.

The Company's ability to successfully implement its business plan depends in part on its ability to maintain and build brand recognition using its trademarks, service marks, trade dress, domain names and other intellectual property rights, including the Company's names and logos. If the Company's efforts to protect its intellectual property are inadequate, or if any third party misappropriates or infringes on its intellectual property, the value of its brands may be harmed, which could have a material adverse effect on the Company's business and might prevent its brands from achieving or maintaining market acceptance.

The Company may be unable to obtain registrations for its intellectual property rights for various reasons, including prior registrations of which it is not aware, or it may encounter claims from prior users of similar intellectual property in areas where it operates or intends to conduct operations. This could harm its image, brand or competitive position and cause the Company to incur significant penalties and costs.