

**1933 INDUSTRIES INC.**

**Consolidated Financial Statements**

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

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

Nature of operations and going concern (Note 1)

Subsequent events (Note 26)

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

|  |  |  |
| --- | --- | --- |
| */s/ “Brian Farrell”* |  | */s/ “Paul Rosen”* |
| Director |  | Director |

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

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

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

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

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

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

**Going concern**

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

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

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

**2. BASIS OF PREPARATION**

**a) Statement of compliance**

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

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

**b) Basis of measurement**

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

**2. BASIS OF PREPARATION (continued)**

**c) Functional and presentation currency**

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

**d) Basis of consolidation**

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

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

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

**3. SIGNIFICANT ACCOUNTING POLICIES**

**a) Cash**

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

**b) Inventory**

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

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