MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE THREE AND SIX MONTHS ENDED JANUARY 31, 2023 AND 2022

(in Canadian Dollars, except where noted)

This Management Discussion and Analysis ("MD&A") for 1933 Industries Inc., together with its wholly-owned subsidiaries ("1933" or "the Company") is prepared as of April 3, 2023, and relates to the financial condition and results of operations for the three and six months ended January 31, 2023 and 2022. Past performance may not be indicative of future performance. This MD&A should be read in conjunction with the unaudited condensed interim consolidated financial statements ("financial statements") and related notes for the three and six months ended January 31, 2023 and 2022, 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, 2023 and 2022, are referred to as "fiscal 2023" and "fiscal 2022", respectively. The six months ended January 31, 2023 and 2022, are referred to as "YTD 2023" and "YTD 2022", 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 Earnings before interest, taxes, depreciation, and amortization ("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 "TGIFF". Continuous disclosure materials are available on the Company's website at www.1933industries.com, and on SEDAR at www.sedar.com.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

OUTLOOK AND THE PATH FORWARD

1933 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. In addition, the Company 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 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. The Company's strengths lie in its expertise as a top cultivator in the Las Vegas market and in its ability to attain shelf space in dispensaries.

During the reporting period, the Company continued to focus on strengthening its operation. Necessary and essential infrastructure improvements to the Company's cultivation facility, including improvements to the facility's irrigation, air movement and humidification systems have been initialized and are well underway. A build-up of inventory will be the Company's priorities in the following quarters in order to increase the production of sellable dried flower and pre-rolls. Wholesale pricing pressure continues to impact cultivators in Nevada, with lower sale prices on cannabis products experienced across the industry. The Company's hemp-infused consumer packaged goods recorded positive gross margins, although the demand for hemp-infused products remains soft both in wholesale and retail stores as well as via e-commerce.

Looking ahead, the Company anticipates continued demand for its cannabis flower and cannabis products as it increases yields and develops new strains in fiscal 2023. On November 30, 2022, the Nevada Cannabis Compliance Board issued 40 cannabis consumption lounge prospective licenses. Many consumption lounges expect to be open for business in the second calendar quarter of 2023 and are intended to provide a safe, legal place for tourists to consume cannabis. It is currently illegal to consume cannabis anywhere outside of private residences. It is expected that the launch of consumption lounges will create a new attraction for visitors to the state and expand cannabis-related tourism. The Company is well positioned to benefit from increased demand, flower price stabilization, and the strength of its top brand and in-demand products that deliver excellent value to consumers.

Operationally, the Company has made substantial improvements in lowering its debt load, reducing expenses and conserving its working capital over the last several quarters. The Company has not significantly added to its capital structure, as it has not conducted new treasury raises and has not added any new debt to its balance sheet. The Company recorded positive Adjusted EBITDA for the second quarter in a row, a milestone in the Company's history.

- Total revenues were $3.6 million for Q2 2023, representing a 13% increase over $3.2 million for Q2 2022. Revenues are $9.2 million for the six months ended January 31, 2023, representing a 52% increase from $6.0 million during the same period in 2022.

- Expenses of $0.2 million for Q2 2023 decreased by 92% from $2.4 million in Q2 2022 in large part to do a substantial tax refund from the IRS. The Company continues to work diligently on controlling expenses.

- Gross margin was $1.9 million, before fair value adjustments on biological assets and realized fair value adjustments on the sale of inventory. The decrease in gross margin is attributable to a decrease in flower pricing in Nevada.

- Net loss was $0.4 million for Q2 2023 and $0.8 million for Q2 2022.

- Adjusted EBITDA was $0.1 million for Q2 2023 and $0.1 million for Q2 2022.

- Cash at the end of the period was $2.9 million compared to $0.8 million during the same period in 2022.

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, 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.

Infused develops proprietary formulations for its Canna Hemp™ line of wellness products. With over 60 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 introduced previously untapped cannabinoids Cannabigerol (CBG) and Cannabinol (CBN) to its portfolio of products and continues to develop a pipeline of products to meet changing consumer demands.

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", and traded on the OTC Markets under the symbol "TGIFF".

The Company's head office is located at #300-1055 West Hastings Street, Vancouver, BC V6E 2E9. The head office of operations is located at 3370 Pinks Place, Suite B, 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 then, providing a first-mover advantage.

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 segments:

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.

Combined, the AMA and Canna Hemp™ brands offer over 100 different products. The Company has been focused on cultivating craft flowers 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

For a detailed description of the U.S. legal cannabis industry that the Company operates within, please refer to the Company's MD&A for the years ended July 31, 2022 and 2021.

(In Canadian dollars, except where noted)

Q2 2023 CONSOLIDATED OPERATING FINANCIAL HIGHLIGHTS

- Total revenues were $3.6 million for Q2 2023 and $3.2 million for Q2 2022.
- Expenses of $0.2 million for Q2 2023 compared to expense $2.4 million for Q2 2022. The decrease was primarily due to refunds from the Internal Revenue Service (“IRS”) of $2.0 million (2022 - $nil) related to the Coronavirus Aid, Relief, and Economic Security (“CARES”) act that was enacted on December 27, 2020. In the CARES act there was the Employee Retention Credit created to help encourage business keep employees on their payroll during the COVID pandemic. 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 a loss of $0.2 million or 5% for Q2 2023 and a profit of $1.5 million or 46% for Q2 2022. The decrease in gross margin was due primarily to fair value adjustments on biological assets and realized fair value adjustments on the sale of inventory.
- Net loss was $0.4 million for Q2 2023 and $0.8 million for Q2 2022. The decrease in net loss was due primarily to fair value adjustments on biological assets and realized fair value adjustments on the sale of inventory which was partially offset by the refunds from the IRS as noted above.
- Adjusted EBITDA was $0.1 million for Q2 2023 and $0.1 million for Q2 2022.

Q2 2023 KEY DEVELOPMENTS

- On November 22, 2022, convertible debentures of $100,000 and interest payable on the convertible debentures of $28,917 were converted into 2,578,333 common shares of the Company.

SUBSEQUENT EVENT

Subsequent to January 31, 2023, 3,153,214 agents options and 45,045,929 warrants were expired unexercised.

Subsequent to January 31, 2023, convertible debentures of $166,000 and interest payable on the convertible debentures of $52,125 were converted into 4,362,509 common shares.

REVIEW OF QUARTERLY RESULTS

A summary of the Company’s result for the eight most recently completed quarters is as follows:

	Q2 2023	Q1 2023	Q4 2022	Q3 2022
	$	$	$	$
Revenue	**3,626,156**	5,636,070	2,607,511	4,256,280
Net loss	**(359,191)**	(1,166,851)	(3,921,644)	(12,375,391)
Basic / diluted loss per share	**(0.00)**	(0.00)	(0.01)	(0.03)
Number of weighted average shares	**453,578,137**	451,045,719	450,699,319	450,699,319

	Q2 2022	Q1 2022	Q4 2021	Q3 2021
	$	$	$	$
Revenue	3,208,082	2,466,064	2,510,169	3,370,510
Net income (loss)	(819,814)	(948,825)	(2,642,456)	582,673
Basic / diluted income (loss) per share	(0.00)	(0.00)	(0.01)	0.00
Number of weighted average shares	450,699,319	450,640,574	449,723,437	365,763,894

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.

(In Canadian dollars, except where noted)

The Company's net loss decreased in Q1 2022 and Q2 2022 compared to Q4 2021 resulting from increased sales and favorable change in fair value less costs to sell due to biological transformation during the periods. During Q3 2022, net loss increased resulting from impairment on goodwill for Infused compared to a reduction in net loss in Q4 2022 as a result of a significant reduction in management and consulting fees incurred during the period. During Q2 2023, a decrease in net loss is primarily attributed to the refunds received from IRS related to the CARES act.

SUMMARY OF RESULTS

Consolidated Financial Information for Q2 2023 compared to Q2 2022

A summary of the Company's results of operations for Q2 2023 and Q2 2022 is as follows:

	2023	2022
	$	$
Revenues	**3,626,156**	3,208,082
Gross margin	**(170,108)**	1,470,286
General and administration	**367,933**	327,620
License fees, taxes, and insurance	**623,877**	1,030,808
Management and consulting fees	**150,000**	107,677
Other expenses (income)	**(1,543,391)**	227,024
Professional fees	**292,322**	333,000
Share-based compensation	**26,015**	7,753
Wages and benefits	**272,327**	256,218
	189,083	2,290,100
Net loss for the period	**(359,191)**	(819,814)
Translation adjustment	**(267,546)**	171,835
Comprehensive loss	**(626,737)**	(647,979)

<u>Revenues</u>

The Company recorded revenues of $3,626,156 compared to $3,208,082 during the prior year comparable period. The increase in revenues for the quarter as compared to the prior year comparable period was primarily due to an increase in AMA revenues as cannabis sales continued to normalize to pre-pandemic levels with the full return of tourism to the state of Nevada. Despite the increase, revenue was lower than Q1 2023 due to reduced sales of dried flower and pre-rolls. The Company's cultivation facility produced lower than expected flowers due to an issue related to the building's complex irrigation piping system, which is currently being retrofitted.

<u>Gross margin</u>

Gross margin was a loss of $170,108 (5%) compared to a profit of $1,470,286 (46%) during the prior year comparable period. The decline in margins resulted from a net realizable value adjustment related to certain AMA inventories due to an issue related to the building's complex irrigation piping system, which is currently being retrofitted.

<u>General and administration expenses</u>

General and administration expenses were $367,933 compared to $327,620 during the prior year comparable period. The amount is consistent period over period based on the level of operations of the Company.

<u>License fees, taxes, and insurance</u>

License fees, taxes, and insurance decreased to $623,877 compared to $1,030,808 during the prior year comparable period. This decrease in expenditure is due to a decrease in cannabis transferred to production due to the 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 $150,000 compared to $107,677 during the prior year comparable period. The amount relates to consulting fee for the Chief Executive Officer ("CEO") and corporate compliance services.

Other expenses (income)

Other income was $1,543,391 compared to other expenses of $227,024 during the prior year comparable period. The components of other expenses include accretion expense, depreciation, foreign exchange gain (loss), gain on change in fair value of warrant liability, gain on disposal of assets held for sale, interest expense, interest income, other income, and income tax expense. The increase in income over the prior year comparable period is primarily driven due to a $2.0 million refunds received from the IRS related to the CARES act.

Professional fees

Professional fees decreased to $292,322 compared to $333,000 during the prior year comparable period. This change over the prior year comparable period is due to the timing of legal and professional services rendered and the annual cost is expected to remain broadly unchanged year over year. It is the priority of the Company's executive management is 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, was $26,015 compared to $7,753 during the prior year comparable period. This change over the prior period is due to the timing of the vesting of previously issued stock options. The Company did not issue any stock options during the current period.

Wages and benefits

Wages and benefits were $272,327 compared to $256,218, during the prior year comparable period. The amounts remains broadly unchanged period over period and based on the level of operations of the Company. 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.

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 to be recorded as other comprehensive income. As a result of the consolidation process, the Company had an unrealized translation adjustment loss of $267,546 compared to a gain of $171,835 during prior year comparable period, due to the unfavorable movement in the Canadian dollar against the U.S. dollar.

DRAFT

(In Canadian dollars, except where noted)

Consolidated Financial Information for YTD 2023 compared to YTD 2022

A summary of the Company's results of operations for YTD 2023 and YTD 2022 is as follows:

	2023	2022
	$	$
Revenues	**9,262,226**	5,674,146
Gross margin	**575,619**	2,573,388
General and administration	**715,609**	698,796
License fees, taxes, and insurance	**1,385,527**	1,537,044
Management and consulting fees	**278,000**	214,677
Other expenses (income)	**(1,488,699)**	772,937
Professional fees	**609,535**	546,761
Share-based compensation	**142,928**	25,648
Wages and benefits	**458,761**	546,164
	2,101,661	4,342,027
Net loss for the period	**(1,526,042)**	(1,768,639)
Translation adjustment	**474,400**	(90)
Comprehensive loss	**(1,051,642)**	(1,768,729)

Revenues

The Company recorded revenues of $9,262,226 compared to $5,674,146 during the prior year comparable period. The increase in revenues as compared to prior year comparable period was primarily due to an increase in AMA revenues as cannabis sales continued to normalize to pre-pandemic levels with the full return of tourism to the state of Nevada. Despite the increase, the Company's cultivation facility produced lower than expected flower due to an issue related to the building's complex irrigation piping system, which is currently being retrofitted.

Gross margin

Gross margin was $575,619 (6%) compared to $2,573,388 (45%) during the prior year comparable period. The decline in margins resulted from a net realizable value adjustment related to certain AMA inventories due to an issue related to the building's complex irrigation piping system, which is currently being retrofitted.

General and administration expenses

General and administration expenses were $715,609 compared to $698,796 during prior year comparable period. The balance is consistent period over period based on the level of operations of the Company.

License fees, taxes, and insurance

License fees, taxes, and insurance decreased to $1,385,527 compared to $1,537,044 during the prior year comparable period. This decrease in expenditure is due to a decrease in cannabis transferred to production due to the 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 $278,000 compared to $214,677 during the prior year comparable period. The amount relates to consulting fee for the CEO and corporate compliance services.

<u>Other expenses (income)</u>

Other income was $1,488,699 compared to other expenses of $772,937 during the prior year comparable period. The components of other expenses include accretion expense, depreciation, foreign exchange gain, gain on change in fair value of warrant liability, gain on disposal of assets held for sale, interest expense, interest income, other income, and income tax expense. The increase in income over the prior year comparable period is primarily driven due to a $2.0 million refund received from the IRS related to the CARES act.

<u>Professional fees</u>

Professional fees increased to $609,535 compared to $546,761 during the prior year comparable period. This change over the prior period comparable period is due to the timing of legal and professional services rendered and the annual cost is expected to remain consistent year over year. 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.

<u>Share-based compensation</u>

Share-based payments, a non-cash expense, were $142,928 compared to $25,648 during the prior year comparable period. This change over the prior period is due to the timing of vesting of previously issued stock options and new stock options issued during the current period. The Company issued 13,490,000 stock options to various directors, employees and consultants during the current period.

<u>Wages and benefits</u>

Wages and benefits were $458,761 compared to $546,164, during the prior year comparable period. The decrease in amounts is based on the level of operations of the Company. 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.

<u>Translation adjustment</u>

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, the Company had an unrealized foreign exchange gain of $474,400 compared to a loss of $90 during prior year comparable period, due to the favorable movement in the Canadian dollar against the U.S. dollar).

LIQUIDITY, CASH FLOWS AND CAPITAL RESOURCES

<u>Liquidity</u>

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.

(In Canadian dollars, except where noted)

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.

A summary of the Company's liquidity-related information is as follows:

	January 31, 2023	July 31, 2022
	$	$
Cash	**2,917,083**	363,274
Liquid assets (1)	**10,147,619**	7,567,941
Working capital	**3,645,348**	3,676,278
Convertible debentures	**4,580,250**	4,574,279
Quick ratio (2)	**1.20**	0.87
Working capital ratio (3)	**1.43**	1.42

(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 January 31, 2023, liquid assets, quick ratio, working capital and the working capital ratio increased as compared July 31, 2022 primarily due to refunds received from the IRS under the CARES act.

A summary of the Company's cash flow is as follows:

Cash provided by (used in)	**Q2 2023**	Q2 2022	**YTD 2023**	YTD 2022
	$	$	**$**	$
Operating activities	**(155,631)**	(1,872,017)	**(866,568)**	(2,989,543)
Investing activities	**-**	(356,199)	**-**	(364,815)
Financing activities	**(70,653)**	(58,146)	**2,920,287**	(162,108)
Effect of exchange rate changes on cash	**(173,110)**	(73,403)	**500,090**	(86,196)
Cash, beginning of period	**3,316,477**	3,162,952	**363,274**	4,405,849
Cash, end of period	**2,917,083**	803,187	**2,917,083**	803,187

Review of cash flows in Q2 2023 compared to Q2 2022:

Cash used in operating activities was $155,631 compared to $1,872,017 during the prior year comparable period as a result of receiving refunds of $2.0 million from the IRS related to the CARES act.

Cash used in investing activities was $nil compared to cash used in investing activities of $356,199 during the prior year comparable period related to the purchase of property and equipment and the advance of loan receivable.

Cash used in financing activities used during the current period and prior year comparable period are due to lease payments on the Company's facilities.

Review of cash flows in YTD 2023 compared to YTD 2022:

Cash used in operating activities was $866,568 compared to $2,989,543 during the prior year comparable period as a result of receiving refunds of $2.5 million from the IRS related to the CARES act.

Cash used in investing activities was $nil compared to cash used by investing activities of $364,815 during the prior year comparable period related to the purchase of property and equipment and the advance of loan receivable.

Cash provided by financing activities was $2,920,287 and was primarily due to cash received from the sale of assets held for sale, offset by lease payments on the Company's facilities. Cash used in financing activities was $162,108 during the prior year comparable period due to lease payments on the Company's facilities.

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(In Canadian dollars, except where noted)

Capital Resources

A summary of the Company's capital structure is as follows:

	January 31, 2023	July 31, 2022
	$	$
Equity	**6,788,780**	7,522,725
Convertible debentures	**4,580,250**	4,574,279
	11,369,030	12,097,004
Less: cash	**(2,917,083)**	(363,274)
	8,451,947	11,733,730

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.

A summary of securities outstanding is as follows:

Type of Security	**January 31, 2023**	**At the date of this MD&A**
Common Shares	454,194,695	458,557,204
Stock Options	24,540,000	24,540,000
Warrants	48,745,929	3,700,000
Agent Options	3,153,214	-
Convertible debentures - $0.05 conversion (1)	3,526,007	3,360,007

(1) 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 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.

A summary of the Company's stock options, warrants and agent options as at January 31, 2023 is as follows:

Description of security	**Number**	**Exercise price ($)**	**Proceeds if exercised ($)**	**Expiry date**
Stock options	11,050,000	0.10	1,105,000	8-Nov-25
Stock options	13,490,000	0.05	674,500	24-Aug-27
At January 31, 2023	**24,540,000**	**0.07**	**1,779,500**	
Warrants	45,045,929	0.16	7,207,349	4-Mar-23
Warrants	3,700,000	0.075	277,500	13-Jun-24
	48,745,929	**0.15**	**7,484,849**	
Agent Options	3,153,214	0.11	346,854	4-Mar-23
	3,153,214	**0.11**	**346,854**	

(In Canadian dollars, except where noted)

A summary of the Company's stock options, warrants and agent options as at the MD&A date is as follows:

Description of security	**Number**	**Exercise price ($)**	**Proceeds if exercised ($)**	**Expiry date**
Stock options	11,050,000	0.10	1,105,000	8-Nov-25
Stock options	13,490,000	0.05	674,500	24-Aug-27
At January 31, 2023	**24,540,000**	**0.07**	**1,779,500**	
Warrants	3,700,000	0.075	277,500	13-Jun-24
	3,700,000	**0.075**	**277,500**	

NON-GAAP MEASURES

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, the 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.

A summary of the reconciliation of the EBITDA and Adjusted EBITDA is as follows:

	Q2 2023	Q2 2022	**YTD 2023**	YTD 2022
	$	$	**$**	$
Net loss for the period	**(359,191)**	(819,814)	**(1,526,042)**	(1,768,639)
Add:				
Interest expense	**420,410**	473,733	**851,927**	895,093
Accretion expense	**-**	-	**-**	10,434
Depreciation expense	**80,508**	112,876	**221,437**	193,336
Income tax expense	**7,075**	(114,698)	**515,534**	-
EBITDA loss	**148,802**	(347,903)	**62,856**	(669,776)
Share-based compensation expense	**26,015**	7,753	**142,928**	25,648
Adjusted EBITDA income (loss)	**174,817**	(340,150)	**205,784**	(644,128)

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 includes 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 consists of the Chief Financial Officer, CEO, and executive and non-executive members of the Company's Board of Directors.

(In Canadian dollars, except where noted)

A summary of the Company's related party transactions is as follows:

	Three months ended January 31,		Six months ended January 31,	
	2023	2022	**2023**	2022
			$	$
Directors' fees included in general and administration expense	**21,724**	29,844	**51,146**	52,218
Management and consulting fees	**120,000**	87,020	**218,000**	174,020
Share-based compensation	**11,638**	2,789	**82,831**	11,573
Wages and benefits	**-**	-	**-**	48,350
	153,362	119,653	**351,977**	286,161

As at January 31, 2023, $nil (July 31, 2022 - $208,903) was included in receivables from companies related to a director of the Company.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

The financial statements have been prepared in accordance with IFRS as issued by the IASB, effective as of January 31, 2023. The accounting policies applied in the preparation of these financial statements are consistent with those applied and disclosed in Note 3 to the audited consolidated financial statements for the years ended July 31, 2022 and 2021 ("Annual Financial Statements).

CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Company's financial statements in conformity with IFRS requires management to make estimates based on assumptions about future events that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized prospectively in the period in which the estimate is revised.

Management considers the critical judgements and estimates described in Note 3 of the Annual Financial Statements to be the most critical in understanding the judgements that are involved in the preparation of the Company's financial statements and the uncertainties that could impact its results of operations, financial condition, and cash flows.

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 periodically assesses the credit quality of its financial institutions and is satisfied with the credit ratings of its banks.

Receivables 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 Company is exposed to liquidity risk through its accounts payables and accrued liabilities.

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.

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 convertible debentures are carried at a fixed interest rate throughout their term.

RISKS AND UNCERTAINTIES

For a detailed listing of the risk factors faced by the Company, please refer to the Company's Annual MD&A.

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