



**1933 INDUSTRIES INC.**

**Consolidated Financial Statements**

**For the years ended July 31, 2023 and 2022**

To the Shareholders of 1933 Industries Inc.:

## Opinion

We have audited the consolidated financial statements of 1933 Industries Inc. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at July 31, 2023 and July 31, 2022, and the consolidated statements of loss and other comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at July 31, 2023 and July 31, 2022, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

## Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company incurred a net loss during the year ended July 31, 2023 and, as of that date, the Company had a working capital deficiency and an accumulated deficit. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

## Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

## ***Goodwill and Long-Lived Asset Impairment***

### *Key Audit Matter Description*

The Company performs impairment testing on an annual basis, or whenever events or change in circumstances indicate that the carrying value of a cash generating unit (“CGU”) might exceed its recoverable amount. Impairment indicators existed during the year due to a decline in the Company’s market capitalization, changes in consumer behaviour and increased competition in the cannabis sector. As a result of the Company performing impairment tests for each of its CGUs, an impairment loss on goodwill has been recorded. Refer to Note 11 of the consolidated financial statements for further details.

We identified the impairment of goodwill as a key audit matter. There was a high degree of auditor judgment required to evaluate the significant assumptions used in determining the recoverable amount including but not limited to, forecasted revenue, gross margin, operating expenses, long-term growth rates and discount rates. The sensitivity of reasonable changes to the significant assumptions could have a significant impact on the determination of the recoverable amount of the CGUs and the Company’s determination of impairment.

### *Audit Response*

We responded to this matter by performing audit procedures in relation to the impairment of goodwill and long-lived assets. Our audit work in relation to this included, but was not restricted to, the following:

- Evaluated the reasonability of the assumptions applied to key inputs, such as sale forecasts, gross margin, operating expenses, and long-term growth rates, which included comparing these assumptions to historical actual performance and/or external market and industry data;
- Performed a sensitivity analysis on the key assumptions to assess the impact of reasonable changes on the determination of the recoverable amounts;
- Involved internal valuation professionals with specialized skills and knowledge, to assist with:
- Verifying that management’s fair value methodology is in compliance with the requirements of IFRS 13 Fair Value Measurement; and
- Evaluating the reasonability of the discount rate and other inputs used in the impairment analysis based on industry data and other benchmarks.

## ***Valuation and Accuracy of Cultivated Inventory***

### *Key Audit Matter Description*

The cost of finished goods cannabis inventories includes (a) cost of dried cannabis, (b) applicable allocation of cost of labour, fixed and variable overheads as part of the production process, and (c) other costs incurred to bring the inventories to their present location and condition. Inventories are subsequently assessed for write-down based on the lower of cost and net realizable value. Net realizable value is estimated based on assumptions including the nature of the product, future demand, selling prices and market conditions. Refer to Note 6 of the consolidated financial statements for further details. We identified the valuation and accuracy of inventories as a key audit matter, as a high degree of auditor judgment was required to evaluate the significant judgments made by management in determining the costs and estimated net realizable value of inventories.

### *Audit Response*

We responded to this matter by performing audit procedures in relation to the valuation of inventories. Our audit work in relation to this included, but was not restricted to, the following:

- Performed a physical observation of the year end inventories on a sample basis;
- Tested the allocation of post-harvest costs based on actual production quantities by assessing the appropriateness of the allocation method, recalculating the allocation, and verifying source documents;
- Tested the measurement of finished goods inventories by verifying the cost against the estimated net realizable value based on expected net selling prices and the relevant age; and
- Evaluated the reasonability of the expected net selling prices based on actual sales made and price adjustments made subsequent to year end.

### **Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Giacomo Angelini.

Burlington, Ontario

November 28, 2023

*MNP LLP*

Chartered Professional Accountants

Licensed Public Accountants

**1933 INDUSTRIES INC.**  
**Consolidated Statements of Financial Position**  
(Expressed in Canadian dollars)

	Note	July 31, 2023	July 31, 2022
		\$	\$
<b>ASSETS</b>			
<b>Current</b>			
Cash		1,092,562	363,274
Receivables	5,20	2,231,302	1,343,273
Inventory	6	2,191,403	5,861,394
Biological assets	7	414,075	1,311,192
Prepaid expenses and deposits	8	539,131	396,546
Assets held for sale	9	-	3,071,337
		<b>6,468,473</b>	<b>12,347,016</b>
Property and equipment	10	11,551,256	12,170,940
Goodwill	11	-	4,491,721
<b>Total assets</b>		<b>18,019,729</b>	<b>29,009,677</b>
<b>LIABILITIES</b>			
<b>Current</b>			
Accounts payable and accrued liabilities	12,20	4,017,644	2,755,626
Income tax payable	25	1,694,210	1,050,251
Current portion of lease liability	13	551,366	290,582
Current portion of note payable	14	37,565	-
Convertible debentures	16	4,406,730	4,574,279
		<b>10,707,515</b>	<b>8,670,738</b>
Lease liability	13	12,554,029	12,816,214
Note payable	14	21,337	-
<b>Total liabilities</b>		<b>23,282,881</b>	<b>21,486,952</b>
<b>SHAREHOLDERS' EQUITY (DEFICIENCY)</b>			
Share capital	17(b)	82,387,033	81,855,012
Reserves	17(c)	10,335,086	10,157,141
Accumulated other comprehensive loss		(594,933)	(1,034,349)
Deficit		(95,820,123)	(82,456,203)
<b>Equity attributable to shareholders of the Company</b>		<b>(3,692,937)</b>	<b>8,521,601</b>
Non-controlling interest		(1,570,215)	(998,876)
<b>Total shareholders' equity (deficiency)</b>		<b>(5,263,152)</b>	<b>7,522,725</b>
<b>Total liabilities and shareholders' equity (deficiency)</b>		<b>18,019,729</b>	<b>29,009,677</b>

Nature of operations and going concern (Note 1)  
Subsequent events (Note 26)

Approved and authorized for the issue on behalf of the Board of Directors:

\_\_\_\_\_  
/s/ "Brian Farrell"  
Director

\_\_\_\_\_  
/s/ "Paul Rosen"  
Director

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

**1933 INDUSTRIES INC.**
**Consolidated Statements of Loss and Comprehensive Loss**

(Expressed in Canadian dollars, except share numbers)

	Note	2023	Years ended July 31, 2022
		\$	\$
Revenues		<b>18,273,280</b>	12,537,937
Cost of sales	6	<b>(17,703,280)</b>	(9,307,472)
<b>Gross profit, excluding fair value adjustments</b>		<b>570,000</b>	3,230,465
Change in fair value due to biological transformation	7	-	3,591,853
Fair value adjustment on sale of biological assets		<b>(1,172,758)</b>	(4,131,893)
<b>Gross profit (loss)</b>		<b>(602,758)</b>	2,690,425
<b>Expenses (income)</b>			
Accretion expense	16	-	10,434
Change in fair value of warrant liability	15	-	(380,146)
Depreciation	10	<b>294,670</b>	499,846
Foreign exchange (gain) loss		<b>(52,032)</b>	43,962
Gain on disposal of assets held for sale	9	<b>(63,481)</b>	-
Gain on lease extinguishment	10	<b>(9,974)</b>	(12,723)
Gain on lease modification		-	(59,342)
Loss (gain) on sale of property and equipment	10	<b>27,198</b>	(255,146)
General and administration	5,18,20	<b>2,372,625</b>	2,089,173
Goodwill impairment	11	<b>4,599,734</b>	11,540,439
Interest expense	13,14,16	<b>1,720,004</b>	1,749,132
Interest income		-	(16,489)
License, taxes, and insurance		<b>3,621,311</b>	2,800,352
Loss on equipment deposit		<b>87,323</b>	-
Management and consulting fees	20	<b>628,000</b>	377,653
Other income	19	<b>(2,509,533)</b>	(193,421)
Professional fees		<b>1,065,879</b>	1,135,317
Share-based compensation	17,20	<b>183,238</b>	12,370
Wages and benefits	20	<b>875,501</b>	865,688
		<b>12,840,463</b>	20,207,099
<b>Loss before income taxes</b>		<b>(13,443,221)</b>	(17,516,674)
Current income tax expense	25	<b>(515,534)</b>	(549,000)
<b>Net loss for the year</b>		<b>(13,958,755)</b>	(18,065,674)
Foreign currency translation adjustment		<b>462,912</b>	306,318
<b>Comprehensive loss for the year</b>		<b>(13,495,843)</b>	(17,759,356)
<b>Net loss attributable to:</b>			
Shareholders of the Company		<b>(13,363,920)</b>	(17,806,922)
Non-controlling interest		<b>(594,835)</b>	(258,752)
<b>Comprehensive loss attributable to:</b>			
Shareholders of the Company		<b>(12,924,504)</b>	(17,520,561)
Non-controlling interest		<b>(571,339)</b>	(238,795)
<b>Net loss per share</b>			
Basic and diluted		<b>(0.03)</b>	(0.04)
<b>Weighted average number of shares outstanding</b>			
Basic and diluted		<b>455,694,947</b>	450,684,512

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

**1933 INDUSTRIES INC.**  
**Consolidated Statements of Cash Flows**  
(Expressed in Canadian dollars)

	2023	Years ended July 31, 2022
	\$	\$
<b>Operating activities</b>		
Net loss for the year	<b>(13,958,755)</b>	(18,065,674)
Items not affecting cash:		
Change in fair value due to biological transformation	-	(3,591,853)
Fair value adjustment on sale of biological assets	<b>1,172,758</b>	4,131,893
Accretion expense	-	10,434
Change in fair value of warrant liability	-	(380,146)
Depreciation included in cost of sales	<b>1,395,598</b>	1,423,402
Depreciation	<b>294,670</b>	499,846
Unrealized foreign exchange gain	<b>(48,884)</b>	-
Gain on disposal of assets held for sale	<b>(63,481)</b>	-
Gain on lease modification	-	(59,342)
Gain on lease termination	<b>(9,974)</b>	(12,723)
Loss (gain) on sale of property and equipment	<b>27,198</b>	(255,146)
Goodwill impairment	<b>4,599,734</b>	11,540,439
Interest expense	<b>364,084</b>	366,201
Interest income	-	(16,489)
Loss on equipment deposit	<b>87,323</b>	-
Share-based compensation	<b>183,238</b>	12,370
Net realizable value adjustment on inventory	-	887,972
Changes in non-cash working capital:		
Receivables	<b>(863,693)</b>	(340,631)
Inventory	<b>3,901,637</b>	(2,494,813)
Biological assets	<b>(222,425)</b>	(985,279)
Prepaid expenses and deposits	<b>(223,091)</b>	368,871
Accounts payable and accrued liabilities	<b>1,214,886</b>	1,313,929
Income tax payable	<b>621,310</b>	561,352
<b>Net cash used in operating activities</b>	<b>(1,527,867)</b>	(5,085,387)
<b>Investing activities</b>		
Purchase of property and equipment	<b>(801,989)</b>	(14,908)
Proceeds from sale of assets held for sale	<b>3,134,818</b>	-
Recovery of loan receivable	-	16,489
<b>Net cash provided by investing activities</b>	<b>2,332,829</b>	1,581
<b>Financing activities</b>		
Proceeds from sale of property and equipment	<b>79,434</b>	1,938,008
Repayment of lease liability	<b>(327,052)</b>	(403,310)
Repayment of note payable	<b>(18,928)</b>	-
<b>Net cash (used in) provided by financing activities</b>	<b>(266,546)</b>	1,534,698
Effect of exchange rate on changes on cash	<b>190,872</b>	(493,467)
Change in cash	<b>729,288</b>	(4,042,575)
Cash, beginning of year	<b>363,274</b>	4,405,849
<b>Cash, end of year</b>	<b>1,092,562</b>	363,274

Supplemental disclosure with respect to cash flows (Note 21)

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



**1933 INDUSTRIES INC.**

**Consolidated Statements of Changes in Shareholders' Equity (Deficiency)**

(Expressed in Canadian dollars, except number of shares)

	Common shares	Share capital	Reserves	Accumulated other comprehensive loss	Deficit	Non- controlling interest	Total shareholders' equity (deficiency)
	#	\$	\$	\$	\$	\$	\$
Balance, July 31, 2021	450,326,653	81,817,159	10,145,449	(1,320,710)	(64,649,281)	(760,081)	25,232,536
Shares issued - conversion of convertible debentures \$0.10	372,666	37,853	(678)	-	-	-	37,175
Share-based compensation	-	-	12,370	-	-	-	12,370
Foreign currency translation adjustment	-	-	-	286,361	-	19,957	306,318
Net loss for the year	-	-	-	-	(17,806,922)	(258,752)	(18,065,674)
Balance, July 31, 2022	450,699,319	81,855,012	10,157,141	(1,034,349)	(82,456,203)	(998,876)	7,522,725
Shares issued - conversion of convertible debentures \$0.05	10,534,551	532,021	(5,293)	-	-	-	526,728
Share-based compensation	-	-	183,238	-	-	-	183,238
Foreign currency translation adjustment	-	-	-	439,416	-	23,496	462,912
Net loss for the year	-	-	-	-	(13,363,920)	(594,835)	(13,958,755)
<b>Balance, July 31, 2023</b>	<b>461,233,870</b>	<b>82,387,033</b>	<b>10,335,086</b>	<b>(594,933)</b>	<b>(95,820,123)</b>	<b>(1,570,215)</b>	<b>(5,263,152)</b>

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

## **1933 INDUSTRIES INC.**

### **Notes to the Consolidated Financial Statements**

For the years ended July 31, 2023 and 2022

(Expressed in Canadian dollars, except where noted)

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#### **1. NATURE OF OPERATIONS AND GOING CONCERN**

1933 Industries Inc. (the "Company") was incorporated pursuant to the provisions of the Business Corporations Act of Alberta and later continued into the Province of British Columbia. The Company is a publicly traded corporation with its registered office located at 300 - 1055 West Hastings Street, Vancouver, British Columbia, Canada. The Company's common shares are listed under the symbol "TGIF" on the Canadian Securities Exchange and under the symbol "TGIF" on the OTCQX.

The Company operates in the medical and recreational cannabis sectors in Nevada, USA. Alternative Medicine Association ("AMA"), a 91% owned subsidiary of the Company is licensed in the State of Nevada as (i) a cultivation facility; and (ii) a production facility for edible, or cannabis-infused products. Infused Mfg ("Infused"), a 100% owned subsidiary of the Company, is focused on developing, and manufacturing hemp and cannabidiol ("CBD") infused products and brands for retail sale and use in jurisdictions where permitted.

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

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

#### **Going concern**

The Company has not yet achieved profitable operations and during the years ended July 31, 2023 and 2022, the Company incurred a net loss of \$13,958,755 (2022 - \$18,065,674). In addition, at July 31, 2023, the Company had an accumulated deficit of \$95,820,123 (July 31, 2022 - \$82,456,203) and working deficiency of \$4,239,042 (July 31, 2022 - working capital of \$3,676,278). These factors represent a material uncertainty that may raise significant doubt regarding the Company's ability to continue as a going concern.

These audited consolidated financial statements for the years ended July 31, 2023 and 2022 ("financial statements") have been prepared using accounting principles applicable to a going concern and do not reflect adjustments, which could be material, to the carrying values of the assets and liabilities.

The Company will re-evaluate the going concern risk at each reporting period and will consider removing the going concern and uncertainty note when the Company can depend on the profitable operations or is confident of obtaining additional debt, equity or other financing to fund ongoing operations until profitability is achieved. These financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. Should the Company be unable to obtain additional capital in the future and the Company's ability to continue as a going concern be impaired, material adjustments may be necessary to these financial statements.

#### **2. BASIS OF PREPARATION**

##### **a) Statement of compliance**

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board and interpretations issued by the International Financial Reporting Interpretations Committee.

These financial statements were approved by the Board of Directors and authorized for issue on November 28, 2023.

##### **b) Basis of measurement**

These financial statements have been prepared in Canadian dollars on a historical cost basis except for biological assets and warrant liability measured at fair value. Historical cost is generally based upon the fair value of the consideration given in exchange for assets. References to "CAD" are to Canadian dollars and "USD" or "USD\$" are to United States dollars.

**1933 INDUSTRIES INC.****Notes to the Consolidated Financial Statements**

For the years ended July 31, 2023 and 2022

(Expressed in Canadian dollars, except where noted)

**2. BASIS OF PREPARATION (continued)****c) Functional and presentation currency**

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

**d) Basis of consolidation**

These financial statements include the accounts of the Company and its subsidiaries. All intercompany transactions and balances are eliminated on consolidation. Control exists where the parent entity has power over the investee and is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are included in the financial statements from the date control commences until the date control ceases.

A summary of the Company's subsidiaries included in these financial statements as at July 31, 2023 are as follows:

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

**3. SIGNIFICANT ACCOUNTING POLICIES****a) Cash**

Cash consists of cash held in reputable financial institutions and on hand.

**b) Inventory**

Inventories of harvested finished goods and packing materials are valued initially at cost and subsequently at the lower of cost and net realizable value. Inventories of harvested cannabis are transferred from biological assets at their fair value at harvest, which becomes the initial deemed cost. Any subsequent post-harvest costs are capitalized to inventory to the extent that cost is less than net realizable value. All direct and indirect costs related to inventory are capitalized as they are incurred and they are subsequently recorded within 'cost of sales' on the statements of loss and comprehensive loss at the time cannabis is sold, except for realized fair value amounts included in inventory sold which are recorded as a separate line on the profit or loss.

Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Cost is determined using the weighted average cost basis. Products for resale and supplies and consumables are valued at the lower of cost and net realizable value. The Company reviews inventory for obsolete and slow-moving goods and any such inventory is written down to net realizable value.

## 1933 INDUSTRIES INC.

### Notes to the Consolidated Financial Statements

For the years ended July 31, 2023 and 2022

(Expressed in Canadian dollars, except where noted)

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### c) Biological assets

While the Company's biological assets are within the scope of IAS 41 *Agriculture*, the direct and indirect costs of biological assets are determined using an approach similar to the capitalization criteria outlined in IAS 2 *Inventories*. They include the direct cost of growing materials as well as other indirect costs such as utilities and supplies used in the growing process. Indirect labour for individuals involved in the growing and quality control process is included, as well as facilities overhead costs, excluding depreciation, to the extent it is associated with the growing space. All direct and indirect costs of biological assets are capitalized as they are incurred and they are all subsequently recorded within the line item "cost of sales" in the profit or loss in the period that the related product is sold. Unrealized fair value gain/losses on growth of biological assets are recorded in a separate line on the profit or loss. Biological assets are measured at fair value less costs to sell on the consolidated statement of financial position.

#### d) Property and equipment

A summary of the Company's annual depreciation rates and methods is as follows:

Asset class	Depreciation method	Useful life
Office equipment	Straight-line	5-7 years
Production equipment	Straight-line	7-20 years
Leasehold improvements	Straight-line	Shorter of asset life and lease term
Right of use	Straight-line	5-20 years

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising from derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying value of the asset) is included in the profit or loss in the period the asset is derecognized. The assets' residual values, useful lives and methods of depreciation are reviewed at each reporting date, and adjusted prospectively, if appropriate.

#### e) Goodwill

Goodwill represents the excess of the purchase price over the fair value of the net identifiable assets of an acquired business. The Company measures goodwill as the fair value of the consideration transferred including the recognized amount of any non-controlling interest acquired, less the fair value of the identifiable assets acquired, and liabilities assumed, all measured as at the acquisition date. When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss. Transaction costs, other than those associated with the issue of debt or equity securities, that the Company incurs in connection with a business combination are expensed as incurred.

#### g) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Constructive obligations are obligations that derive from the Company's actions where:

- by an established pattern of past practice, published policies or a sufficiently specific current statement, the Company has indicated to other parties that it will accept certain responsibilities; and
- as a result, the Company has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Provisions are reviewed at the end of each reporting period and adjusted to reflect management's current best estimate of the expenditure required to settle the present obligation at the end of the reporting period. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

Provisions are reduced by actual expenditures for which the provision was originally recognized. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability. The accretion of the discount is charged to the profit or loss.

**1933 INDUSTRIES INC.**

**Notes to the Consolidated Financial Statements**

For the years ended July 31, 2023 and 2022

(Expressed in Canadian dollars, except where noted)

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**h) Convertible debentures**

The convertible debentures were determined to be compound instruments, comprising a financial liability (debt obligation) and an equity component (conversion option). The debt obligation is recognized at fair value by discounting the principal balance by the borrowing rate for a similar instrument without the conversion feature.

Using the residual method, the carrying amount of the conversion option represents the difference between the principal amount and the discounted debt obligation. The convertible debentures, net of the conversion option, is accreted to the principal balance using the effective interest rate method over the term of the convertible debentures, such that the carrying amount of the debt obligation will equal the principal balance at maturity.

Upon exercise of the convertible debentures, the conversion option and the carrying value of debt obligation is reclassified to share capital. Transaction costs are allocated on a pro-rata basis between the debt obligation and the conversion option.

**i) Leases**

A contract is a lease or contains a lease if it conveys the right to control the use of an asset for a time period in exchange for consideration.

To identify a lease, the Company (1) considers whether an explicit or implicit asset is specified in the contract and (2) determines whether the Company obtains substantially all the economic benefits from the use of the underlying asset by assessing numerous factors, including but not limited to substitution rights and the right to determine how and for what purpose the asset is used.

When assessing the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option or to not exercise a termination option. This judgment is based on factors such as contract rates compared to market rates, economic reasons, significance of leasehold improvements, termination and relocation costs, installation of specialized assets, residual value guarantees, and any sublease term.

The Company has elected not to recognize right-of-use assets and lease liabilities for low-value assets or short-term leases with a term of 12 months or less. These lease payments are recognized in operating expenses over the lease term.

The lease liability is initially measured at the present value of the lease payments that are not paid. The Company elected to not separate non-lease components from lease components and to account for the non-lease and lease components as a single lease component. Lease payments generally include fixed payments less any lease incentives receivable. The lease liability is discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The Company estimates the incremental borrowing rate based on the lease term, collateral assumptions, and the economic environment in which the lease is denominated. The lease liability is subsequently measured at amortized cost using the effective interest method. The lease liability is remeasured when the expected lease payments change as a result of new assessments of contractual options and residual value guarantees.

The right-of-use asset is recognized at the present value of the liability at the commencement date of the lease less any incentives received from the lessor. Added to the right-of-use asset are initial direct costs, payments made before the commencement date, and estimated restoration costs. The right-of-use asset is subsequently depreciated on a straight-line basis from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

**1933 INDUSTRIES INC.**

**Notes to the Consolidated Financial Statements**

For the years ended July 31, 2023 and 2022

(Expressed in Canadian dollars, except where noted)

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**j) Share-based payments**

The fair value of stock options granted to employees is recognized as a share-based compensation with a corresponding increase in reserves. The fair value is measured at grant date and each tranche is recognized on a graded-vesting basis over the period during which the options vest. The fair value of the stock options granted is measured using the Black-Scholes Option Pricing Model ("Black-Scholes") considering the terms and conditions upon which the options were granted. The fair value of stock options granted to parties other than employees is recognized as an expense which is measured at the fair value of the goods or services received when they can be estimated reliably. If the goods or services received cannot be estimated reliably, the fair value of the stock options granted is measured using Black-Scholes considering the terms and conditions upon which the options were granted. The Company annually revises its estimates of the number of stock options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to reserves.

**k) Share purchase warrants**

Certain share purchase warrants are classified as a derivative liability under the principles of IFRS 9 *Financial Instruments* ("IFRS 9"). As the exercise price of the share purchase warrant is fixed in US dollars and the functional currency of the Company is the Canadian dollar, the share purchase warrants are considered a derivative liability in accordance with IAS 32 *Financial Instruments: Presentation*, as a variable amount of cash in the Company's functional currency will be received upon exercise.

These types of share purchase warrants are recognized at fair value using Black-Scholes. Share purchase warrants are initially recorded as a liability at fair value with any subsequent changes in fair value recognized in the profit or loss.

Upon exercise of the share purchase warrants with exercise prices in a currency other than the Company's functional currency, the share purchase warrants are revalued at the date of exercise with any gain or loss being charged to the profit or loss, and the total fair value of the exercised share purchase warrants is reallocated to equity. The proceeds generated from the payment of the exercise price are allocated to equity.

**l) Share capital**

Common shares are classified as shareholders' equity. Incremental costs directly attributable to the issue of common shares and other equity instruments are recognized as a deduction from shareholders' equity. Common shares issued for consideration other than cash, are valued based on their market value at the date the shares are issued.

The Company has adopted a residual value method with respect to the measurement of warrants attached to private placement units. The residual value method first allocates value to the more easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component. The Company considers the fair value of warrants issued in the private placements to be the more easily measurable component and the warrants are valued at their fair value, as determined by Black-Scholes. The balance, if any, is allocated to share capital. Any fair value attributed to the warrants is recorded as reserves.

In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at fair value of the share-based compensation. Otherwise, share-based compensation is measured at the fair value of goods and services received.

**1933 INDUSTRIES INC.**

**Notes to the Consolidated Financial Statements**

For the years ended July 31, 2023 and 2022

(Expressed in Canadian dollars, except where noted)

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**m) Financial instruments**

*Classification of financial assets*

Amortized cost:

Financial assets that meet the following conditions are measured subsequently at amortized cost:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The amortized cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortization using effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. Interest income is recognized using the effective interest method.

The Company has classified cash and receivables as amortized cost.

Fair value through other comprehensive income:

Financial assets that meet the following conditions are measured at fair value through other comprehensive income ("FVTOCI"):

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Company does not currently hold any financial instruments designated as FVTOCI.

Equity instruments designated as FVTOCI:

On initial recognition, the Company may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination. Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognized in other OCI. The cumulative gain or loss is not reclassified to profit or loss on disposal of the equity instrument, instead, it is transferred to retained earnings.

The Company does not currently hold any equity instruments designated as FVTOCI.

Financial assets measured subsequently at fair value through profit or loss:

By default, all other financial assets are measured subsequently at fair value through profit and loss ("FVTPL").

The Company, at initial recognition, may irrevocably designate a financial asset as measured at FVTPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases. Financial assets measured at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognized in profit or loss to the extent they are not part of a designated hedging relationship.

The Company currently designated its warrant liability as FVTPL.

## 1933 INDUSTRIES INC.

### Notes to the Consolidated Financial Statements

For the years ended July 31, 2023 and 2022

(Expressed in Canadian dollars, except where noted)

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### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Classification of financial liabilities

Financial liabilities that are not contingent consideration of an acquirer in a business combination, held for trading or designated as at FVTPL, are measured at amortized cost using the effective interest method.

The Company's financial liabilities measured at amortized cost are accounts payable and accrued liabilities, convertible debentures, promissory note and notes payable.

#### n) Equity

Equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs. Repurchase of the Company's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

#### o) Impairment of financial assets

The expected credit loss ("ECL") applies to financial assets measured at amortized cost, contract assets and debt investments measured at FVOCI.

To assess credit losses, the Company considers a broad range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions and forecasts that affect the expected collectability of future cash flows of the instrument.

In applying this forward-looking approach, the Company separates instruments into the below categories:

1. financial instruments that have not deteriorated significantly since initial recognition or that have low credit risk;
2. financial instruments that have deteriorated significantly since initial recognition and whose credit loss is not low; or
3. financial instruments that have objective evidence of impairment at the reporting date.

12-month expected credit losses are recognized for the first category while 'lifetime expected credit losses' are recognized for the second category.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the financial asset's original effective interest rate.

Financial assets, other than those at FVTPL and amortized cost, are assessed for indicators of impairment at each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

#### p) Impairment of non-financial assets

At the end of each reporting period the carrying amounts of the Company's non-financial assets (property and equipment as well as goodwill) are reviewed to determine whether there is any indication that those assets may be impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the period. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.



## 1933 INDUSTRIES INC.

### Notes to the Consolidated Financial Statements

For the years ended July 31, 2023 and 2022

(Expressed in Canadian dollars, except where noted)

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#### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Following the recognition of an impairment loss, the depreciation charge applicable to the asset is adjusted prospectively in order to systematically allocate the revised carrying amount, net of any residual value, over the remaining useful life. Where an impairment subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate and its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or CGU) in prior periods. A reversal of an impairment loss is recognized immediately in profit or loss. Goodwill impairment losses are not reversed.

##### q) Revenue

The Company generates revenue from the sale of cannabis, infused pre-rolls, oils, distillates, terpenes, vaporizer products and boutique concentrates. In addition, the Company provides third party processing services.

Revenue is recognized in accordance with IFRS 15 *Revenue*, when a customer obtains control of promised goods or services. The amount of revenue reflects the consideration to which the Company expects to be entitled to receive in exchange for these goods or services. The Company applies the following five-step analysis to determine whether, how much and when revenue is recognized: (1) Identify the contract with the customer; (2) Identify the performance obligation in the contract; (3) Determine the transaction price; (4) Allocate the transaction price to the performance obligation in the contract; and (5) Recognize revenue when or as the Company satisfies a performance obligation. Revenue is shown net of returns and discounts.

Revenue from the sale of inventory is recognized when the Company has transferred the significant risks and rewards of ownership to the customer, the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, the amount of revenue can be reliably measured, it is probable that the economic benefits of the transaction will flow to the Company, and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Significant risks and rewards are generally considered to be transferred when the Company has shipped the product to customers. Revenue is recognized at the fair value of consideration received or receivable.

##### r) Loss per share

Basic loss per common share is calculated by dividing the loss attributed to shareholders for the year by the weighted average number of common shares outstanding in the period. Diluted loss per common share is calculated by adjusting the weighted average number of common shares outstanding to assume conversion of all dilutive potential common shares. Diluted loss per share is equal to basic loss per share for the periods presented as the effect would be anti-dilutive.

Anti-dilutive securities include convertible debentures, warrants, stock options, and agent options.

##### s) Income taxes

Current tax is the expected tax payable or receivable on the taxable earnings or loss for the period. Current tax for each taxable entity in the Company is based on the local taxable income at the local statutory tax rate enacted or substantively enacted at the reporting date and includes adjustments to tax payable or recoverable in respect of previous periods. 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.

Deferred tax is recognized by providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously. A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

## 1933 INDUSTRIES INC.

### Notes to the Consolidated Financial Statements

For the years ended July 31, 2023 and 2022

(Expressed in Canadian dollars, except where noted)

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#### 4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

##### a) Critical judgements and estimates

The preparation of these 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 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 financial statements is as follows:

##### *i. Determination of functional currency*

In accordance with International Accounting Standard ("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.

##### *ii. Assessment of Cash Generating Units*

For impairment assessment and testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash generating units ("CGU"). The Company applies judgement in assessing the smallest group of assets that comprise a single CGU.

##### *iii. Assessment of indicator 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. The Company concluded the recoverable value of the AMA and Infused MFG CGU was less than its carrying value and impairment was required as at July 31, 2023 and April 20, 2022, respectively (Note 11). The Company applies judgement in determining the discount rate, unit sales growth rates, selling prices, gross margin and operating costs.

##### *iv. 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.

##### *v. 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 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.

##### *vi. Expected credit losses*

In calculating the ECL on financial instruments, management is required to make a number of judgments including the probability of possible outcomes with regards to credit losses, the discount rate to use for time value of money and whether the financial instrument's credit risk has increased significantly since initial recognition.

## 1933 INDUSTRIES INC.

### Notes to the Consolidated Financial Statements

For the years ended July 31, 2023 and 2022

(Expressed in Canadian dollars, except where noted)

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#### 4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

##### *vii 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 ("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. 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.

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.

##### *viii. Equity-settled share-based payments*

The Company utilizes Black-Scholes to estimate the fair value of stock options granted to directors, officers, employees, and consultants, warrants issued for services and warrants issued in private placements. The use of Black-Scholes requires management to make various estimates and assumptions that impact the value assigned to the stock options including the forecasted future volatility of the stock price, the risk-free interest rate, dividend yield and the expected life of the stock options. Changes in these input assumptions can significantly affect the fair value estimate.

##### *ix. Warrant liability*

Warrant liability is measured at fair value using Black-Scholes based on estimated fair values at the date of grant and revalued at period end with changes in fair value being charged or credited to the profit or loss. Black-Scholes utilizes subjective assumptions such as expected price volatility and expected life of the option. Changes in these input assumptions can significantly affect the fair value estimate.

##### *x. 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 financial statements for the period in which such changes occur.

In the ordinary course of business, from time to time the Company is involved in various claims related to operations, rights, commercial, employment or other claims. Although such matters cannot be predicted with certainty, management does not consider the Company's exposure to these claims to be material to these financial statements.

## 1933 INDUSTRIES INC.

### Notes to the Consolidated Financial Statements

For the years ended July 31, 2023 and 2022

(Expressed in Canadian dollars, except where noted)

#### 4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

##### *xi. 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 the principal and 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 based on a number of assumptions, including contractual future cash flows, discount rates and the presence of any derivative financial instruments.

##### *xii. Leases*

###### *Identifying whether a contract includes a lease*

IFRS 16 *Leases*, 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.

###### *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 profit or loss.

#### 5. RECEIVABLES

A summary of the Company's receivables is as follows:

	July 31, 2023	July 31, 2022
	\$	\$
Trade receivables	2,226,170	1,335,053
Other	5,132	8,220
	<b>2,231,302</b>	<b>1,343,273</b>

As at July 31, 2023, trade receivables is presented net of lifetime expected credit losses of \$442,131 (July 31, 2022 - \$197,423). During the year ended July 31, 2023, general and administration included a provision for expected credit losses of \$302,431 (2022 - \$269,103).

**1933 INDUSTRIES INC.****Notes to the Consolidated Financial Statements**

For the years ended July 31, 2023 and 2022

(Expressed in Canadian dollars, except where noted)

**6. INVENTORY**

A summary of the Company's inventory is as follows:

	July 31, 2023	July 31, 2022
	\$	\$
Raw materials	527,084	423,780
Harvested cannabis and trim	1,072,963	3,636,954
Cannabis oil and equivalent	266,583	320,086
Finished goods	324,773	1,480,574
	<b>2,191,403</b>	<b>5,861,394</b>

Inventories expensed to cost of sales during the year ended July 31, 2023 were \$17,703,280 (2022 - \$8,422,492). Included in cost of sales during the year ended July 31, 2023, were \$nil (2022 - \$884,980) related to a net realizable value adjustment on inventory.

**7. BIOLOGICAL ASSETS**

A summary of the Company's biological assets is as follows:

	\$
Balance, July 31, 2021	865,953
Capitalized production costs	6,895,214
Change in fair value due to biological transformation	3,591,853
Transfer to inventory upon harvest	(10,118,647)
Effects of movement in foreign exchange	76,819
Balance, July 31, 2022	1,311,192
Capitalized production costs	6,266,049
Transfer to inventory upon harvest	(7,236,233)
Effects of movement in foreign exchange	73,067
<b>Balance, July 31, 2023</b>	<b>414,075</b>

Biological assets are measured at fair value less costs to sell until harvest. All production costs are capitalized. As at July 31, 2023, the carrying value of biological assets consisted entirely of cannabis plants. On average, the grow cycle is approximately 16 weeks (July 31, 2022 - 16 weeks).

The fair value less costs to sell is estimated using an expected cash flow model which assumes the biological assets will grow to maturity, harvested, converted into finished goods inventory, and sold in the retail cannabis market. The fair value measurements for biological assets have been categorized as Level 3 (as defined in the fair value hierarchy established in Note 23). These estimates are subject to volatility in market prices and several uncontrollable factors, which will be reflected in profit or loss on biological assets in future periods.

The following significant unobservable inputs, all of which are classified as Level 3 on the fair value hierarchy, were used by management as part of the model:

- Selling price - calculated as the weighted average selling price for all expected grades and strains of cannabis based on actual selling prices of the fair value of cannabis forms on a per pound basis.
- Yield per plant - represents the number of grams of finished cannabis that are expected to be obtained from each harvested cannabis plant.
- Stage of growth - represents the weighted average number of weeks out of the expected 16-week growing cycle that cannabis plants have reached as of the measurement date.
- Wastage - represents the weighted average percentage of cannabis plants expected to fail to mature to the point of harvest.
- Post-harvest processing costs - calculated as the cost per gram of harvested cannabis to convert into finished dry bulk flower ready to be packaged into finished goods.

**1933 INDUSTRIES INC.****Notes to the Consolidated Financial Statements**

For the years ended July 31, 2023 and 2022

(Expressed in Canadian dollars, except where noted)

**7. BIOLOGICAL ASSETS (continued)**

A summary of the Company's significant unobservable inputs used in the model to estimate fair value less costs to sell is as follows:

	July 31, 2023	July 31, 2022
Estimated sales price per gram <sup>(1)</sup>	<b>\$3.08</b>	\$4.58
Weighted average stage of growth	<b>6 weeks</b>	9 weeks
Expected yield per plant	<b>92 grams</b>	140 grams
Wastage	<b>0.26%</b>	0.00%
Post-harvest processing cost per gram <sup>(2)</sup>	<b>\$2.02</b>	\$1.91

(1) Estimated sales price per gram input is translated from USD\$2.33 (July 31, 2022 - USD\$3.57).

(2) Post-harvest processing cost per gram input is translated from USD\$1.53 (July 31, 2022 - USD\$1.49).

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

A summary of the impact of a 10% increase or decrease in each input on the Company's net loss and comprehensive loss is as follows:

	July 31, 2023	July 31, 2022
	\$	\$
Estimated sales price per gram	<b>193,899</b>	145,653
Weighted average stage of growth	<b>34,390</b>	85,087
Expected yield per plant	<b>43,364</b>	85,087
Wastage	<b>(8,212)</b>	3,690
Post-harvest processing cost per gram	<b>(191,176)</b>	60,566

**8. PREPAID EXPENSES AND DEPOSITS**

A summary of the Company's prepaid expenses and deposits is as follows:

	July 31, 2023	July 31, 2022
	\$	\$
Prepaid expenses	<b>316,481</b>	188,482
Security deposit	<b>222,650</b>	208,064
	<b>539,131</b>	396,546

**9. ASSETS HELD FOR SALE**

During the year ended July 31, 2022, the Company had listed a building with a cost of \$3,071,337 (USD\$2,394,991) for sale. Prior to their classification as assets held for sale, the building was reported under construction in progress within property and equipment (Note 10). The assets held for sale are included at the lower of their carrying value and their fair value less cost to sell.

During the year ended July 31, 2023, the fair value was based on a sales agreement dated September 27, 2022 whereby the Company received net proceeds of \$3,134,818 (USD\$2,432,719) after selling costs. As the carrying amount is less than the fair value less cost to sell, the Company has transferred the balance at the carrying value. The sale was completed on September 27, 2022. The Company recorded a gain on disposal of assets held for sale of \$63,481 in profit or loss.

**1933 INDUSTRIES INC.**
**Notes to the Consolidated Financial Statements**

For the years ended July 31, 2023 and 2022

(Expressed in Canadian dollars)

**10. PROPERTY AND EQUIPMENT**

A summary of the Company's property and equipment is as follows:

	Land	Construction in progress	Leasehold improvements	Production equipment	Office equipment	Right of use	Total
	\$	\$	\$	\$	\$	\$	\$
<b>Cost</b>							
Balance, July 31, 2021	1,070,058	2,984,638	878,215	4,520,058	413,893	14,027,895	23,894,757
Additions	-	-	-	14,789	119	-	14,908
Disposals	(1,097,293)	-	-	(585,569)	-	-	(1,682,862)
Termination of lease	-	-	-	-	-	(108,789)	(108,789)
Modification of lease	-	-	-	-	-	(716,420)	(716,420)
Transfer to assets held for sale	-	(3,071,337)	-	-	-	-	(3,071,337)
Effects of movement in foreign exchange	31,083	86,699	25,511	131,300	10,656	407,487	692,736
Balance, July 31, 2022	3,848	-	903,726	4,080,578	424,668	13,610,173	19,022,993
Additions	-	-	264,052	610,691	-	300,282	1,175,025
Disposals	(3,953)	-	-	(658,850)	-	-	(662,803)
Termination of lease	-	-	-	-	-	(194,519)	(194,519)
Modification of lease	-	-	-	-	-	(329,114)	(329,114)
Effects of movement in foreign exchange	105	-	24,876	112,324	10,394	374,641	522,340
<b>Balance, July 31, 2023</b>	-	-	<b>1,192,654</b>	<b>4,144,743</b>	<b>435,062</b>	<b>13,761,463</b>	<b>19,533,922</b>
<b>Accumulated depreciation</b>							
Balance, July 31, 2021	-	-	327,660	1,831,337	209,801	2,848,382	5,217,180
Depreciation	-	-	120,057	832,766	80,244	890,181	1,923,248
Termination of lease	-	-	-	-	-	(58,021)	(58,021)
Modification of lease	-	-	-	-	-	(381,906)	(381,906)
Effects of movement in foreign exchange	-	-	13,378	63,808	6,115	68,251	151,552
Balance, July 31, 2022	-	-	461,095	2,727,911	296,160	3,366,887	6,852,053
Depreciation	-	-	124,184	704,767	51,637	809,680	1,690,268
Disposal	-	-	-	(556,885)	-	-	(556,885)
Termination of lease	-	-	-	-	-	(171,589)	(171,589)
Effects of movement in foreign exchange	-	-	146,988	445,621	7,968	(431,758)	168,819
<b>Balance, July 31, 2023</b>	-	-	<b>732,267</b>	<b>3,321,414</b>	<b>355,765</b>	<b>3,573,220</b>	<b>7,982,666</b>
<b>Carrying amount</b>							
Balance, July 31, 2022	3,848	-	442,631	1,352,667	128,508	10,243,286	12,170,940
<b>Balance, July 31, 2023</b>	-	-	<b>460,387</b>	<b>823,329</b>	<b>79,297</b>	<b>10,188,243</b>	<b>11,551,256</b>

**1933 INDUSTRIES INC.****Notes to the Consolidated Financial Statements**

For the years ended July 31, 2023 and 2022

(Expressed in Canadian dollars)

**10. PROPERTY AND EQUIPMENT (continued)****Events during the year ended July 31, 2023:**

The Company amended its lease agreement with an Infused facility lease for reduce facility space and extension of the lease term from December 31, 2023 to December 31, 2024. As a result of the lease reduction in facility space, the Company derecognized right of use asset cost of \$115,276 and accumulated depreciation of \$92,346, and \$32,904 (USD\$24,971) in lease liability resulting in a gain on lease termination of \$9,974. As a result of the lease extension, Company recognized an increase to right of use asset of \$152,205 (USD\$115,508) resulting from the incremental increase in lease liability.

The Company entered into an agreement with the landlord of its AMA manufacturing facility for rent reduction for two years beginning July 1, 2023 and ending May 31, 2025. As a result of the amendments to lease payments, the Company recognized a decrease to right of use asset of \$481,319 (USD\$365,272) resulting from the incremental decrease in lease liability. In consideration for the rent reductions, the Company issued a promissory note which will increase for the difference between the original rent payments and the amended rent reduction payments monthly up to USD\$400,000. Pursuant to the agreement, the promissory note will be forgiven on May 31, 2031 if the Company remains in compliance and in good standing with its lease obligations. In the event the Company defaults the outstanding principal of the promissory note and a penalty of USD\$50,000 will be due on demand. As at July 31, 2023, the Company is in good standings with its lease obligations.

The Company entered into an extension agreement for one of its AMA leases for an additional two years ending January 9, 2025. As a result of the lease extension, the Company recognized an addition in right-of-use of \$300,282 (USD\$225,804) measured on the future minimum lease payments discounted at 10% per annum.

The Company derecognized a right-of-use asset with cost of \$79,243 and accumulated depreciation of \$79,243 relating to Infused facility as the lease expired.

The Company incurred additions to leasehold improvement relating to upgrades and installation of irrigation and plumbing system for AMA manufacturing facility. In addition, the Company incurred additions of \$610,691 (USD\$463,456) to production equipment to improve its cultivation activities, including environmental and sensory control systems.

The Company sold turbines classified as production equipment for \$93,414 (USD\$60,000). As a result of the sale, the Company derecognized the production equipment with a cost of \$658,850 (USD\$500,000) and accumulated depreciation of \$556,885 (USD\$422,619) and recorded the difference between the consideration received and the net carrying value of \$27,198 (USD\$17,381) to loss the on sale of property and equipment in the profit or loss.

Total depreciation expense for the year ended July 31, 2023 was \$1,690,268 (2022 - \$1,923,248). Of the total depreciation expense during the year ended July 31, 2023, \$1,395,598 was allocated to inventory (2022 - \$1,423,402). As a result of the allocation to inventory, the Company recognized depreciation expense for the year ended July 31, 2023 of \$294,670 (2022 - \$499,846) in the profit or loss.

**Events during the year ended July 31, 2022:**

The Company sold land with a carrying value of \$1,097,293 (USD\$835,000) for total net proceeds of \$1,624,739 (USD\$1,270,000) resulting in a \$527,446 (USD\$435,000) gain, which is included in gain on sale of property and equipment in the profit or loss.

The Company disposed of production equipment with carrying value of \$585,569 (USD\$465,620) for proceeds of \$313,269 (USD\$235,361), resulting a \$272,300 (USD\$230,259) loss, which is included in gain on sale of property and equipment in the profit or loss.

The Company terminated an Infused office lease. As a result of the lease termination, the Company derecognized the right-of-use asset with a cost of \$108,789, accumulated depreciation of \$58,021 and lease liability of \$63,491 resulting in a gain on lease termination of \$12,723 representing the undepreciated portion of the right-of-use asset above the lease liability. The gain is included in general and administration expense in the profit or loss.

The Company determined that it would not exercise its extension option for an Infused facility lease. As a result of the lease modification, the Company derecognized the right-of-use asset with a cost of \$716,420, accumulated depreciation of \$381,906 and lease liability of \$393,856 resulting in a gain on lease termination of \$59,342 representing the undepreciated portion of the right-of-use asset less than the lease liability. The loss is included in general and administration expense in the profit or loss.



**1933 INDUSTRIES INC.****Notes to the Consolidated Financial Statements**

For the years ended July 31, 2023 and 2022

(Expressed in Canadian dollars)

**11. GOODWILL**

A summary of the Company's goodwill is as follows:

	\$
Balance, July 31, 2021	15,527,023
Impairment	(11,540,439)
Effects of movement in foreign exchange	505,137
Balance, July 31, 2022	4,491,721
Impairment	(4,599,734)
Effects of movement in foreign exchange	108,013
<b>Balance, July 31, 2023</b>	<b>-</b>

The goodwill balance at July 31, 2021 related to the acquisition of AMA and Infused MFG on June 15, 2017. AMA and Infused MFG were considered distinct cash generating units. \$4,350,147 (USD\$3,490,729) of goodwill was allocated to the AMA and \$11,176,876 (USD\$8,968,766) of goodwill was allocated to Infused MFG.

On April 30, 2022, as part of its annual recoverability test, the Company determined that the carrying amount of the Infused MFG CGU exceeded its recoverable amount and that goodwill associated with the acquisition of Infused MFG was impaired. Accordingly, during the year ended July 31, 2022, the Company recognized impairment of \$11,540,439 (USD\$8,968,766).

On July 31, 2023, as part of its annual recoverability test, the Company determined that the carrying amount of the AMA CGU exceeded its recoverable amount and that goodwill associated with the acquisition of AMA was impaired. Accordingly, during the year ended July 31, 2023, the Company recognized impairment of \$4,599,734 (USD\$3,490,729).

**12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

A summary of the Company's accounts payable and accrued liabilities is as follows:

	July 31, 2023	July 31, 2022
	\$	\$
Trade payables	3,394,148	2,576,809
Accrued liabilities	282,000	12,823
Payroll liabilities	341,496	165,994
	<b>4,017,644</b>	<b>2,755,626</b>

**1933 INDUSTRIES INC.****Notes to the Consolidated Financial Statements**

For the years ended July 31, 2023 and 2022

(Expressed in Canadian dollars)

**13. LEASE LIABILITY**

A summary of the Company's lease liability is as follows:

	\$
Balance, July 31, 2021	13,636,208
Repayment of lease obligation	(1,786,241)
Interest expense	1,382,931
Termination of lease	(63,491)
Modification of lease	(393,856)
Effects of movement in foreign exchange	331,245
Balance, July 31, 2022	13,106,796
Repayment of lease obligation	(1,669,677)
Interest expense	1,342,625
Addition	303,027
Termination of lease	(32,904)
Modification of lease	(329,114)
Effects of movement in foreign exchange	384,642
<b>Balance, July 31, 2023</b>	<b>13,105,395</b>
<b>Current portion</b>	<b>551,366</b>
<b>Non-current portion</b>	<b>12,554,029</b>

During the year ended July 31, 2023, the Company amended its lease agreement with an Infused facility lease for reduced facility space and extension of the lease term from December 31, 2023 to December 31, 2024. As a result of lease reduction in facility space, the Company derecognized \$32,904 (USD\$24,971) in lease liability. As a result of the lease extension, the Company recognized an incremental increase of \$152,205 (USD\$115,508) in modification of lease.

The Company entered into an agreement with the landlord of its AMA manufacturing facility for rent reduction for two years beginning July 1, 2023 and ending May 31, 2025. As a result of the amendments to lease payments, the Company recognized a decrease to right of use asset of \$481,319 (USD\$365,272) resulting from the incremental decrease in lease liability. In consideration for the rent reductions, the Company issued a promissory note which will increase for the difference between the original rent payments and the amended rent reduction payments monthly up to USD\$400,000. Pursuant to the agreement, the promissory note will be forgiven on May 31, 2031 if the Company remains in compliance and in good standing with its lease obligations. In the event the Company defaults the outstanding principal of the promissory note and a penalty of USD\$50,000 will be due on demand. As at July 31, 2023, the Company is in good standings with its lease obligations.

During the year ended July 31, 2023, the Company entered into an extension agreement for one of its AMA leases for an additional two years ending January 9, 2025. As a result of the lease extension, the Company recognized an addition to lease liability of \$303,027 (USD\$225,804) measured on the future minimum lease payments discounted at 10% per annum.

Included in general and administration expense relating to short-term leases and low-value leases for the year ended July 31, 2023 is \$47,644 (2022 - \$18,282).

A summary of the Company's future minimum lease payments related to the leases under is as follows:

	<b>July 31, 2023</b>
	\$
2024	1,331,990
2025	1,870,669
2026	1,485,759
2027	1,492,199
Thereafter	25,931,151
Total future minimum lease payments	32,111,768
Effects of discounting	(19,006,373)
<b>Total present value of minimum lease payments</b>	<b>13,105,395</b>

**1933 INDUSTRIES INC.****Notes to the Consolidated Financial Statements**

For the years ended July 31, 2023 and 2022

(Expressed in Canadian dollars)

**14. NOTE PAYABLE**

A summary of the Company's note payable is as follows:

	\$
Balance, July 31, 2022 and 2021	-
Interest expense	4,905
Addition	72,754
Installment payments	(18,928)
Effects of movement in foreign exchange	171
<b>Balance, July 31, 2023</b>	<b>58,902</b>
<b>Current portion</b>	<b>37,565</b>
<b>Non-current portion</b>	<b>21,337</b>

During the year ended July 31, 2023, the Company purchased a production equipment for its AMA manufacturing facility. The production equipment cost \$137,968 (USD\$104,704) of which was partially paid with a non-refundable deposit of \$65,214 (USD\$49,491). The remainder of \$72,754 (USD\$55,213) was financed through monthly installment payments of USD\$2,837 for 23 months at an annual percentage rate of 17.27% and scheduled to mature on February 1, 2025.

During the year ended July 31, 2023, the Company incurred interest expense of \$4,905 (USD\$3,675). The repayment of interest was included in the installment payments.

**15. WARRANT LIABILITY**

Certain warrants are classified as financial instruments under the principles of IFRS 9 as the exercise price is in USD dollars while the functional currency of the Company is the Canadian dollar. Accordingly, warrants are remeasured to fair value at each period end and the change in fair value is recognized in change in fair value of warrant liability in profit or loss.

A summary of the Company's warrant liability is as follows:

	<b>Warrants</b>	<b>Warrant liability</b>
	#	\$
Balance, July 31, 2021 <sup>(1)</sup>	13,920,000	380,146
Gain on change in fair value of warrant liability upon expiration of warrants	(13,920,000)	(380,146)
<b>Balance, July 31, 2023 and 2022</b>	<b>-</b>	<b>-</b>

(1) The exercise price is \$0.10 (USD\$0.08). On May 3, 2022, 13,920,000 warrants expired.

The change in fair value of warrant liability during the year ended July 31, 2023 was \$nil (2022 - gain of \$380,146).

## 1933 INDUSTRIES INC.

### Notes to the Consolidated Financial Statements

For the years ended July 31, 2023 and 2022

(Expressed in Canadian dollars)

## 16. CONVERTIBLE DEBENTURES

A summary of the Company's convertible debentures is as follows:

	\$
Balance, July 31, 2021	4,234,819
Interest expense	366,201
Accretion expense	10,434
Converted to common shares	(31,909)
Interest paid - shares	(5,266)
Balance, July 31, 2022	4,574,279
Interest expense	359,179
Converted to common shares	(402,000)
Interest paid - shares	(124,728)
<b>Balance, July 31, 2023</b>	<b>4,406,730</b>

On September 14, 2018, the Company closed a short-form prospectus offering of convertible debenture units raising gross proceeds of \$17,250,000. Pursuant to the offering, the Company issued an aggregate of 17,250 debenture units at a price per debenture unit of \$1,000. Each debenture unit consisted of: (i) one 10.0% unsecured convertible debenture of the Company in the principal amount of \$1,000 convertible into common shares at a conversion price of \$0.45 per common share at the option of the holder, with interest payable semi-annually in arrears on June 30 and December 31 of each year and maturing on September 14, 2021; and (ii) 2,222 common share purchase warrants expiring September 14, 2021. Each warrant entitled the holder thereof to purchase one common share at an exercise price of \$0.65 per share until September 14, 2021, subject to adjustment in certain events.

The Company paid cash fees of \$1,668,014 in payment of the Agent's commission, corporate finance fees and other expenses of which \$45,000 was paid prior to July 31, 2020 and recorded as a transaction cost. In addition, the Agent received options (the "September 2018 Agent's Options") to acquire 3,066,666 units of the Company at an exercise price of \$0.45 per unit. Each unit is comprised of one common share and one common share purchase warrant exercisable at a price of \$0.65 per share subject to the same terms and conditions as the warrants. The fair value of the September 2018 Agent's Options was \$738,547 and was recorded as a transaction cost. The fair value of the September 2018 Agent's Options was determined using the Black-Scholes option pricing model using the following assumptions: risk free interest rate 1.25%, expected life of 3 years, volatility of 75%.

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

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

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

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

## 1933 INDUSTRIES INC.

### Notes to the Consolidated Financial Statements

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#### 16. CONVERTIBLE DEBENTURES (continued)

On April 14, 2021, debenture holders approved an extension of the maturity date of the debentures from September 14, 2021 to September 14, 2022. On August 24, 2022, debenture holders approved the amendment of the conversion price applicable to the convertible debentures to \$0.05 per share and the extension of the maturity date for the Debentures from September 14, 2022 to December 31, 2023.

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.

During the year ended July 31, 2023, accretion expense was \$nil (2022 - \$10,434), and interest expense was \$359,179 (2022 - \$366,201).

During the year ended July 31, 2023, convertible debentures of \$402,000 and interest payable on the convertible debentures of \$124,728 were converted into 10,534,551 common shares of the Company (Note 17(b)). The principal and interest balance outstanding as at July 31, 2023 was \$3,260,007 and \$1,146,723, respectively (July 31, 2022 - \$3,662,007 and \$912,272, respectively).

#### 17. SHARE CAPITAL AND RESERVES

##### a) Authorized

Unlimited common shares with no par value and unlimited preferred shares issuable in series.

##### b) Issued common shares

As of July 31, 2023, there were 461,233,870 common shares outstanding (July 31, 2022 - 450,699,319).

The Company had the following common share transaction during the year ended July 31, 2023:

- The Company issued 10,534,551 common shares pursuant to the conversion of \$402,000 of convertible debentures and interest payable on the convertible debentures of \$124,728.

The Company had the following common share transaction during the year ended July 31, 2022:

- 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.

**1933 INDUSTRIES INC.****Notes to the Consolidated Financial Statements**

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(Expressed in Canadian dollars)

**17. SHARE CAPITAL AND RESERVES (continued)****c) Reserves**

A summary of the Company's reserves activity is as follows:

	Stock options	Convertible debentures	Warrants	Total
	\$	\$	\$	\$
Balance, July 31, 2021	6,234,712	78,212	3,832,525	10,145,449
Share-based compensation	12,370	-	-	12,370
Reclassified to share capital on conversion of convertible debentures	-	(678)	-	(678)
Balance, July 31, 2022	6,247,082	77,534	3,832,525	10,157,141
Share-based compensation	183,238	-	-	183,238
Reclassified to share capital on conversion of convertible debentures	-	(5,293)	-	(5,293)
<b>Balance, July 31, 2023</b>	<b>6,430,320</b>	<b>72,241</b>	<b>3,832,525</b>	<b>10,335,086</b>

**d) Warrants**

A summary of the Company's share purchase warrant activity is as follows:

	Number of warrants	Weighted average exercise Price
	#	\$
Balance, July 31, 2021	107,160,865	0.33
Expired	(53,119,666)	0.51
Balance, July 31, 2022	54,041,199	0.15
Expired	(50,341,199)	0.16
<b>Balance, July 31, 2023</b>	<b>3,700,000</b>	<b>0.08</b>

A summary of the Company's share purchase warrants outstanding and exercisable as at July 31, 2023 is as follows:

	Number of warrants	Weighted average exercise price	Weighted average remaining life
	#	\$	years
June 13, 2024	3,700,000	0.08	0.87

**e) Stock options**

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

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

**1933 INDUSTRIES INC.**

**Notes to the Consolidated Financial Statements**

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**17. SHARE CAPITAL AND RESERVES (continued)**

A summary of the Company's stock option activity is as follows:

	Number of options	Weighted average exercise price
	#	\$
Balance, July 31, 2021	17,180,000	0.20
Expired	(1,730,000)	0.55
Forfeited	(1,200,000)	0.08
Cancelled	(2,150,000)	0.40
Balance, July 31, 2022	12,100,000	0.11
Granted	13,490,000	0.05
Expired	(750,000)	0.35
Cancelled	(300,000)	0.05
<b>Balance, July 31, 2023</b>	<b>24,540,000</b>	<b>0.07</b>

A summary of the Company's stock options outstanding and exercisable as at July 31, 2023 is as follows:

Expiry date	Number of options	Number of exercisable options	Weighted average exercise price	Weighted average remaining life
	#	#	\$	years
November 8, 2025	11,050,000	11,050,000	0.10	2.28
August 24, 2027	13,490,000	6,346,672	0.05	4.07
	<b>24,540,000</b>	<b>17,396,672</b>	<b>0.07</b>	<b>3.26</b>

For the year ended July 31, 2023, the Company recognized a share-based compensation expense of \$183,238 (2022 - \$12,370).

A summary of the Company's assumption used in the Black-Scholes option pricing model for the stock options granted during the years ended July 31, 2023 and 2022 is as follows:

	2023	2022
Risk-free interest rate	3.27%	-
Expected life of options	5.00 years	-
Annualized volatility	100%	-
Dividend rate	0%	-
Weighted average fair value per option	\$0.02	-

The Company is utilizing an expected volatility figure based on a review of the historical volatilities, over a period of time, equivalent to the expected life of the instrument being valued. The risk-free interest rate was determined from Canadian government zero-coupon bonds with a remaining term consistent with the expected term of the instrument being valued.

**f) Agent options**

A summary of the Company's agent options activity is as follows:

	Number of options	Weighted average exercise price
	#	\$
Balance, July 31, 2021	5,344,326	0.25
Expired	(2,191,112)	0.45
Balance, July 31, 2022	3,153,214	0.11
Expired	(3,153,214)	0.11
<b>Balance, July 31, 2023</b>	<b>-</b>	<b>-</b>

**1933 INDUSTRIES INC.****Notes to the Consolidated Financial Statements**

For the years ended July 31, 2023 and 2022

(Expressed in Canadian dollars)

**18. GENERAL AND ADMINISTRATION**

A summary of the Company's general and administration for the years ended July 31, 2023 and 2022 is as follows:

	<b>2023</b>	<b>2022</b>
	<b>\$</b>	<b>\$</b>
Advertising, promotion and selling costs	<b>622,270</b>	575,708
Investor relations	<b>40,990</b>	94,709
Office expenses and general administration	<b>1,680,414</b>	1,394,557
Travel and entertainment	<b>28,951</b>	24,199
	<b>2,372,625</b>	2,089,173

**19. OTHER INCOME**

During the year ended July 31, 2023, the Company received payroll tax refunds of \$2,544,757 (USD\$1,819,374) (2022 - \$nil), from the IRS related to the Coronavirus Aid, Relief, and Economic Security Act ("CARES") act that was enacted on December 27, 2020. In the CARES act there was the Employee Retention Credit created to help encourage businesses to keep employees on their payroll during the COVID pandemic.

During the years ended July 31, 2023, the Company received a refund of \$35,595 (USD\$26,762) (2022 - \$nil), from the IRS related to the reversal of a penalty paid in 2019.

During the year ended July 31, 2023, the Company received a settlement of \$26,601 (USD\$20,000) (2022 - \$nil), related to Infused MFG disputed invoices from 2019 and 2020.

**20. 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.

A summary of the Company's related party transactions for the years ended July 31, 2023 and 2022 is as follows:

	<b>2023</b>	<b>2022</b>
	<b>\$</b>	<b>\$</b>
Directors' fees included in general and administration <sup>(1)</sup>	<b>65,194</b>	92,820
Management and consulting fees	<b>628,000</b>	348,020
Share-based compensation	<b>116,396</b>	16,747
Wages and benefits	<b>-</b>	48,350
	<b>809,590</b>	505,937

(1) Included in office expense within general and administration (Note 18).

As at July 31, 2023, \$99,079 (July 31, 2022 - \$nil) was owed to directors and officers or their related companies in respect of the services rendered and were included in accounts payable and accrued liabilities. These are non-interest bearing and payable on demand.

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



**1933 INDUSTRIES INC.****Notes to the Consolidated Financial Statements**

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(Expressed in Canadian dollars)

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

A summary of the significant non-cash transactions and supplemental disclosure for the years ended July 31, 2023 and 2022 is as follows:

	2023	2022
	\$	\$
Conversion of convertible debentures principal into common shares (Note 16, 17(b)).	402,000	32,000
Settlement of convertible debentures interest with common shares (Note 16, 17(b)).	124,728	5,267
Property and equipment paid by note payable	72,754	-
Cash received from refund from IRS	35,595	-
Cash received from legal settlement	26,601	-
Cash interest paid	-	-
Cash income tax paid	-	-

**22. SEGMENTED INFORMATION**

The Company operates in three segments, referred to as AMA, Infused MFG, and Corporate. AMA is focused on the cultivation and sale of medical and adult use cannabis products, and Infused MFG is focused on the manufacturing of Hemp derived CBD products. The corporate head office is located in Canada while the operations of AMA and Infused MFG are located in the United States. All revenues are earned in the United States. All long-lived assets are located or owned in the United States.

A summary of the Company's net income (loss) by operating segment for the year ended July 31, 2023 is as follows:

	AMA	Infused MFG	Corporate	Total
	\$	\$	\$	\$
Revenues	16,881,636	1,391,644	-	18,273,280
Gross (loss) margin	(1,875,950)	1,273,192	-	(602,758)
Operating expenses:				
Depreciation and amortization	(460)	94,532	200,598	294,670
General and administration	1,210,615	617,649	544,361	2,372,625
Goodwill impairment	4,599,734	-	-	4,599,734
License fees, taxes, and insurance	3,014,345	63,153	543,813	3,621,311
Interest, accretion, and other	(6,702)	(125,561)	2,084,386	1,952,123
	8,817,532	649,773	3,373,158	12,840,463
Net income (loss) before taxes	(10,693,482)	623,419	(3,373,158)	(13,443,221)
Current income tax expense	(515,534)	-	-	(515,534)
<b>Net income (loss) for the year</b>	<b>(11,209,016)</b>	<b>623,419</b>	<b>(3,373,158)</b>	<b>(13,958,755)</b>

**1933 INDUSTRIES INC.****Notes to the Consolidated Financial Statements**

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**22. SEGMENTED INFORMATION (continued)**

A summary of the Company's operating segment for the year ended July 31, 2022 is as follows:

	AMA	Infused MFG	Corporate	Total
	\$	\$	\$	\$
Revenues	10,850,218	1,687,719	-	12,537,937
Gross margin	1,860,713	829,712	-	2,690,425
Operating expenses:				
Depreciation and amortization	39,801	238,373	221,672	499,846
General and administration	606,196	542,358	868,554	2,017,108
Goodwill impairment	-	11,540,439	-	11,540,439
License fees, taxes, and insurance	2,008,119	45,567	746,666	2,800,352
Interest, accretion, and other	1,541,914	157,805	1,649,635	3,349,354
	4,196,030	12,524,542	3,486,527	20,207,099
Net loss before taxes	(2,335,317)	(11,694,830)	(3,486,527)	(17,516,674)
Current income tax expense	(549,000)	-	-	(549,000)
<b>Net loss for the year</b>	<b>(2,884,317)</b>	<b>(11,694,830)</b>	<b>(3,486,527)</b>	<b>(18,065,674)</b>

A summary of the Company's carrying amount of assets and liabilities by operating segment as at July 31, 2023 is as follows:

	AMA	Infused MFG	Corporate	Total
	\$	\$	\$	\$
Property and equipment	11,385,133	14,970	151,153	11,551,256
Total assets	16,897,951	478,727	643,051	18,019,729
Total liabilities	17,812,122	199,328	5,271,431	23,282,881

A summary of the Company's carrying amount of assets and liabilities by operating segment as at July 31, 2022 is as follows:

	AMA	Infused MFG	Corporate	Total
	\$	\$	\$	\$
Property and equipment	11,752,408	105,225	313,307	12,170,940
Goodwill	4,491,721	-	-	4,491,721
Total assets	24,904,798	1,030,043	3,074,836	29,009,677
Total liabilities	16,163,319	228,748	5,094,885	21,486,952

**23. FINANCIAL INSTRUMENT AND RISK MANAGEMENT****a) Fair value of financial assets and liabilities**

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

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

The Company measures warrant liability at fair value which is categorized as Level 2.

The Company measures biological assets at fair value which is categorized as Level 3.

The carrying values of cash, receivables, accounts payable and accrued liabilities, and convertible debentures approximate their respective fair values due to the short-term nature of these instruments. The Company's financial instruments are classified as and measured at amortized cost.

**1933 INDUSTRIES INC.****Notes to the Consolidated Financial Statements**

For the years ended July 31, 2023 and 2022

(Expressed in Canadian dollars)

**23. FINANCIAL INSTRUMENT AND RISK MANAGEMENT (continued)**

The Company's financial instruments are exposed to certain financial risks. The risk exposures and the impact on the Company's financial instruments are summarized below.

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

**a) Credit risk**

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to fulfill its contractual obligations. The Company's credit risk relates primarily to cash and receivables. The Company minimizes its credit risk related to cash by placing cash with major financial institutions. The Company regularly reviews the collectability of its receivables. The Company considers the credit risk related to both cash and receivables to be minimal.

**b) Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations when they become due. The Company's liquidity risk relates primarily to accounts payable and accrued liabilities, lease liability, note payable, as well as convertible debenture. To mitigate this risk, the Company has a planning and budgeting process in place to determine the funds required to support its ongoing operations and capital expenditures. The Company endeavors to ensure that there is sufficient capital to meet short term business requirement. One of management's goals is to maintain an optimal level of liquidity through the active management of assets, liabilities and cash flows.

A summary of the Company's undiscounted financial liabilities as at July 31, 2023 is as follows:

	Within 1 year	2 - 5 years	Greater than 5 years	Total
	\$	\$	\$	\$
Accounts payable and accrued liabilities	4,017,644	-	-	4,017,644
Income tax payable	1,694,210	-	-	1,694,210
Lease liability	1,331,990	4,848,627	25,931,151	32,111,768
Note payable	44,857	22,428	-	67,285
Convertible debentures	4,406,730	-	-	4,406,730
	<b>11,495,431</b>	<b>4,871,055</b>	<b>25,931,151</b>	<b>42,297,637</b>

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.

**c) Foreign exchange risk**

The Company's operational activities are conducted in the U.S. and is exposed to foreign exchange risk due to fluctuations in the U.S. dollar relative to the Canadian dollar. Foreign exchange risk arises from financial assets and liabilities that are denominated in U.S. dollars. 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 significant.

A summary of the Company's financial assets and liabilities held in U.S. dollar, expressed in Canadian dollars, is as follows:

	July 31, 2023	July 31, 2022
	\$	\$
Cash	1,074,208	61,907
Receivables	2,231,302	1,343,273
Accounts payable and accrued liabilities	(3,356,702)	(2,344,178)
Income tax payable	(1,694,210)	(1,050,251)
Lease liability	(13,105,395)	(13,106,796)
Note payable	(58,902)	-
<b>Net financial liabilities</b>	<b>(14,909,699)</b>	<b>(15,096,045)</b>

**1933 INDUSTRIES INC.****Notes to the Consolidated Financial Statements**

For the years ended July 31, 2023 and 2022

(Expressed in Canadian dollars)

**23. FINANCIAL INSTRUMENT AND RISK MANAGEMENT (continued)**

The effect on net loss and comprehensive loss for the year ended July 31, 2023 of a 10% change in Canadian dollar against the U.S dollar on the above-mentioned net financial liabilities of the Company is estimated to have an increase or decrease in foreign exchange gain or loss of \$1,490,970.

**d) 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 and notes payable are carried at a fixed interest rate throughout their term.

**24. CAPITAL RISK MANAGEMENT**

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.

**25. INCOME TAX**

A summary of the Company's reconciliation of income taxes at statutory rates for the years ended July 31, 2023 and 2022, is as follows:

	2023	2021
	\$	\$
Loss before income taxes	(13,443,221)	(17,516,674)
Income tax recovery at statutory rates	(3,630,000)	(4,730,000)
Non deductible expenditure and non-taxable revenues	1,567,000	4,372,000
Change in statutory, foreign tax, foreign exchange rates and other	353,000	(238,000)
Adjustment to prior year provision	(640,000)	(410,000)
Temporary differences originated in the year	640,000	1,555,000
Change in unrecognized deferred tax assets	1,980,534	-
Statutory penalties and interest	245,000	-
Total tax expense	515,534	549,000
Current income tax expense	(515,534)	(549,000)
Deferred tax expense	-	-

	2023	2021
	\$	\$
Deferred tax assets (liabilities)	\$	\$
Share Issuance Costs and Financing Fees	53,000	199,000
Non-Capital losses	11,328,000	10,293,000
Property and equipment	129,000	(2,222,000)
Intangible assets	4,000	-
Mineral Resource Properties	63,000	16,000
Lease Liability	612,000	2,533,000
Biological Assets	755,000	-
Investment	46,000	-
	12,990,000	10,819,000
Unrecognized deferred tax asset	(12,990,000)	(10,819,000)
<b>Net deferred tax asset</b>	<b>-</b>	<b>-</b>

**1933 INDUSTRIES INC.****Notes to the Consolidated Financial Statements**

For the years ended July 31, 2023 and 2022

(Expressed in Canadian dollars)

**25. INCOME TAX (continued)**

A summary of the significant components of the Company's temporary differences, unused tax credits and unused tax losses that have not been included on the consolidated statement of financial position is as follows:

	July 31, 2023	Expiry Date Range	July 31, 2022	Expiry Date Range
	\$		\$	
Temporary difference				
Share Issuance Costs and Financing Fees	197,000	2042 to 2045	738,000	2041 to 2044
Allowable Capital losses	-	No expiry date 2029 to	-	No expiry date 2028 to
Non-Capital losses	44,530,000	indefinite	39,136,000	indefinite
Property and equipment	611,000	No expiry date	20,000	No expiry date
Land	-	No expiry date	-	No expiry date
Intangible assets	17,000	No expiry date	-	No expiry date
Mineral Resource Properties	233,000	No expiry date	-	No expiry date
Lease Liability	2,917,000	No expiry date	2,715,000	No expiry date
Biological Assets	3,595,000	No expiry date	-	No expiry date
Investment	344,000	No expiry date	119,000	No expiry date
<b>Canada</b>	<b>32,940,000</b>	<b>2029 to 2043</b>	<b>30,110,000</b>	<b>2029 to 2042</b>
<b>USA</b>	<b>11,590,000</b>	<b>indefinite</b>	<b>9,026,000</b>	<b>indefinite</b>

Section 280E of the Tax Code prohibits businesses from taking deductions or credits in carrying on any trade or business consisting of trafficking in controlled substances which are prohibited by federal law. The IRS has invoked Section 280E in tax audits against various cannabis businesses in the U.S. that are authorized under state laws, seeking substantial sums in tax liabilities, interest and penalties resulting from underpayment of taxes due to the application of Section 280E. Under a number of cases, the United States Supreme Court has held that income means gross income (not gross receipts). Under this reasoning, the cost of goods sold is permitted as a reduction in determining gross income, notwithstanding Section 280E. Although proper reductions for cost of goods sold are generally allowed to determine gross income, the scope of such items has been the subject of debate, and deductions for significant costs may not be permitted. While there are currently several pending cases before various administrative and federal courts challenging these restrictions, there is no guarantee that these courts will issue an interpretation of Section 280E favorable to cannabis businesses. Thus, the Company, to the extent of its "trafficking" activities (if applicable), and/or key contract counterparties directly engaged in trafficking in cannabis, may be subject to United States federal tax, without the benefit of certain deductions or credits.

The Company recorded an income tax expense of \$515,534 related to AMA despite the existence of net operating losses. Cases before the federal courts have resulted in the denial of the application of net operating 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 net operating losses when filing the corporate income tax returns for the year ended July 31, 2023.

**26. SUBSEQUENT EVENTS**

Subsequent to the year ended July 31, 2023, 2,750,000 stock options were cancelled.

On October 27, 2023, the Company granted 1,000,000 stock options to a director of the Company. The stock options have an exercise price of \$0.05, expiry date of October 27, 2028 and will vest evenly over three years.

On November 9, 2023, the Company issued 110,844 common shares pursuant to the conversion of \$4,000 of convertible debentures and interest payable on the convertible debentures of \$1,542.

**1933 INDUSTRIES INC.**

**Notes to the Consolidated Financial Statements**

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**26. SUBSEQUENT EVENTS (continued)**

On November 14, 2023, the convertible debenture holders approved a proposed amendment authorizing the Company to pursue one of the following settlement options:

1. Approve the extinguishment of the convertible debentures upon maturity, principal debt and exclude interest in arrears, through the issuance of a new unsecured convertible debenture with a two-year maturity, convertible into units at \$0.05 per unit. Each unit comprise of one common share of the Company and one share purchase warrant. Each share purchase warrant is exercisable into one common share of the Company at an exercise price of \$0.05; or
2. Approve the extinguishment of the convertible debentures upon maturity, principal debt and exclude interest in arrears, through the issuance of a unit per \$1.00 of principal. Each unit consist of one common share and one share purchase warrant. Each share purchase warrant is exercisable into one common share of the Company at an exercise price of \$0.05.

As at the date of these financial statements, the Company have not yet determined the settlement option.