



MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE YEARS ENDED JULY 31, 2023 AND 2022

(in Canadian Dollars, except where noted)

This Management Discussion and Analysis (“MD&A”) for 1933 Industries Inc., together with its wholly owned subsidiaries (“1933” or “the Company”) is prepared as of July 31, 2023 and relates to the financial condition and results of operations for the years ended July 31, 2023 and 2022. Past performance may not be indicative of future performance. This MD&A should be read in conjunction with the audited consolidated financial statements and related notes for the years ended July 31, 2023, and 2022 (“financial statements”), which have been prepared in accordance with International Financial Reporting Standards (“IFRS” or “GAAP”) as issued by the International Accounting Standards Board (“IASB”).

The Company’s certifying officers are responsible for ensuring that the financial statements and MD&A do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made. The Company’s certifying officers certify that the financial statements together with the other financial information included in the filings fairly present in all material respects the financial condition, financial performance, and cash flows of the Company as of the date of and for the periods presented in the filings.

The first, second, third and fourth quarters of the Company’s fiscal years are referred to as “Q1”, “Q2”, “Q3” and “Q4”, respectively. The years ended July 31, 2023 and 2022, are referred to as “fiscal 2023” and “fiscal 2022”, respectively. All amounts are presented in Canadian dollars, the Company’s presentation currency, unless otherwise stated. References to “USD” are to United States dollars.

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

The Company is publicly traded on the Canadian Securities Exchange under the symbol “TGIF” and quoted on the OTCQB under the symbol “TGIF”. Additional information relating to the Company is available on the Company’s website at www.1933industries.com, and on SEDAR+ at www.sedarplus.com. Information in this MD&A is prepared as of November 28, 2023.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This document contains certain “forward-looking statements” which may include, but are not limited to, statements with respect to the future financial or operating performance of the Company. Often, but not always, forward-looking statements can be identified by the use of words such as “plans”, “expects”, “is expected”, “budget”, “scheduled”, “estimates”, “forecasts”, “intends”, “anticipates”, or “believes” or variation (including negative variations) of such words and phrases, or statements that certain actions, events, or results “may”, “could”, “would”, “might”, or “will” be taken, occur or to achieve.

Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance, or achievements of the Company and/or its subsidiaries to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, among others, the Company’s business model; U.S. regulatory landscape and enforcement related to cannabis, including political risks; risks related to capital raising due to heightened regulatory scrutiny; risks related to quantifying the Company’s target market; risks related to access to banks and credit card payment processors; risks related to lack of U.S. federal trademark and patent protection; risks related to the enforceability of contracts; risks related to potential violation of laws by banks and other financial institutions; risks related to service providers withdrawing or suspending services under threat of prosecution; risks related to tax liabilities; and heightened scrutiny by Canadian regulatory authorities.

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

OUTLOOK AND THE PATH FORWARD

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

The Company holds cannabis licenses for cultivation, processing, and distribution in Nevada's limited license regime. The Company's revenue is derived from wholesale cannabis sales in Nevada, and from the sale of hemp-derived consumer packaged goods sold B2B and direct to consumers via ecommerce at cannahemp.com. The Company's strengths lie in its expertise as a top cultivator in the Las Vegas market and in its ability to attain shelf space in dispensaries.

During the reporting period, the Company completed significant upgrades to its cultivation facility, including a complete retrofit and upgrade of the irrigation and humidification systems. Other enhancements included the addition of new lights, fans and one added cultivation room, totaling 17 bloom rooms in perpetual harvest. During Q4 2023, the Company recorded revenues of \$5.6 million, a 38% increase from Q3 2023 and a 115% increase from Q4 2022. The Company achieved record revenues of \$18.3 million during fiscal 2023, representing a significant milestone, and increasing revenues sequentially year over year since 2020. Margins were impacted as a result of lower flower yields and failures during the period of construction but increased to \$0.1 million during Q4 2023 when the improvements to the cultivation facility were completed and the plant began operating at full capacity. Pricing compression continues to impact cannabis operators in Nevada and the market for cannabis has declined slightly year-over-year but remains strong overall. According to the Nevada Cannabis Compliance Board (CCB), during Fiscal Year 23 (July 1, 2022 – June 30, 2023), licensed adult-use cannabis retail stores and medical dispensaries generated \$848,145,356 in taxable sales, a decrease of \$117 million from the previous year.

Nevada presents significant opportunities for operators due to the state's rank as a top tourism destination, high barriers to entry with a favourable licensing structure and generous patient reciprocity laws. Demand for the Company's AMA products remains strong, and the Company believes that it has attained the right approach in delivering quality products to its dispensary partners at a price point that resonates with current market conditions in Nevada. With the cultivation facility operating at full capacity, the Company is well positioned to take advantage of the continued demand for cannabis flower and cannabis products. The Company's hemp-infused consumer packaged goods recorded positive gross margins, although the demand for hemp-infused products remains soft both in wholesale and retail stores as well as via e-commerce.

On November 30, 2022, the CCB issued 40 cannabis consumption lounge prospective licenses. On June 20, 2023, the CCB gave approval to three cannabis consumption lounges to move forward. Those include Planet 13, Thrive Cannabis, and SoL Cannabis. The consumption lounges must still obtain local approvals and complete their buildout. Consumption lounges will provide a safe, legal place for tourists to consume cannabis. It is currently illegal to consume cannabis anywhere outside of private residences. It is expected that the launch of consumption lounges will create a new attraction for visitors to the state and expand cannabis-related tourism. The Company is well positioned to benefit from increased demand, flower price stabilization, and the strength of its top brand and in-demand products that deliver excellent value to consumers.

Operationally, the Company has made substantial improvements in lowering its debt load, reducing expenses, and conserving its working capital over the last several quarters. The Company has not significantly added to its capital structure, as it has not conducted new treasury raises and has not added any new debt to its balance sheet.

COMPANY OVERVIEW AND DESCRIPTION OF THE BUSINESS

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

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

The Company operates in three sought-after verticals:

- Craft cannabis flower cultivation;
- Extraction of cannabis concentrates; and
- Manufacturing of proprietary cannabinoid branded goods, focusing on Cannabidiol (“CBD”), Cannabigerol (“CBG”) and Cannabinol (“CBN”).

AMA’s wholesale cannabis products include premium craft-style cannabis, infused pre-rolls, full spectrum oils, high quality distillates, proprietary blends of terpenes, vaporizer products and boutique concentrates such as shatter, crumble, batter, sugar wax, diamonds, and cured and live resins, sold under the house brands AMA and Level X. AMA cultivates and wholesales its products to regulated medical and adult-use dispensaries in the state. With an extensive selection of products, the AMA brand has strong penetration into dispensaries throughout Nevada, where it appeals to a wide range of both medical and recreational consumers. The AMA brand combines craft style cultivation, quality, and competitive pricing, while the Level X brand offers exclusive strains and premium quality.

Cannabis flower is cultivated in the Company’s 68,000 sq. ft., purpose-built, state-of-the-art facility, serving the Las Vegas market. Biomass (remaining parts of the plant that contain THC such as sugar leaf trim and popcorn/small buds) is utilized to produce AMA’s extensive line of concentrates.

Infused develops proprietary formulations for its Canna Hemp™ line of wellness products. With over 60 products in its portfolio, Infused manufactures and distributes products in a variety of verticals and consumption formats, including: effects-based tinctures, lotions, creams, vape pens and cartridges, gummies, and capsules for Sleep, Relief, Calm, Focus, Energy, and exercise recovery. High-grade CBD and a proprietary blend of cannabis terpenes formulated for specific effects are key differentiators for the Canna Hemp™ line. The Company introduced previously untapped CBD, CBG and CBN to its portfolio of products and continues to develop a pipeline of products to meet changing consumer demands.

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

Infused has branched out into functional mushroom product category under the brand Ether Wellness. Infused recently launched a functional mushroom capsule - Ether Wellness Balance 10X Complex. Infused plans on further developing out the Ether Wellness brand of functional mushroom and other wellness products.

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

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

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

AMA - Cultivation and Extraction Segment

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

Market Plans and Strategies

The Company's business model is based on servicing the existing medicinal cannabis patient base in Nevada (which has approximately 3.0 million residents) and the recreational cannabis consumers, including those who visit Las Vegas each year (about 42.9 million visitors pre-Covid-19 pandemic). The Company is an established wholesale supplier of unique branded flower and extraction products to licensed dispensaries and cannabis stores.

As its branded image and reputation is well established, the Company may license or acquire other cannabis businesses in the United States that have legalized medicinal cannabis and/or recreational cannabis specific brands with recurring sales to a loyal and growing clientele.

The Company believes that the constantly evolving regulatory environment for the production and distribution of recreational cannabis within the U.S., and the dispensing of both medicinal and recreational cannabis will be disruptive for both producers and consumers, transforming the current industry into one of commercial scale. The Company is focused on establishing a portfolio of high quality, premium cannabis products that have wide appeal to a growing and varied consumer base. The Company has developed a comprehensive marketing program to create visibility and awareness in the market for its products. AMA markets its products locally, via social media, in-store programs, as well as via targeted marketing campaigns in conjunction with dispensaries and educational programs targeting budtenders and consumers.

Hemp Infused Products Segment

Infused focuses on developing, formulating, and producing CBD, CBG and CBN hemp-based products and brands for retail sale and use in jurisdictions where permitted by law and regulation in the United States.

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

- Canna Hemp™ hemp-derived cannabinoid products that include tinctures, lotions, creams, vape pens and cartridges, gummies, and capsules;
- Canna Hemp X™ products targeting the action sports vertical, including pre and post workout tinctures, and muscle balms; and
- Canna Hemp™ products containing hemp-seed oil and free of CBD.

The Canna Hemp™ line is marketed through a variety of brick-and-mortar retail outlets, and retail dispensaries in Nevada and Arizona under its various segments, and direct to consumers via its e-commerce platforms. The Company believes that its success in the market is achieved by offering a broad range of premium quality products with wide-range appeal at competitive prices and delivered through outstanding client service under a well identified brand.

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

Infused is growing its product portfolio via the expansion into the functional mushroom category. Infused has created the Ether Wellness brand to grow its portfolio of mushroom-based products targeting natural wellness categories.

DESCRIPTION AND OUTLOOK OF THE UNITED STATES LEGAL CANNABIS INDUSTRY

In accordance with the Canadian Securities Administrators Staff Notice 51-352 (Revised) dated February 8, 2018 - Issuers with U.S. Marijuana-Related Activities ("Staff Notice 51-352"), below is a discussion of the federal and state-level United States regulatory regimes in those jurisdictions where the Corporation is currently directly involved, through its subsidiaries, in the cannabis industry. In accordance with Staff Notice 51-352, the Corporation will evaluate, monitor and reassess this disclosure,

and any related risks on an ongoing basis. In addition, the disclosure will be supplemented and amended to investors in public filings, including in the event of government policy changes or the introduction of new or amended guidance, laws, or regulations regarding marijuana regulation.

Federal Regulation of Cannabis in the United States

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

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

The state of California was the first state to legalize medical marijuana in 1996. Since then, the medical use of cannabis has been legalized in 40 states and the District of Columbia. The recreational or adult-use of cannabis has been approved in the District of Columbia and 24 states. As more and more states legalized medical and/or adult-use marijuana, the federal government attempted to provide clarity on the incongruity between federal prohibition under the CSA and these state-legal regulatory frameworks. Until 2018, the federal government provided guidance to federal law enforcement agencies and banking institutions through a series of United States Department of Justice (“DOJ”) memoranda. One such memorandum was drafted by former Deputy Attorney General James Cole on August 29, 2013 (the “Cole Memorandum”).

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

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

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

On January 4, 2018, former United States Attorney General Jeff Sessions rescinded the Cole Memorandum by issuing a new memorandum to all United States Attorneys (the “Sessions Memo”). Rather than establish national enforcement priorities

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particular to marijuana-related crimes in jurisdictions where certain marijuana activity was legal under state law, the Sessions Memo instructs that “in deciding which marijuana activities to prosecute, with the DOJ’s finite resources, prosecutors should follow the well-established principles that govern all federal prosecutions.” Namely, these include the seriousness of the offense, history of criminal activity, deterrent effect of prosecution, the interests of victims, and other principles.

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

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

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

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

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

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

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

In addition, the Company frequently conducts background checks to ensure that the principals and management of its operating subsidiaries are of good character, and have not been involved with other illegal drugs, engaged in illegal activity or activities involving violence, or use of firearms in cultivation, manufacturing or distribution of cannabis. The Company will conduct ongoing reviews of the activities of its cannabis businesses, the premises on which they operate and the policies and

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procedures that are related to possession of cannabis or cannabis products outside of the licensed premises, including the cases where such possession is permitted by regulation. See “Risk and uncertainties.”

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

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

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

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

In July 2020, the House of Representatives passed the “Blumenauer-McClintock-Norton-Lee Amendment”, to the Commerce, Justice, Science (“CJS”) appropriations bill, which continued the Joyce/Leahy Amendment’s protections for state medical cannabis programs. It extended protections to include recreational programs in such states where recreational cannabis is legal. Although the House of Representatives passed the CJS appropriations bills, it was not heard in the Senate, as then Majority Leader Mitch McConnell opposes marijuana legalization.

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

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

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

On Friday, April 1, 2022, the U.S. House of Representative passed the latest iteration of the MORE Act. While passing with a vote of 220-204, the MORE Act is not viewed as having substantial bipartisan support, with only 3 Republican representatives

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backing the bill. To be passed into law the bill will need approval of the Senate. While its repeated adoption by Congress is seen as an encouraging sign, it is not expected to pass in its current iteration.

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

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

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

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

The customer due diligence steps include:

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

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

Because most banks and other financial institutions are unwilling to provide any banking or financial services to marijuana businesses, these businesses can be forced into becoming "cash-only" businesses. While the FinCEN Guidance decreased

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some risk for banks and financial institutions considering serving the industry, in practice it has not increased banks' willingness to provide services to marijuana businesses. This is because, as described above, the current law does not guarantee banks immunity from prosecution, and it requires banks and other financial institutions to undertake time-consuming and costly due diligence on each marijuana business they accept as a customer.

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

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

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

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

An additional challenge to marijuana-related businesses is that the provisions of the Internal Revenue Code, Section 280E, are being applied by the 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. The effective tax rate on a marijuana business depends on how large its ratio of non-deductible expenses is to its total revenues. Therefore, businesses in the legal cannabis industry may be less profitable than they would otherwise be.

Overview of Federal CBD and Hemp Derived Regulations

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

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

Compliance with Applicable State Law in the United States

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

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The Company's General Counsel works with external legal advisors in Nevada, to ensure that the Company is in on-going compliance with applicable state laws.

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In the United States, numerous U.S. states have implemented legislation regulating marijuana. As of November 22, 2022, 40 states and the District of Columbia have passed laws broadly legalizing marijuana for medicinal use by eligible patients. 21 states and the District of Columbia have legalized marijuana for adult-use regardless of medical condition. Additional states have pending legislation regarding the same. The large increase in recent statewide referenda and legislation that liberalizes marijuana laws is consistent with public opinion. Public polling routinely shows large majorities of Americans in favor of the legalization of marijuana. In fact, the latest poll results, show that two-thirds of Americans say the use of marijuana should be legal, reflecting a steady increase over the past decade, according to a Pew Research Center survey. The share of U.S. adults who oppose legalization has fallen from 52% in 2010 to 32% in 2020. An overwhelming majority of U.S. adults (91%) say marijuana should be legal either for medical *and* recreational use (59%) or that it should be legal just for medical use (32%). Fewer than one-in-ten (8%) prefer to keep marijuana illegal in all circumstances, according to the survey, conducted Sept. 3 to 15, 2020, on Pew Research Center's American Trends Panel.

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

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

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

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

Regulatory Risks

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

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As a result of the conflicting views between State legislatures and the federal government regarding cannabis, investments in cannabis businesses in the United States are subject to inconsistent legislation and regulation. The response to this inconsistency was addressed in the Cole Memorandum addressed to all United States district attorneys acknowledging that notwithstanding the designation of cannabis as a controlled substance at the federal level in the United States, several states have enacted laws relating to cannabis for medical purposes. The Cole Memorandum outlined certain priorities for the United States Department of Justice relating to the prosecution of cannabis offenses. In particular, the Cole Memorandum noted that in jurisdictions that have enacted laws legalizing cannabis in some form and that have implemented strong and effective regulatory and enforcement systems to control the cultivation, distribution, sale and possession of cannabis, conduct in compliance with those laws and regulations is less likely to be a priority at the federal level.

Notably, however, the United States Department of Justice has never provided specific guidelines for what regulatory and enforcement systems it deems sufficient under the Cole Memorandum standard. In light of limited investigative and prosecutorial resources, the Cole Memorandum concluded that the United States Department of Justice should be focused on addressing only the most significant threats related to cannabis. States where medical cannabis had been legalized were not characterized as a high priority.

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

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

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

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

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

Money Laundering Laws and Access to Banking

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

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

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

United States Border Entry

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

Ability to Access Public and Private Capital

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

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

Compliance with Nevada State Law

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

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

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

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

- subscription to monitoring programs to ensure compliance with the FinCEN Memorandum.

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

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

Reporting Requirements

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

FISCAL 2023 AND 2022 CONSOLIDATED OPERATING FINANCIAL HIGHLIGHTS

- Total revenues were \$18.3 million for fiscal 2023 and \$12.5 million for fiscal 2022.
- Expenses of \$12.8 million for fiscal 2023 compared to \$20.2 million for fiscal 2022. The expenses during the prior year period were primarily a result of non-cash goodwill impairment of \$11.5 million relating to Infused Mfg. The reduction in expenses during the current year was supplemented by a \$2.5 million refund received from the IRS related to the CARES act, offset by a non-cash goodwill impairment relating to AMA of \$4.6 million.
- Gross profit was a loss of \$0.6 million or for fiscal 2023 and a profit of \$2.7 million or for fiscal 2022. The decrease in gross profit was due primarily due to increased production and cultivation costs, delayed harvests, and lower yields while the Company upgraded and retrofitted the building's complex irrigation piping system during the current year.
- Net loss and adjusted EBITDA were a loss of \$14.0 million and \$7.6 million, respectively, for fiscal 2023 and a loss of \$18.1 million and \$4.8 million, respectively, for fiscal 2022.

FISCAL 2023 KEY DEVELOPMENTS

- 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.
- Infused launched the non-CBD Ether Wellness brand to capitalize on the growing demand of functional mushrooms and other wellness products.
- Ranson Shepard resigned from the Board and Curtis Floyd was appointed to the Board.

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.

On November 14, 2023, Holders of 10% Senior Unsecured Convertible Debentures Due December 31, 2023, approved a proposed amendment, which authorizes the Company to pursue at its discretion one of the following settlement options:

1. The extinguishment of the Debentures upon maturity and the principal debt owed thereunder, excluding any interest in arrears, through the issuance of a new 10% unsecured convertible debenture (the "New Debenture") with a two year maturity, convertible into units at a price of \$0.05 per unit, each unit comprising one common share of the Company and one share purchase warrant, subject to certain acceleration provisions as more particularly defined in the indenture governing the New Debenture, or

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2. The extinguishment of the convertible debentures upon maturity, principal debt and excluding interest in arrears, through the issuance of a Unit to the Debenture holders, each Unit being issued at a deemed price of \$0.02 per \$1.00 of principal, and one share purchase warrant exercisable into one additional common share of the Company at a price of \$0.05 for a period of five years from the date of issuance.

As at the date of these financial statements, the Company has not yet determined which settlement option it will choose.

SELECTED ANNUAL FISCAL INFORMATION

A summary of the Company's selected annual fiscal information is as follows:

	2023	2022	2021	2020
	\$	\$	\$	\$
Revenue	18,273,280	12,537,937	11,975,021	11,962,525
Gross profit (loss)	(602,758)	2,690,425	4,819,967	2,284,674
Net loss	(13,958,755)	(18,065,674)	(6,287,423)	(22,203,622)
Comprehensive loss	(13,495,843)	(17,759,356)	(8,458,259)	(23,070,361)
Basic and diluted net loss per share	(0.03)	(0.04)	(0.02)	(0.08)

A summary of the Company's selected annual fiscal financial position is as follows:

	July 31, 2023	July 31, 2022	July 31, 2021	July 31, 2020
	\$	\$	\$	\$
Current assets	6,468,473	12,347,016	11,149,216	7,788,920
Total assets	18,019,729	29,009,677	45,353,816	46,584,470
Current liabilities	10,707,515	8,670,738	2,709,806	1,682,635
Total liabilities	23,282,881	21,486,952	20,121,280	27,132,288

SUMMARY OF QUARTERLY RESULTS

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

	Q4 2023	Q3 2023	Q2 2023	Q1 2023
	\$	\$	\$	\$
Revenue	5,609,131	4,073,142	3,626,156	4,964,851
Net loss	(9,070,311)	(3,362,402)	(359,191)	(1,166,851)
Basic / diluted loss per share	(0.02)	(0.01)	(0.00)	(0.00)
Number of weighted average shares	460,681,080	457,534,847	453,578,137	451,045,719

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

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

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SUMMARY OF RESULTS

A summary of the Company's results of operations is as follows:

	Q4 2023	Q4 2022	FY 2023	FY 2022
	\$	\$	\$	\$
Revenues	5,609,131	2,607,511	18,273,280	12,537,937
Gross profit (loss)	125,173	(1,893,656)	(1,113,029)	2,690,425
Expenses (income)				
General and administration	1,462,631	944,799	2,372,625	2,089,173
Goodwill impairment	4,599,734	67,594	4,599,734	11,540,439
License fees, taxes, and insurance	1,824,245	182,472	3,621,311	2,800,352
Management and consulting fees	200,000	55,976	628,000	377,653
Other expenses (income)	497,075	627,165	(505,825)	1,386,107
Professional fees	364,644	162,858	1,065,879	1,135,317
Share-based compensation	18,414	4,232	183,238	12,370
Wages and benefits	228,741	152,260	875,501	865,688
	9,195,484	2,197,356	12,840,463	20,207,099
Net loss before income taxes	(9,070,311)	(4,091,012)	(13,443,221)	(17,516,674)
Income tax recovery (expense)	-	169,368	(515,534)	(549,000)
Net loss	(9,070,311)	(3,921,644)	(13,958,755)	(18,065,674)
Foreign currency translation adjustment	(192,743)	166,173	462,912	306,318
Comprehensive loss	(9,263,054)	(3,755,471)	(13,495,843)	(17,759,356)

Q4 2023 compared to Q4 2022

The Company generated revenue of \$5,609,131 compared to \$2,607,511 in the prior year comparable period. The increase in revenue in the current period was primarily due to an increase in AMA revenues resulting from cannabis sales increasing as the cultivation plant began operating at full capacity and generated significant revenue from sales of whole flowers. The Company incurred a gross profit of \$125,173 in the current period compared to a gross loss of \$1,893,656 in the prior year comparable period. The increase in gross margin in the current period resulting from lower inventory expensed to cost of sales as the Company increased its purchases of third-party flower compared to internal cultivation resulting in savings in inventory expensed to cost of sales.

The Company had expenses of \$9,195,484 compared to \$2,197,356 in the prior year comparable period. The primary drivers of this increase are as follows:

- General and administration increased to \$1,462,631 compared to \$944,799 in the prior year comparable period resulting from the increase of operational activities of the Company, increased provision for expected credit losses from aged trades receivables, unrecoverable prepaid deposits, and administration charges incurred in the period.
- Goodwill impairment increased to \$4,599,734 compared to \$67,594 in the prior year comparable period resulting from the non-cash impairment of AMA's goodwill as the Company determined that the carrying amount of the AMA cash-generating unit ("CGU") exceeded its recoverable amount.
- License fees, taxes and insurance increased to \$1,824,245 compared to \$182,472 in the prior year comparable period resulting primarily from increased sales tax payable to the state of Nevada for increased cannabis sales in the period.
- Professional fees increased to \$364,644 compared to \$162,858 in the prior year comparable period resulting from legal fees, year-end audit and accounting fees in the current period.
- Share-based compensation increased to \$18,414 compared to \$4,232 in the prior year comparable period due to the timing of the vesting of previously issued stock options. The Company did not issue any stock options in the current period.
- Wages and benefits increased to \$228,741 compared to \$152,260 in the prior year comparable period resulting from overlapping labour due to turnover and increase in new hires for changes in operational and sales activities.

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Partially offsetting the increases is the following decrease:

- The Company recognized other expenses of \$497,075 compared to other expenses of \$627,165 in the prior year comparable period. The components of other expenses (income) include accretion expense, change in fair value of warrant liability, depreciation, foreign exchange loss (gain), gain on disposal of assets held for sale, gain on lease extinguishment, gain on lease modification, gain on sale of property and equipment, interest expense, interest income, loss on deposit and other income.

The Company's foreign currency translation adjustment was a loss of \$192,743 compared to gain of \$166,173 in the prior year comparable period resulting from unfavorable movement in the Canadian dollar against the U.S. dollar during the current period. As part of the consolidation process, IFRS requires that foreign exchange gains and losses generated from the translation of subsidiaries with functional currencies different from the parent entity's must be recorded as other comprehensive income.

Fiscal 2023 compared to fiscal 2022

The Company generated revenue of \$18,273,280 compared to \$12,537,937 in the prior year. The increase in revenue in the current period was primarily due to an increase in AMA revenues resulting from cannabis sales increasing and generating significant revenue from sales of whole flowers. The Company incurred a gross loss of \$602,758 in the current period compared to gross profit of \$2,690,425 in the prior year comparable period. The decrease in gross profit in the current period resulted from a significant increase in unfavourable fair value adjustment on biological assets and on the sale of inventory resulting from increased cost and lower yields of internal cultivation of flowers and production to inventory. The increased cost and lower yields were contributed by the retrofitting and upgrading of the cultivation building complex' irrigation piping system during the current period.

The Company had expenses of \$12,840,463 compared to \$20,207,099 in the prior year. The primary drivers of this decrease are as follows:

- Goodwill impairment decreased to \$4,599,734 compared to \$11,540,439 in the prior year as current year was a result from the non-cash impairment of AMA's goodwill as the Company determined that the carrying amount of the AMA CGU exceeded its recoverable amount and prior year impairment was a result of the non-cash impairment of Infused's goodwill.
- The Company recognized other income of \$2,509,533 compared to other income of \$193,421 in the prior year comparable period resulting primarily from a \$2,544,757 (USD\$1,819,374) refund from the IRS related to the CARES. The components of other expenses (income) include accretion expense, change in fair value of warrant liability, depreciation, foreign exchange loss (gain), gain on disposal of assets held for sale, gain on lease extinguishment, gain on lease modification, gain on sale of property and equipment, interest expense, interest income, loss on deposit and other income.
- Professional fees decreased to \$1,065,879 compared to \$1,135,317 in the prior year comparable period resulting from the Company's strategic cost reductions in the current period, offset by legal fees, year-end audit and accounting fees accruals in the current period.

Partially offsetting the decrease is the following increases:

- General and administration increased to \$2,372,625 compared to \$2,089,173 in the prior year resulting from resulting from the increase operational activities of the Company, increases in provision for expected credit losses from aged trades receivables and unrecoverable prepaid deposits, and increase advertising expenditures incurred in the period.
- License fees, taxes and insurance increased to \$3,621,311 compared to \$2,800,352 in the prior year comparable period resulting primarily from increased sales tax payable to the state of Nevada for increased cannabis sales in the current period.
- Share-based compensation increased to \$183,238 compared to \$12,370 in the prior year comparable period due to the timing of the vesting of previously issued stock options and new stock options issued during the current period which includes 13,490,000 stock options issued to various directors, employees and consultants.
- Wages and benefits increased to \$875,501 compared to \$865,688 in the prior year comparable period resulting from the Company's strategic cost reductions, offset by overlapping labour due to turnover and increase in new hires for changes in operational and sales activities in Q4 2023.

The Company's foreign currency translation adjustment was a gain of \$462,912 compared to gain of \$306,318 in the prior year comparable period resulting from favourable movement in the Canadian dollar against the U.S. dollar during the current period. As part of the consolidation process, IFRS requires that foreign exchange gains and losses generated from the translation of subsidiaries with functional currencies different from the parent entity's must be recorded as other comprehensive income.

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LIQUIDITY AND CAPITAL RESOURCES

Liquidity

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

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

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

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

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

	July 31, 2023	July 31, 2022
	\$	\$
Cash	1,092,562	363,274
Liquid assets ⁽¹⁾	5,515,267	7,567,941
Working capital (deficiency)	(4,239,042)	3,676,278
Convertible debentures	4,406,730	4,574,279
Quick ratio ⁽²⁾	0.52	0.87
Working capital ratio ⁽³⁾	0.60	1.42

(1) Liquid assets include cash, receivables and inventory.

(2) Quick ratio is defined as liquid assets divided by current liabilities.

(3) Working capital ratio is defined as current assets divided by current liabilities.

Capital Resources

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

	July 31, 2023	July 31, 2022
	\$	\$
Shareholders' (deficiency) equity	(5,263,152)	7,522,725
Convertible debentures	4,406,730	4,574,279
	(856,422)	12,097,004
Less: cash	(1,092,562)	(363,274)
	(1,948,984)	11,733,730

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

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Dividends

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

SOURCES AND USES OF CASH

A summary of the Company's sources and uses of cash during the years ended July 30, 2023 and 2022 is as follows:

	Fiscal 2023	Fiscal 2022
	\$	\$
Net cash used in operating activities	(1,455,113)	(5,085,387)
Net cash provided by investing activities	2,241,147	1,581
Net cash (used in) provided by financing activities	(247,618)	1,534,698
Effect of exchange rate changes on cash	190,872	(493,467)
Cash, beginning of year	363,274	4,405,849
Cash, end of year	1,092,562	363,274

Fiscal 2023 compared to fiscal 2022

Cash used in operating activities was \$1,455,113 compared to \$5,085,387 during the prior year comparable period primarily as a result of receiving refunds of \$2.5 million from the IRS related to the CARES act in the current period.

Cash provided by investing activities was \$2,241,147 which was primarily due to cash received from the sale of assets held for sale and cash received from the sale of property and equipment, partially offset by the purchase of a water purification system and leasehold improvements to AMA manufacturing facility. Cash provided by investing activities was \$1,581 during the prior year comparable period primarily due to cash received from the sale of property and equipment, partially offset by the purchase of property and equipment and an advance on loan receivable.

Cash used in financing activities was \$247,618 compared to \$1,534,698 provided by financing activities during the prior year comparable period due to lease payments on the Company's facilities which includes interest on lease payments of \$1,332,355.

OUTSTANDING SHARE DATA

The authorized capital of the Company consists of an unlimited number of common shares without par value.

A summary of securities outstanding is as follows:

Type of security	July 31, 2023	Date of this MD&A
Common shares	461,233,870	461,344,714
Stock options	24,540,000	22,790,000
Warrants	3,700,000	3,700,000
Convertible debentures - \$0.05 conversion ⁽¹⁾	3,260,007	3,256,007

(1) On August 24, 2022, debenture holders approved the amendment of the conversion price applicable to the convertible debentures to \$0.05 per share being the lowest at which the Company is permitted to amend the conversion price, the reduction of the price per share for interest payments on the debentures from \$0.10 to \$0.05 per share.

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

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

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

Description of security	Number	Exercise price (\$)	Proceeds if exercised (\$)	Expiry date
Stock options	11,050,000	0.10	1,105,000	8-Nov-25
Stock options	10,740,000	0.05	537,000	24-Aug-27
Stock options	1,000,000	0.05	50,000	27-Oct-28
	22,790,000	0.07	1,692,000	
Warrants	3,700,000	0.075	277,500	13-Jun-24
	3,700,000	0.075	277,500	

NON-GAAP MEASURES

EBITDA and Adjusted EBITDA are non-GAAP financial measures and accordingly they are not earnings measures recognized by IFRS and do not carry standard prescribed significance. Moreover, the Company's method for calculating Adjusted EBITDA may differ from that used by other companies using the same designation. Accordingly, caution is advised to readers that Adjusted EBITDA should not be substituted for determining net income (loss) as an indicator of operating results or as a substitute for cash flows from operating and investing activities. Management believes that, in addition to conventional measures prepared in accordance with GAAP, certain investors use this information to evaluate the Company's performance and ability to generate cash flow. Accordingly, the presentation of these measures is to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP.

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

	Q4 2023	Q4 2022	Fiscal 2023	Fiscal 2022
	\$	\$	\$	\$
Net loss for the period	(9,070,311)	(3,921,644)	(13,958,755)	(18,065,674)
Add:				
Accretion expense	-	-	-	10,434
Interest expense	446,492	413,993	1,720,004	1,749,132
Depreciation expense	3,555	208,764	294,670	499,846
Income tax expense	-	169,368	(515,534)	(549,000)
EBITDA loss	(8,620,264)	(3,129,519)	(12,459,615)	(16,355,262)
Gain on lease modification	(9,974)	(12,723)	(9,974)	(12,723)
Goodwill impairment	4,599,734	67,594	4,599,734	11,540,439
Share-based compensation expense (recovery)	18,414	4,232	183,238	12,370
Adjusted EBITDA loss	(4,012,090)	(3,070,416)	(7,686,617)	(4,815,176)

OFF-BALANCE SHEET ARRANGEMENTS

The Company has not entered into any material off-balance sheet arrangements such as guarantee contracts, contingent interests in assets transferred to unconsolidated entities, derivative financial obligations, or arrangements with respect to any obligations under a variable interest equity arrangement.

The Company has no off-balance sheet arrangements.

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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 the CFO, CEO, and executive and non-executive members of the Company's Board of Directors.

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

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

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.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

The financial statements have been prepared in accordance with IFRS as issued by the IASB, effective as of July 31, 2023. The accounting policies applied in the preparation of these financial statements are consistent with those applied and disclosed in Note 3 to the financial statements.

CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Company's financial statements in conformity with IFRS requires management to make judgments, estimates, and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The Company's management reviews these estimates and underlying assumptions on an ongoing basis, based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to estimates are adjusted for prospectively in the period in which the estimates are revised.

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 judgments to identify the primary economic environment. The Company reconsiders the functional currency of its subsidiaries if there is a change in events and/or conditions which determine the primary economic environment.

Assessment of 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 CGU. The Company applies judgement in assessing the smallest group of assets that comprise a single CGU.

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.

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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. The Company applies judgement in determining the discount rate, unit sales growth rates, selling prices, gross margin and operating costs.

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.

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.

Expected credit losses

In calculating the expected credit loss (“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.

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 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.

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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.

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.

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.

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.

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.

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

FINANCIAL RISK MANAGEMENT

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

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

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, promissory note, 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
	11,495,431	4,871,055	25,931,151	42,297,637

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 not significant.

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A summary of the Company's financial assets and liabilities held in foreign currencies, 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	(12,554,029)	(13,106,796)
Note payable	(58,902)	-
Net financial liabilities	(14,358,333)	(15,096,045)

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 \$1,435,833.

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 are carried at a fixed interest rate throughout their term.

RISKS AND UNCERTAINTIES

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

Risks Related to the Business of the Company

Risk Relating to the United States Regulatory System

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

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

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

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

The industry is subject to extensive controls and regulations, which may significantly affect the financial condition of market participants. The marketability of any product may be affected by numerous factors that are beyond the control of the

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Company and which cannot be predicted, such as changes to government regulations, including those relating to taxes and other government levies which may be imposed. Changes in government levies, including taxes, could reduce the Company's earnings and could make future capital investments or the Company's operations uneconomic.

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

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

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

Risk of Heightened Scrutiny by Regulatory Authorities in Canada

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

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

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

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

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

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

Changes in Laws, Regulations and Guidelines

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

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

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

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

Risks associated with the change in U.S. Administrations

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

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

Risks Concerning Banking

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

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

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

Product Liability, Operational Risk

As a manufacturer and distributor of products designed to be ingested by humans, the Company faces an inherent risk of exposure to product liability claims, regulatory action, and litigation if its products are alleged to have caused significant loss or injury. In addition, the manufacture and sale of marijuana and CBD infused products based on the Company's recipes and brands involve the risk of injury to consumers due to tampering by unauthorized third parties or product contamination. Previously unknown adverse reactions resulting from human consumption of the Company's products alone or in combination with other medications or substances could occur. The Company may be subject to various product liability claims, including, among others, that the Company's products caused injury or illness, include inadequate instructions for use or include inadequate warnings concerning possible side effects or interactions with other substances.

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

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

Product Recall Risks

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

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

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

Risks Inherent in an Agricultural Business

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

Vulnerability to Rising Energy Costs

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

Transportation Disruptions

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

Unfavorable Publicity or Consumer Perception

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

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

Uninsurable Risks

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

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

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

Threats from illegal drug dealers

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

Reliance on Management

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

Factors which may prevent realization of growth targets

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

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

Competitive Risks

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

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

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

Environmental and Employee Health and Safety Regulations

The Company's operations are subject to environmental and safety laws and regulations concerning, among other things, emissions and discharges to water, air and land, the handling and disposal of hazardous and non-hazardous materials and wastes, and employee health and safety. The Company will incur ongoing costs and obligations related to compliance with environmental and employee health and safety matters. Failure to comply with environmental and safety laws and regulations may result in additional costs for corrective measures, penalties or in restrictions on the Company's manufacturing operations.

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

Difficulties in Forecasting

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

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Holding Company

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

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

Management of Growth

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

Currency Fluctuations

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

Enforcement of Legal Rights

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

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

Global financial and economic conditions

Current global financial and economic conditions remain extremely volatile. Access to public and private capital and financing continues to be negatively impacted by many factors as a result of the global financial crisis and global recession. Such factors may impact the Company's ability to obtain debt and equity financing in the future on favorable terms or obtain any financing at all. Additionally, global economic conditions may cause a long-term decrease in asset values. If such global volatility, market turmoil and the global recession continue, the Company's operations and financial condition could be adversely impacted.

Conflicts of Interest

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

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

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

Success of Quality Control Systems

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

Inability to Renew Material Leases

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

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

Obtaining Insurance

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

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

Inability to Protect Intellectual Property

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

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

The Company may be unable to obtain registrations for its intellectual property rights for various reasons, including prior registrations of which it is not aware, or it may encounter claims from prior users of similar intellectual property in areas where

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it operates or intends to conduct operations. This could harm its image, brand or competitive position and cause the Company to incur significant penalties and costs.

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