MOLECULE HOLDINGS INC.

(formerly Everton Resources Inc.)

Consolidated Financial Statements

October 31, 2020 and 2019

(Expressed in Canadian Dollars)

Independent Auditor's Report

To the Shareholders of Molecule Holdings Inc.

Opinion

We have audited the consolidated financial statements of Molecule Holdings Inc. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at October 31, 2020 and 2019, and the consolidated statements of loss and comprehensive loss, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at October 31, 2020 and 2019 and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for opinion

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

Material uncertainty related to going concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company incurred a net loss during the year ended October 31, 2020 and, as of that date, the Company has limited working capital. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that material uncertainties exist that cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information; we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

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

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

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

McGovern Hurley

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

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

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

The engagement partner of the audit resulting in this independent auditor's report is Chris Milios.

McGovern Hurley LLP

McGovern Hurley LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Ontario
February 18, 2021

Molecule Holdings Inc. (formerly Everton Resources Inc.)
Consolidated Statements of Financial Position
(Expressed in Canadian dollars)

As at	**October 31, 2020**	October 31, 2019
	$	$
ASSETS		
Current assets		
Cash	**902,519**	2,288,191
Sales taxes receivable	**103,081**	305,610
Inventory (Note 3)	**145,352**	-
Marketable securities (Note 4)	**239,904**	-
Other receivables	**-**	2,874
Prepaid expenses	**135,722**	76,675
	1,526,578	2,673,350
Deposits (Note 6)	**-**	307,079
Capital assets (Note 6)	**3,920,403**	2,070,099
Total assets	**5,446,981**	5,050,528
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	**1,094,133**	516,949
Current portion of lease liability (Note 8)	**43,209**	36,730
	1,137,342	553,679
Lease liability (Note 8)	**135,440**	178,649
Convertible debt (Note 9)	**697,625**	-
Other long-term liabilities	**40,000**	-
Total liabilities	**2,010,407**	732,328
EQUITY		
Share capital (Note 10)	**7,333,619**	5,251,972
Warrants (Note 11)	**55,184**	-
Contributed surplus (Notes 12 & 13)	**466,012**	157,475
Deficit	**(4,418,241)**	(1,091,247)
Total equity	**3,436,574**	4,318,200
Total liabilities and equity	**5,446,981**	5,050,528

On behalf of the Board

(signed) "Andre Audet"
Andre Audet, Director

(signed) "Phil Waddington"
Phil Waddington, Director

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

Molecule Holdings Inc. (formerly Everton Resources Inc.)
Consolidated Statements of Loss and Comprehensive Loss
(Expressed in Canadian dollars)

For the year ended October 31	**2020**	2019
	$	$
Operating expenses		
Management and consulting fees	**637,931**	402,285
Salaries and benefits	**319,527**	209,243
Travel and promotion	**14,188**	-
Professional fees	**285,602**	229,059
Office and general	**228,994**	71,060
Depreciation of capital assets (Note 6)	**47,976**	27,986
Interest on lease liability (Note 8)	**23,270**	15,514
Stock-based compensation (Notes 10,12 & 13)	**392,504**	157,475
Interest on convertible debt (Note 9)	**21,324**	-
Government assistance	**(96,932)**	-
Loss before other items	**(1,874,384)**	(1,112,622)
Other income		
Interest income	**7,734**	21,375
Change in fair value of financial assets at fair value through profit or loss (Note 4)	**(65,338)**	-
Listing expense (Note 5)	**(1,395,006)**	-
Net loss and total comprehensive loss	**(3,326,994)**	(1,091,247)
Basic and diluted net loss per common share	**(0.04)**	(0.02)
Basic and diluted weighted average number of common shares outstanding	**75,710,587**	46,563,342

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

Molecule Holdings Inc. (formerly Everton Resources Inc.)
Consolidated Statements of Changes in Equity
(in Canadian dollars)

	Share Capital		Warrants	Contributed Surplus	Deficit	Total
	# of shares	$	$	$	$	$
Balance, October 31, 2018	**100**	**1**	**-**	**-**	**-**	**1**
Shares issued for cash (Note 10)	55,995,433	4,439,772	-	-	-	4,439,772
Shares issued for debt (Note 10)	6,504,567	110,228	-	-	-	110,228
Shares issued to acquire Burrard Bay Capital Corp (Note 10)	10,000,000	1,000,000	-	-	-	1,000,000
Shares issued for services (Note 10)	300,000	30,000	-	-	-	30,000
Share issuance costs	-	(328,029)	-	-	-	(328,029)
Stock-based compensation	-	-	-	157,475	-	157,475
Net loss and total comprehensive loss	-	-	-	-	(1,091,247)	(1,091,247)
Balance, October 31, 2019	**72,800,100**	**5,251,972**	**-**	**157,475**	**(1,091,247)**	**4,318,200**
Shares, warrants and options issued pursuant to RTO (Note 5)	9,313,447	1,490,152	1,672	40,532	-	1,532,356
Shares issued for debt (Note 10)	1,608,026	303,228	-	-	-	303,228
Shares issued for services (Note 10)	900,000	90,000	-	-	-	90,000
Shares issued on vesting of restricted share units (Note 13)	614,167	98,267	-	(98,267)	-	-
Equity component of convertible debentures (Note 9)	-	-	-	73,768	-	73,768
Broker warrants issued as part of convertible debenture financing	-	-	53,512	-	-	53,512
Stock-based compensation	1,000,000	100,000	-	292,504	-	392,504
Net loss and total comprehensive loss	-	-	-	-	(3,326,994)	(3,326,994)
Balance, October 31, 2020	**86,235,740**	**7,333,619**	**55,184**	**466,012**	**(4,418,241)**	**3,436,574**

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

Molecule Holdings Inc. (formerly Everton Resources Inc.)
Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)

For the year ended October 31	**2020**	2019
	$	$
OPERATING ACTIVITIES		
Net loss	**(3,326,994)**	(1,091,247)
Adjustments for:		
Stock-based compensation	**392,504**	157,475
Depreciation of capital assets	**47,976**	27,986
Interest on lease liability	**23,270**	15,514
Interest on convertible debt	**21,324**	-
Interest income	**(7,734)**	(21,375)
Change in fair value of financial assets through profit or loss	**65,338**	-
Listing expense	**1,395,006**	-
Changes in non-cash working capital items	**462,845**	2,148
Net cash flows from operating activities	**(926,465)**	(909,499)
INVESTING ACTIVITIES		
Interest received	**7,734**	18,501
Sale of marketable securities	**47,063**	-
Deposit	**307,079**	(307,079)
Investment in capital assets	**(1,898,280)**	(1,585,475)
Cash acquired in RTO (Note 5)	**271,340**	-
Net cash flows from investing activities	**(1,265,064)**	(1,874,053)
FINANCING ACTIVITIES		
Shares issued for cash	**-**	5,439,772
Share issuance costs	**-**	(328,029)
Proceeds from issuance of convertible debt	**1,025,000**	-
Convertible debt issuamce costs	**(199,143)**	-
Lease payments	**(60,000)**	(40,000)
Other long-term liabilities	**40,000**	-
Net cash flows from financing activities	**805,857**	5,071,743
(Decrease) increase in cash	**(1,385,672)**	2,288,191
Cash, beginning of the year	**2,288,191**	-
Cash, end of the year	**902,519**	2,288,191
Changes in non-cash working capital items consists of the following:		
Sales taxes receivable	**236,660**	(305,610)
Inventory	**(145,352)**	-
Prepaid expenses	**70,553**	(15,375)
Accounts payable and accrued liabilities	**300,984**	323,133
	462,845	2,148
Supplemental information:		
Shares issued for debt and services	**393,228**	140,228
Shares issued for RTO (Note 5)	**1,490,152**	-

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

1. NATURE OF OPERATIONS AND GOING CONCERN

Molecule Holdings Inc. (formerly Everton Resources Inc.) ("Molecule Holdings" or the "Company") was incorporated under the Business Corporations Act (Alberta) on November 7, 1996.

On September 16, 2020, the Company completed a reverse takeover transaction (the "Transaction"), pursuant to which it acquired all of the issued and outstanding common shares (the "OpCo Shares") of the privately held Molecule Inc. ("OpCo"). The Company has changed the nature of its operations to the business of OpCo, which is now a wholly owned subsidiary of the Company, being the production and co-packing of cannabis-infused beverages. On February 28, 2020, OpCo was issued a Standard Processing Licence by Health Canada (the "Licence") in accordance with the Cannabis Act and Cannabis Regulations. The Licence authorizes OpCo to: possess cannabis; produce cannabis, other than obtaining it by cultivating, propagating or harvesting it; and to sell cannabis in accordance with subsection 17(5) of the Cannabis Regulations and in accordance with the conditions of the Licence. The Company and OpCo completed the Transaction by way of plan of arrangement (the "Arrangement") pursuant to the terms of an arrangement agreement dated November 27, 2019, as amended (the "Arrangement Agreement"). The Transaction is described in Note 5.

As part of the Transaction and prior to the completion of the Arrangement (as defined below), the Company changed its name to "Molecule Holdings Inc.".

The address of the Company's corporate office is 591 Reynolds Road, Lansdowne, Ontario K0E 1L0. Molecule Holdings' common shares are listed for trading on the Canadian Securities Exchange ("CSE") under the symbol "MLCL".

<u>Going Concern</u>

These consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of operations for the foreseeable future. As at October 31, 2020, the Company had not yet generated any revenue from operations. The Company has no income or cash inflow from operations, has incurred losses since its inception and has limited working capital. These conditions indicate the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern. Continued operation of the Company is dependent on achieving commercial operations, which requires continued financial support through equity and/or debt financings, or the achievement of profitable operations in the future. Management is evaluating alternatives to secure additional financing so that the Company can continue to operate as a going concern. Nevertheless, there is no assurance that these initiatives will be successful or sufficient. These financial statements do not include any adjustments to the carrying value of assets and liabilities and the reported expenses and statement of financial position classifications that would be necessary should the Company be unable to continue as a going concern and these adjustments could be material.

COVID-19 Outbreak

Since the emergence of a novel strain of coronavirus ("COVID-19"), in or about December 2019, the highly contagious virus has spread across the world. On March 11, 2020, the World Health Organization declared the outbreak of COVID-19 a global pandemic. Since that time in response to the outbreak, governmental authorities in Canada and internationally have implemented various measures with the aim of preventing or limiting further spread of COVID-19. These measures, which have included travel restrictions, border closures, non-essential business closures, quarantines, self-isolations, and social distancing, have, among other things, resulted in widespread business, employment and economic disruptions. The global pandemic continues to evolve and the ultimate impact of the COVID-19 outbreak is highly uncertain.

The continued global spread of COVID-19 could have an adverse impact on the business, operations and financial results of the Company, including with respect to issues related to labour, processing and supply chain. Molecule Holdings has not yet begun production but is implementing or will implement precautionary measures, which would not have otherwise been implemented prior to the COVID-19 outbreak, at its facility to ensure the safety of its personnel, suppliers and consumers, which may adversely impact the Company's labour productivity and its supply chains. For example, mandatory or voluntary self-quarantines may limit the staffing of the Company's facility. In addition, it's possible that the COVID-19 pandemic may adversely affect Molecule Holdings' ability to successfully market and sell its products. Although the opposite may be true, sales volumes of cannabis-infused products may be adversely impacted by consumer "social distancing" behaviours. Continued spread of COVID-19 globally could also lead to a deterioration of general economic conditions including a possible national or global recession. Due to the unpredictability and scale of the effects of COVID-19, Molecule Holdings is unable to accurately estimate the impact or level of materiality of COVID-19 on its business, operations or financial results. The Company will monitor the situation in order to assess any possible adverse impact on its business, supply chain and customers on an ongoing basis and to determine which measures, if any, will be taken to mitigate such adverse impact.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation and compliance with IFRS

These consolidated financial statements have been prepared on a historical cost basis and are expressed in Canadian dollars, which is also the functional currency of the parent Company and its subsidiaries. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

On September 16, 2020, the Company acquired 100% of the issued and outstanding securities of Molecule Inc. ("OpCo") (Note 1), which resulted in the shareholders of OpCo holding the majority of the outstanding shares of the Company.

While Molecule Holdings is the legal acquirer, OpCo is the accounting acquirer since shareholders of OpCo held and controlled the majority of the outstanding shares upon completion of the Transaction (the "Reverse Take-Over" or "RTO"). As a result of the RTO, these consolidated financial statements are presented with OpCo as the continuing entity.

These consolidated financial statements were authorized for issue by the Board of Directors on February 18, 2021.

(b) Basis of consolidation

These consolidated financial statements consolidate those of the parent company and its subsidiaries as at and for the year ended October 31, 2020. The parent controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. All subsidiaries have a reporting date of October 31.

All intercompany transactions and balances between the companies are eliminated on consolidation, including unrealized gains and losses on transactions. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Company.

Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognized from the effective date of acquisition, or up to the effective date of disposal, as applicable.

(Expressed in Canadian dollars)

Composition of the Company:

The subsidiaries of the Company and their principal activities as at October 31, 2020 and 2019 were as follows:

Name of subsidiary	Place of incorporation	Ownership interest as at October 31, 2020	2019	Principal activity
Molecule Inc.	Canada	100%	-	Cannabis-Infused Beverages
Burrard Bay Capital Corp.	Canada	100%	100%	Holding Company (Inactive)
Everton Minera Dominicana S.A.	Dominican Republic	100%	-	Exploration Company (Inactive)
Pan Caribbean Metals Inc.	British Virgin Islands	100%	-	Holding Company (Inactive)
Dominican Metals Inc.	British Virgin Islands	100%	-	Holding Company (Inactive)
Everton Dominicana (2014) Inc.	Canada	100%	-	Exploration Company (Inactive)
Linear Gold Caribe S.A.	Dominican Republic	100%	-	Exploration Company (Inactive)
Hays Lake Gold Inc.	Canada	100%	-	Exploration Company (Inactive)

(c) Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred.

A financial liability is derecognized when it is extinguished, discharged, cancelled or when it expires.

Financial assets and financial liabilities are measured initially at fair value plus transactions costs.

Financial assets and financial liabilities are measured subsequently as described below.

Financial assets at amortized costs

Financial assets at amortized cost are non-derivative financial assets which are held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. A financial asset is initially measured at fair value, including transaction costs and subsequently at amortized cost. The Company’s cash and other receivables fall into this category of financial instruments.

Financial assets at fair value through profit or loss (“FVTPL”)

Financial assets are classified as FVTPL when the financial asset is held for trading or it is designated as FVTPL. Financial assets classified as FVTPL are stated at fair value with any resulting gain or loss recognized in profit or loss. Transaction costs are expensed as incurred. The Company’s marketable securities fall into this category of financial instruments.

Impairment of financial assets

All financial assets not classified as fair value through profit or loss, including an interest in an equity-accounted investee, are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty;
- default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter bankruptcy or financial reorganization;
- the disappearance of an active market for a security; or
- observable data indicating that there is a measurable decrease in the expected cash flows from a group of financial assets.

For an investment in an equity security, objective evidence of impairment includes a significant or prolonged decline in its fair value below its cost. The Company generally considers a decline of 20% to be significant and a period of nine months to be prolonged.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Impairment of receivables is presented in profit or loss, if applicable.

Financial liabilities

Financial liabilities are classified as either financial liabilities at FVTPL or at amortized cost. Financial liabilities at FVTPL are stated at fair value, with changes being recognized through profit or loss. Other financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis. The Company's financial liabilities include accounts payable and accrued liabilities, convertible debt and other long-term liabilities.

Fair value hierarchy

Financial instruments measured at fair value on the statements of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels: Level 1 – valuation based on quoted prices unadjusted in active markets for identical assets or liabilities; Level 2 – valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); Level 3 – valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs). As at October 31, 2020, the Company's marketable securities were classified as Level 1 within the fair value hierarchy.

(d) Inventory

Inventory is stated at the lower of cost and net realizable value. Cost includes all expenses directly attributable to the production process as well as suitable portions of related production overheads, based on normal operating capacity. Costs of raw materials are assigned using the average cost formula. Net realizable value is the estimated selling price in the ordinary course of business less any applicable selling expenses.

(e) Capital assets

Capital assets are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any.

Depreciation is calculated using the following methods and terms:

Asset type	Depreciation method	Depreciation term
Right of use asset	Straight line	5 years
Leasehold improvements	Straight line	5 years
Equipment	Straight line	5-10 years

A capital asset is derecognized upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset, calculated as the difference between the net disposal proceeds and the carrying value of the asset, is included in profit or loss in the period the asset is derecognized.

The assets' residual values, useful lives and methods of depreciation are reviewed on an annual basis, and adjusted prospectively, if appropriate.

There have been no impairment losses with respect to capital assets recognized in any of the periods presented in these consolidated financial statements.

(f) Leases and right-of-use assets

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. Contracts that convey the right to control the use of an identified asset for a period of time in exchange for consideration are accounted for as leases giving rise to right-of-use assets.

At the commencement date, a right-of-use asset is measured at cost, where cost comprises: (a) the amount of the initial measurement of the lease liability; (b) any lease payments made at or before the commencement date, less any lease incentives received; (c) any initial direct costs incurred by the Company; and (d) an estimate of costs to be incurred by the Company in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

A lease liability is initially measured at the present value of the unpaid lease payments discounted using the interest rate implicit in in the lease or if that rate cannot be reliably determined, the Company's incremental borrowing rate. Subsequently, the Company measures a lease liability at amortized cost using the effective interest method. It is then remeasured to reflect revised in-substance fixed lease payments. Except where the costs are included in the carrying amount of another asset, the Company recognizes in profit or loss (a) the interest on a lease liability and (b) variable lease payments not included in the measurement of a lease liability in the period in which the event or condition that triggers those payments occurs. The Company subsequently measures a right-of-use asset at cost less any accumulated depreciation and any accumulated impairment losses; and adjusted for any re-measurement of the lease liability. Right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term.

(g) Impairment of non-financial assets

The Company assesses non-financial assets for impairment when facts and circumstances suggest that the carrying amount of the assets are impaired. An impairment review is undertaken when indicators of impairment arise.

Where such an indication exists, the recoverable amount of the asset is estimated. For the purpose of assessing impairment, assets are grouped at the lowest level for which there are largely independent cash inflows (cash-generating units or "CGU"). The recoverable amount is the higher of an asset's fair value less costs to sell and value in use, being the present value of the expected future cash flows of the relevant asset or CGU. An impairment loss is recognized in profit or loss for the amount by which the asset's carrying amount exceeds its recoverable amount.

Where an impairment subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, subject to the amount not exceeding the carrying amount that would have been determined had impairment not been recognized for the asset in prior periods. Any reversal of impairment is recognized immediately in profit or loss.

(h) Provisions and contingent liabilities

A provision is recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic resources will be required to settle the obligation, and the amount of the obligation can be reliably estimated. Timing or amount of the outflow may still be uncertain. If the effect is material, provisions are measured by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. The Company had no material provisions as at October 31, 2020 and 2019.

(i) Compound financial instruments

Compound financial instruments issued by the Company include loans that can be converted into ordinary shares at the decision of the holder, when the number of shares to be issued is fixed and does not vary with changes in fair value.

The liability component of compound financial instruments is initially recognized based on the fair value of a similar liability that does not have an equity conversion option. The equity component is initially recognized at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component and is included within contributed surplus.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not remeasured.

Transaction costs related to the issue of compound financial instruments are capitalized and applied proportionately against the value of the equity and liability components such that the value assigned to equity and debt is stated net of the transaction costs.

Interest expense accruing to the financial liability is recognized in profit or loss. On conversion, the financial liability is reclassified to equity and no gain or loss is recognized.

(j) Share-based compensation

The Company operates an equity-settled stock-based remuneration plan (stock option plan) for directors, officers, employees and certain consultants. The Company's plan does not feature any options for a cash settlement.

All goods and services received in exchange for the grant of any stock-based payments are measured at their fair values, unless that fair value cannot be estimated reliably. If the Company cannot estimate reliably the fair value of the goods or services received, the Company shall measure their value indirectly by reference to the fair value of the equity instruments granted. Where employees, or consultants providing similar services, are rewarded using stock-based payments, the fair values of the services rendered are determined indirectly by reference to the fair value of the equity instruments granted. The fair value is measured at the grant date and if applicable, recognized over the vesting period. The fair value of the options granted is measured using the Black-Scholes option-pricing model, taking into account the terms and conditions upon which the options were granted. Estimates are subsequently revised if there is any indication that the number of stock options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognized in the current period. No adjustment is made to any expense recognized in prior periods if stock options ultimately exercised are different to that estimated on vesting. Stock-based compensation expense incorporates an expected forfeiture rate.

(k) Restricted share units ("RSU")

Under the Company's RSU plan, selected employees and consultants are granted RSUs where each RSU has a value equal to one Molecule Holdings common share. RSUs are measured at fair value on the grant date. The fair value of RSUs are recognized as a charge to stock-based compensation over the vesting period with a corresponding increase in equity.

(l) Basic and diluted earnings (loss) per share

Basic earnings (loss) per share is computed by dividing the net income (loss) for the period by the weighted average number of common shares outstanding during the period. The computation of diluted earnings (loss) per share assumes the conversion or exercise of securities only when such conversion or exercise would have a dilutive effect on earnings (loss) per share. The diluted loss per share is equal to the basic loss per share where the effect of convertible securities is antidilutive, as it would decrease the loss per share.

(m) Income taxes

Tax expense recognized in profit or loss comprises the sum of deferred and current tax not recognized in other comprehensive income or directly in equity.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting periods, that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the financial statements. Calculation of current tax is based on tax rates and laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred income taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Deferred tax on temporary differences associated with shares in subsidiaries and associates is not provided if reversal of these temporary differences can be controlled by the Company and it is probable that the reversal will occur in the foreseeable future.

Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realization, provided they are enacted or substantively enacted by the end of the reporting period. Deferred tax liabilities are always provided for in full. Deferred tax assets are recognized to the extent that it is probable that they will be able to be utilized against future taxable income.

Deferred tax assets and liabilities are offset only when the Company has a right and intention to set off current tax assets and liabilities from the same taxation authority.

Changes in deferred tax assets or liabilities are recognized as deferred income tax expense in profit or loss, except where they relate to items that are recognized in other comprehensive income or directly in equity, in which case the related deferred tax is also recognized in other comprehensive income or equity, respectively.

(n) Segmented reporting

The Company presents and discloses segmented information based on information that is regularly reviewed by the Company's CEO, who is the chief operating decision maker. The CEO has primary responsibility for allocating resources to the Company's operating segments and assessing their performance. The Company is currently in the development stage and has determined that there is only one operating segment being the production and co-packing of cannabis-infused beverages.

(o) Significant management judgements

The following are significant management judgments in applying the accounting policies of the Company and have the most significant effect on the financial statements.

Going concern

The assessment of the Company's ability to continue as a going concern, to raise sufficient funds to pay for its ongoing operating expenditures, meet its liabilities for the ensuing year, and to fund planned and contractual obligations involves significant judgments based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

Estimated useful lives, impairment considerations and depreciation of capital assets

Depreciation of capital assets is dependent upon estimates of useful lives based on management's judgment.

Impairment of definite long-lived assets is influenced by judgment in defining a CGU and determining the indicators of impairment, and estimates used to measure impairment losses.

The recoverable value of long-lived assets is determined using discounted future cash flow models, which incorporate assumptions regarding future events, specifically future cash flows, growth rates and discount rates.

Measurement of right-of-use asset and lease liability on initial recognition

The right-of-use asset is initially measured at the amount of the lease liability plus any initial direct costs incurred by the lessee. The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the lessee shall use their incremental borrowing rate, which is the rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. Significant judgment is required to estimate an incremental borrowing rate in the context of a right-of-use asset.

Income, value added, withholding and other taxes

The Company is subject to income, value added, withholding and other taxes. Significant judgment is required in determining the Company's provisions for taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. The determination of the Company's income, value added, withholding and other tax liabilities requires interpretation of complex laws and regulations. The Company's interpretation of taxation law as applied to transactions and activities may not coincide with the interpretation of the tax authorities. All tax related filings are subject to government audit and potential reassessment subsequent to the financial statement reporting period. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the tax related accruals and deferred income tax provisions in the period in which such determination is made.

Share-based compensation

The fair value of share-based compensation expenses is estimated using the Black-Scholes option pricing model and relies on a number of estimates, such as the expected life of the option, the volatility of the underlying share price, the risk free rate of return, and the estimated rate of forfeiture of options granted.

(p) Standards, amendments and interpretations not yet effective

The IASB has issued the following new and revised standards and amendments, which are not yet effective and which may have future applicability to the Company.

IAS 1, Presentation of Financial Statements and IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors

In October 2018, IAS 1 – Presentation of Financial Statements ("IAS 1") and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors ("IAS 8") were amended to refine the definition of materiality and clarify its characteristics. The revised definition focuses on the idea that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements. The amendments are effective for annual reporting periods beginning on or after January 1, 2020. The extent of the impact on the Company of adopting these amendments has not yet been determined.

IFRS 3, Business Combinations

In October 2018, IFRS 3 - Business Combinations ("IFRS 3") was amended to clarify the definition of a business. This amended definition states that a business must include inputs and a process and clarified that the process must be substantive and the inputs and process must together significantly contribute to operating outputs. In addition, it narrows the definitions of a business by focusing the definition of outputs on goods and services provided to customers and other income from ordinary activities, rather than on providing dividends or other economic benefits directly to investors or lowering costs and added a test that makes it easier to conclude that a company has acquired a group of assets, rather than a business, if the value of the assets acquired is substantially concentrated in a single asset or group of similar assets. The amendments are effective for annual reporting periods beginning on or after January 1, 2020. The extent of the impact on the Company of adopting these amendments has not yet been determined.

(Expressed in Canadian dollars)

3. INVENTORY

Inventory consists of the following:

	October 31, 2020	October 31, 2019
	$	$
Raw materials	**145,352**	-
Finished goods	**-**	-
Total inventory	**145,352**	-

As at October 31, 2020, all of the Company's inventory was carried at cost.

4. MARKETABLE SECURITIES

Marketable securities are classified as fair value through profit or loss and are comprised of:

	October 31, 2020	October 31, 2019
	$	$
Precipitate Gold Corp. (1)	**239,904**	-
	239,904	-

(1) As at October 31, 2020, 999,600 common shares of Precipitate Gold Corp. ("Precipitate") have been included in marketable securities, within current assets. During the year ended October 31, 2020, the Company recorded a decrease in fair value of financial assets through profit or loss of $65,338, in connection with these marketable securities ($Nil for the year ended October 31, 2019).

5. REVERSE TAKE-OVER

On September 16, 2020, the Company completed a reverse takeover transaction (the "Transaction"), pursuant to which it acquired all of the issued and outstanding common shares (the "OpCo Shares") of the privately held Molecule Inc. ("OpCo") (Note 1).

While Molecule Holdings is the legal acquirer, OpCo is the accounting acquirer since shareholders of OpCo held and controlled the majority of the outstanding shares upon completion of the Transaction (the "Reverse Take-Over" or "RTO"). As a result of the RTO, these consolidated financial statements are presented with OpCo as the continuing entity.

The acquisition of Molecule Holdings Inc. (formerly Everton Resources Inc.) has been accounted for as an asset acquisition, as the assets acquired and liabilities assumed do not constitute a business, as defined in IFRS 3, Business Combinations. The total consideration has been allocated to the fair value of the net assets acquired and liabilities assumed, as follows:

(Expressed in Canadian dollars)

CONSIDERATION PAID	**Estimated fair value**
	$
9,313,447 common shares	1,490,152
1,103,250 warrants	1,672
1,060,000 stock options	40,532
	1,532,356

ALLOCATION	
	$
ASSETS	
Cash	271,340
Marketable securities	352,305
Sales taxes receivable	31,257
Deferred transaction costs	22,276
Prepaid expenses	129,600
Total identifiable assets acquired	806,778
LIABILITIES	
Accounts payable and accrued liabilities	(554,128)
Loan payable	(92,700)
Amount due to related party	(22,600)
Total liabilities assumed	(669,428)
Net assets acquired	137,350

In connection with the RTO, the Company recognized a listing expense in the amount of $1,395,006, equal to the consideration paid less the net assets acquired in the transaction.

6. CAPITAL ASSETS

	Right of use asset (1)	**Leasehold improvements (2)**	**Equipment (3)**	**Total**
	$	$	$	$
Cost				
Balance, October 31, 2019	239,865	1,082,628	775,592	2,098,085
Additions	-	329,923	1,568,357	1,898,280
Cost, October 31, 2020	**239,865**	**1,412,551**	**2,343,949**	**3,996,365**
Accumulated depreciation				
Balance, October 31, 2019	27,986	-	-	27,986
Depreciation	47,976	-	-	47,976
Accumulated depreciation, October 31, 2020	**75,962**	**-**	**-**	**75,962**
Net Book Value, October 31, 2020	**163,903**	**1,412,551**	**2,343,949**	**3,920,403**

(Expressed in Canadian dollars)

(1) Effective April 1, 2019, the Company entered into a lease for a parcel of land and building for an initial term of five years, for which a right-of-use asset was recognized in the amount of $239,865 (Note 8).

(2) During the year ended October 31, 2020, the Company incurred expenditures of $329,923 in leasehold improvements on its facility in Lansdowne, Ontario. The Company has yet to record any depreciation on the leasehold improvements as the facility was not yet ready for use.

(3) During the year ended October 31, 2020, the Company purchased equipment in the amount of $1,568,357, to be used in the production of cannabis-infused beverages. The Company has yet to record any depreciation on the equipment as it was not yet ready for use.

	Right of use asset	Leasehold improvements (4)	Equipment (5)	Total
	$	$	$	$
Cost				
Balance, October 31, 2018	-	-	-	-
Additions	239,865	1,082,628	775,592	2,098,085
Cost, October 31, 2019	**239,865**	**1,082,628**	**775,592**	**2,098,085**
Accumulated depreciation				
Balance, October 31, 2018	-	-	-	-
Depreciation	27,986	-	-	27,986
Accumulated depreciation, October 31, 2019	**27,986**	**-**	**-**	**27,986**
Net Book Value, October 31, 2019	**211,879**	**1,082,628**	**775,592**	**2,070,099**

(4) During the year ended October 31, 2019, the Company incurred expenditures of $1,082,628 in leasehold improvements on its facility in Lansdowne, Ontario.

(5) During the year ended October 31, 2019, the Company purchased equipment in the amount of $775,592, to be used in the production of cannabis-infused beverages.

As at October 31, 2019, the Company had paid deposits totaling $307,079 for equipment to be used in the production of cannabis-infused beverages. The equipment was still on order and therefore was included in deposit in the consolidated statements of financial position as at October 31, 2019. The equipment was received during the year ended October 31, 2020.

(Expressed in Canadian dollars)

7. FINANCIAL INSTRUMENTS, RISK MANAGEMENT AND CAPITAL MANAGEMENT

Financial instruments

The Company's financial instruments consist of cash, marketable securities, other receivables, accounts payable and accrued liabilities, convertible debt and other long-term liabilities. The fair value of the Company's financial instruments approximates their carrying value due to their short-term nature.

The classification of financial instruments is as follows:

	October 31, 2020	October 31, 2019
	$	$
Financial assets		
Amortized cost		
Cash	**902,519**	2,288,191
Other receivables	**-**	2,874
Fair value through profit or loss		
Marketable securities	**239,904**	-
Total financial assets	**1,142,423**	2,291,065
Financial liabilities		
Amortized cost		
Accounts payable and accrued liabilities	**(1,094,133)**	(516,949)
Convertible debt	**(697,625)**	-
Other long-term liabilities	**(40,000)**	-
Total financial liabilities	**(1,831,758)**	(516,949)

Risk management

The Company thoroughly examines the various financial risks to which it is exposed and assesses the impact and likelihood of those risks. These risks include credit risk, liquidity risk and market risk. Where material, these risks are reviewed and monitored by the Board of Directors.

(i) Credit risk

Credit risk is the risk of an unexpected loss if a party to its financial instruments fails to meet its contractual obligations. The Company's financial assets exposed to credit risk are primarily composed of cash. The Company's cash is held at reputable financial institutions with high external credit ratings. It is Management's opinion that the Company is not exposed to significant credit risk.

None of the Company's financial assets are secured by collateral or other credit enhancements.

Management considers that all the above financial assets that are not impaired or past due for each of the reporting dates are of good credit quality. There are no financial assets that are past due but not impaired for the periods presented.

(Expressed in Canadian dollars)

(ii) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company's liquidity and operating results may be adversely affected if its access to the capital markets is hindered, whether as a result of a downturn in stock market conditions generally or matters specific to the Company. The Company regularly evaluates its cash position to ensure preservation and security of capital as well as liquidity. The Company's accounts payable and other liabilities generally have contractual maturities of less than 30 days and are subject to normal trade terms.

(iii) Market risk

The Company holds shares in a publicly listed company in the mineral exploration industry. The Company is exposed to market risk regarding these shares as unfavorable market conditions could result in the disposal at less than their value at October 31, 2020. As at October 31, 2020, the value of these listed shares was $239,904. At October 31, 2020, had the price for these publicly listed shares been 10% lower, the comprehensive loss for the year would have been $23,990 greater. Conversely, had the price been 10% higher, the comprehensive loss would have been $23,990 less.

Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern, to meet its capital expenditures for its continued operations, and to maintain a flexible capital structure which optimizes the cost of capital within a framework of acceptable risk. 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 shares through equity offerings or return capital to shareholders. The Company is not subject to externally imposed capital requirements.

Management reviews its capital management approach on an ongoing basis. There have been no changes to the Company's capital management approach during the years ended October 31, 2020 and 2019.

8. LEASE LIABILITY

	$
Balance, October 31, 2018	**-**
Addition (1)	239,865
Interest expense	15,514
Lease payments	(40,000)
Balance, October 31, 2019	**215,379**
Interest expense	23,270
Lease payments	(60,000)
Balance, October 31, 2020	**178,649**
Current	43,209
Long-term	135,440
	178,649

(1) Effective April 1, 2019, the Company entered into a lease with Thousand Island Farms Inc., a company owned by a Director of Molecule Holdings, for a parcel of land and a building. The lease has an initial five year term which expires, unless extended, in April 2024. For and during the first and second year of the lease, the base rent is $60,000, payable in equal monthly instalments of $5,000. For and during the third and fourth year of the lease, the base rent is $63,000, payable in equal monthly instalments of $5,250. For and during the fifth year of the lease, the base rent is $66,150, payable in equal monthly instalments of $5,513. Provided that the Company is not in default in the performance of any term of the lease, Molecule Holdings has the irrevocable option to purchase, during the lease term, the premises and land for a purchase price equal to $875,000 if exercised in the first year of the lease, subject to increases in each year of the lease based on the annual Consumer Price Index percentage. The Company was charged an amount of $5,000 during the year ended October 31, 2019 in consideration for the grant of the purchase option, which is non-refundable.

9. CONVERTIBLE DEBT

On September 16, 2020, further to the completion of the RTO Transaction (Note 5), the Company satisfied the primary escrow release conditions of the brokered private placement offering of subscription receipts led by Gravitas Securities Inc. (the “Agent”), pursuant to the terms of an agency agreement dated July 29, 2020 (the “Agency Agreement”) and the concurrent non-brokered private placement offering of subscription receipts (collectively, the “Offerings”), which closed on July 29, 2020. Upon the satisfaction of all related release conditions as agreed by the Company and the Agent, each of the 1,025 subscription receipts issued pursuant to the Offerings, which were issued at a price of $1,000 per subscription receipt, were deemed to be automatically exchanged without any additional consideration or further action on the part of the holders thereof into one convertible debenture (each a “Convertible Debenture”) of the Company. Directors of the Company participated in the private placement for a total amount of $85,000.

Each Convertible Debenture is an unsecured debt obligation of the Company and consists of a principal amount of $1,000 bearing interest at the simple rate of 8% per annum and maturing on September 16, 2023 (the “Maturity Date”). Prior to the Maturity Date, and subject to exercise by the Company of an acceleration provision, all the outstanding principal and accrued interest of the Convertible Debentures may be converted into units of the Company (each a “Unit”, collectively the “Units”) at a price of $0.20 per Unit, at the sole option of the respective holder of the Convertible Debenture (the “Option”). Unless the Option is exercised prior to the Maturity Date, the Company will subsequently make a cash payment to the holders of the Convertible Debentures to settle the outstanding principal and accrued interest of each respective Convertible Debenture.

Each Unit would be comprised of one common share and one-half of one common share purchase warrant. Each warrant is exercisable to purchase one common share at an exercise price of $0.30 per common share until September 16, 2023.

The Agent also provided fiscal advisory services pursuant to the terms of a fiscal advisory agreement (the “Fiscal Advisory Agreement”) with respect to the non-brokered offering. Pursuant to the Agency Agreement and the Fiscal Advisory Agreement, Molecule Holdings issued an aggregate of 410,000 broker warrants and 40 convertible debentures (the “Compensation Debentures”). Each Compensation Debenture has the same terms as the Convertible Debentures. Each broker warrant may be exercised into one Unit at a price of $0.20 per Unit until September 16, 2023.

In accordance with IAS 32 Financial Instruments – Presentation, the Company allocated the proceeds from the Convertible Debentures ($1,025,000), net of transaction costs ($314,931), between a liability component ($640,235) and an equity component ($69,834), representing the conversion feature. Similarly, the Company allocated the value of the Compensation Debentures between a liability component ($36,066) and an equity component ($3,934).

The fair value of the liability components at the time of issue was calculated as the discounted cash flows of the Convertible Debentures and the Compensation Debentures (collectively, the “Debentures”), assuming a market interest rate of 12% which was the estimated rate for the Debentures without the equity component (i.e. conversion feature). The effective interest rate of the Debentures after reflecting issuance costs was 25%. The value of the conversion feature of the Debentures was recognized as the difference between the principal amount of the Debentures and the fair value of the liability component.

(Expressed in Canadian dollars)

In connection with the Offerings, the Company paid cash commissions of $82,000. The fair value of the 410,000 broker warrants was estimated at $53,512, using the Black-Scholes option pricing model using the following assumptions: stock price of $0.16, weighted-average exercise price of $0.23, risk-free interest rate of 0.28%, expected life of warrants of 3 years, expected volatility of 100% and expected dividend rate of 0%, and is included in warrants in the consolidated statement of financial position. The Company incurred other issuance costs in the amount of $139,419. The issuance costs, which include the cash commissions, broker warrants, Compensation Debentures and other issuance costs, have been allocated to the liability and equity components in proportion to their initial carrying amounts.

	Debentures	**Conversion feature**	**Total**
	$	$	$
Balance - October 31, 2018 and October 31, 2019	**-**	**-**	**-**
Proceeds from issuance of Convertible Debentures	924,195	100,805	1,025,000
less:			
Cash commissions	(73,936)	(8,064)	(82,000)
Broker warrants	(48,249)	(5,263)	(53,512)
Compensation debentures	(36,066)	(3,934)	(40,000)
Other issuance costs	(125,709)	(13,710)	(139,419)
Net proceeds from issuance of Convertible Debentures	640,235	69,834	710,069
Issuance of Compensation Debentures	36,066	3,934	40,000
Interest accretion on Debentures	21,324	-	21,324
Balance - October 31, 2020	**697,625**	**73,768**	**771,393**

(Expressed in Canadian dollars)

10. SHARE CAPITAL

Authorized
An unlimited number of the following shares:

Class "A" common shares - voting common shares, no par value

Issued
Class "A" common shares

	Number of shares	$
Balance, October 31, 2018	**100**	**1**
Shares issued for cash (1)(2)(3)	55,995,433	4,439,772
Shares issued for debt (4)	6,504,567	110,228
Shares issued to acquire Burrard Bay Capital Corp (5)	10,000,000	1,000,000
Shares issued for services (6)	300,000	30,000
Share issuance costs	-	(328,029)
Balance, October 31, 2019	**72,800,100**	**5,251,972**
Shares issued pursuant to RTO (Note 5)	9,313,447	1,490,152
Shares issued for debt (9)	1,608,026	303,228
Shares issued for services (7)	900,000	90,000
Shares issued on vesting of restricted share units (Note 13)	614,167	98,267
Stock-based compensation (8) (Note 12)	1,000,000	100,000
Balance, October 31, 2020	**86,235,740**	**7,333,619**

(1) On November 30, 2018, the Company closed a private placement for gross proceeds of $25,000. The private placement was comprised of 5,000,000 shares at a price of $0.005 per share. A Director of the Company participated in the private placement for a total amount of $15,000.

(2) In December 2018, the Company closed a private placement for gross proceeds of $684,772. The private placement was comprised of 13,695,433 shares at a price of $0.05 per share. A Director of the Company participated in the private placement for an amount of $34,772.

(3) In March/April 2019, the Company closed a private placement for gross proceeds of $3,730,000. The private placement was comprised of 37,300,000 shares at a price of $0.10 per share. A Director of the Company participated in the private placement for an amount of $50,000.

(4) Under shares for debt agreements, the Company issued 5,000,000 shares on November 30, 2018 in settlement of $25,000 in debt, 1,304,567 shares in December 2018 in settlement of $65,228 in debt and 200,000 shares in April 2019 in settlement of $20,000 in debt. In total, the Company issued 6,504,567 shares in settlement of $110,228 in debt. Officers and Directors received a total of 5,304,567 shares in settlement of $85,228 in debt.

(5) On June 13, 2019, the Company acquired all of the issued and outstanding shares of Burrard Bay Capital Corp. ("Burrard Bay") by issuing 10,000,000 common shares at a deemed price of $0.10 per share. At the date of acquisition, Burrard Bay, a Canadian holding company, held cash in the amount of $1,000,000 and

(Expressed in Canadian dollars)

had no other assets or liabilities. Given that the economic substance of the transaction was that of a financing, with the Company effectively issuing common shares for cash, it has been recorded as such for accounting purposes, with direct costs recorded as a reduction of share capital.

(6) On September 15, 2019, the Company issued 300,000 common shares to a consultant at a price per share of $0.10, for advisory services rendered to the Company.

(7) On December 15, 2019, March 15, 2020 and June 15, 2020, the Company issued 300,000 common shares, respectively, to a consultant at a price per share of $0.10, for advisory services rendered to the Company.

(8) On December 1, 2019, the Company issued 1,000,000 common shares to the Company's Chief Regulatory Officer, in accordance with his terms of employment. An amount of $100,000 has been included within stock-based compensation in the consolidated statements of loss and comprehensive loss.

(9) The Company issued 1,340,500 shares on September 16, 2020 in settlement of $263,100 in debt and 267,526 shares on October 14, 2020 in settlement of $40,128 in debt. In total, the Company issued 1,608,026 shares in settlement of $303,228 in debt. A Director received a total of 1,215,500 shares in settlement of $243,100 in debt.

11. WARRANTS

Outstanding warrants entitle the holders thereof to subscribe to an equivalent number of common shares.

The following table reflects the continuity of warrants:

	Number of warrants	Weighted average exercise price
		$
Balance, October 31, 2018 and October 31, 2019	**-**	**-**
Issued pursuant to RTO (Note 5)	1,103,250	0.70
Issued as part of convertible debenture financing (Note 9)	615,000	0.23
Balance, October 31, 2020	**1,718,250**	**0.53**

As at October 31, 2020, the following warrants were issued and outstanding:

Number of warrants	Issue date fair value	Exercise price	Expiry date
	$	$	
499,750	757	0.70	February 6, 2021
603,500	915	0.70	February 21, 2021
410,000	37,477	0.20	September 16, 2023
205,000	16,035	0.30	September 16, 2023
1,718,250	**55,184**		

As at October 31, 2019, there were no warrants outstanding.

(Expressed in Canadian dollars)

12. STOCK OPTIONS

The Company's incentive stock option plan (the "Option Plan") was adopted to provide the Company with a share-related mechanism to attract, retain and motivate qualified directors, officers, employees and consultants and to reward them for their contributions toward creating shareholder value through the achievement of the short and long-term goals of the Company.

The following table reflects the continuity of stock options:

	Number of options	Weighted average exercise price
		$
Balance, October 31, 2018	**-**	**-**
Granted (1)(2)	2,500,000	0.10
Balance, October 31, 2019	**2,500,000**	**0.10**
Issued pursuant to RTO (Note 5)	1,060,000	0.46
Balance, October 31, 2020	**3,560,000**	**0.21**

(1) On July 2, 2019, 1,000,000 stock options were granted to a consultant of the Company at an exercise price of $0.10 per share, which vest evenly over a twelve month period and expire five years following the date upon which the Company's (or its affiliate's) common shares are listed for trading on a nationally recognized stock exchange in Canada.

(2) On July 12, 2019, 1,500,000 stock options were granted to directors, officers and employees of the Company at an exercise price of $0.10 per share, which all vested immediately and expire on July 12, 2024.

As at October 31, 2020, the following stock options were outstanding and exercisable:

	Outstanding			Exercisable	
Exercise prices	Number outstanding	Weighted average remaining contractual life	Weighted average outstanding exercise price	Number vested	Weighted average vested exercise price
		(in years)	$		$
$0.10	2,500,000	4.17	0.10	2,500,000	0.10
$0.20	750,000	0.87	0.20	750,000	0.20
$0.50	80,000	0.45	0.50	80,000	0.50
$1.30	230,000	0.79	1.30	230,000	1.30
	3,560,000	**3.17**	**0.21**	**3,560,000**	**0.21**

(Expressed in Canadian dollars)

As at October 31, 2019, the following stock options were outstanding and exercisable:

		Outstanding			Exercisable
Exercise prices	**Number outstanding**	**Weighted average remaining contractual life**	**Weighted average outstanding exercise price**	**Number vested**	**Weighted average vested exercise price**
		(in years)	$		$
$0.10	**2,500,000**	**4.82**	**0.10**	**1,750,000**	**0.10**

The following table reflects the weighted-average fair value of stock options for the periods presented and the related Black-Scholes option pricing model inputs that were used in the calculations:

For the year ended October 31	**2020**	2019
Stock options granted	**1,060,000**	2,500,000
Weighted average fair value	**0.04**	0.07
Weighted-average exercise price	**0.46**	0.10
Weighted-average market price at date of grant	**0.16**	0.10
Expected life of stock options (years)	**1.06**	5.00
Expected stock price volatility	**100%**	100%
Risk-free interest rate	**0.27%**	1.46%
Expected dividend yield	**0%**	0%

The underlying expected stock price volatility is based on historical data of similar companies, as the Company has limited historical data itself on which it could be based.

The risk-free interest rate is based on the yield of a Government of Canada benchmark bond in effect at the time of grant with an expiry commensurate with the expected life of the options.

In total, $29,008 of stock-based payments relating to stock options were included in profit or loss for year ended October 31, 2020 (2019 - $157,475) and credited to contributed surplus.

13. RESTRICTED SHARE UNITS

On June 1, 2020, the Company adopted a Restricted Share Unit (“RSU”) plan (the “RSU Plan”). The purpose of the RSU Plan is to provide the Company with a share-related mechanism to attract, retain and motivate qualified directors, officers, employees and consultants and to reward them for their contributions toward creating shareholder value through the achievement of the short and long-term goals of the Company.

(Expressed in Canadian dollars)

The following table reflects the continuity of RSUs:

	Number of RSUs	Weighted-average market price at date of grant
		$
Balance, October 31, 2018 and October 31, 2019	**-**	**-**
Granted (1)(2)	2,456,667	0.16
Vested	(739,167)	0.16
Balance, October 31, 2020	**1,717,500**	**0.16**

(1) On June 1, 2020, 1,706,667 RSUs were granted to officers, employees and certain consultants of the Company, of which 1,540,000 vest quarterly over a twelve month period and 166,667 vested on September 18, 2020. Upon vesting, the RSU holder is entitled to receive payment from the Company in settlement of such vested RSUs, in a number of shares, issued from treasury, equal to the number of RSUs being settled.

(2) On September 9, 2020, 750,000 RSUs were granted to certain consultants of the Company, which vest quarterly over a twelve month period. Upon vesting, the RSU holder is entitled to receive payment from the Company in settlement of such vested RSUs, in a number of shares, issued from treasury, equal to the number of RSUs being settled.

In total, $283,496 of stock-based payments relating to RSUs were included in profit or loss for year ended October 31, 2020 (2019 - $Nil) and credited to contributed surplus.

14. RELATED PARTY TRANSACTIONS

Transactions with key management personnel

Related parties include the Board of Directors and key management personnel, as well as close family members and enterprises that are controlled by these individuals as well as certain persons performing similar functions. Unless otherwise stated, none of these transactions incorporated special terms and conditions and no guarantees were given or received.

Remuneration of directors and key management personnel of the Company was as follows:

For the year ended October 31	**2020**	2019
	$	$
Salaries	**95,000**	40,000
Consulting fees (1)	**140,000**	85,000
Stock-based compensation	**268,228**	67,134
	503,228	192,134

(1) As at October 31, 2020, unpaid consulting fees in the amount of $139,000 are owed to management and have been included in accounts payable and accrued liabilities ($5,000 as at October 31, 2019). The amounts owing are unsecured, non-interest bearing and due on demand.

(Expressed in Canadian dollars)

See Notes 8, 9, 10 and 17 for additional related party disclosure.

15. CONTINGENCIES

Preferred Share Issuance

Pursuant to the terms of the Arrangement Agreement (Note 1) the Company created and issued 9,313,447 preferred shares (the "Preferred Shares"). The purpose of the Preferred Shares is to provide the shareholders of the Company other than original OpCo shareholders with a right to receive, on a pro rata basis, an economic benefit, subject to an aggregate maximum of up to $500,000, in the event that any of the Company's remaining mining royalties are triggered and generate revenue within a maximum period of five (5) years from the date of the issuance of the Preferred Shares. The Preferred Shares provide that, if triggered, the Preferred Shares will be redeemable, on a pro rata basis, for cash up to an aggregate maximum of $500,000. The Preferred Shares do not otherwise have any rights or recourses. As these royalties relate to properties with no verified resources and as no other triggering event has occurred, the Preferred Shares are valued at $Nil in the consolidated financial statements.

16. INCOME TAXES

Provision for income taxes

A reconciliation of the combined federal and provincial statutory rate of 26.5% with the Company's effective income tax rate is as follows:

For the year ended October 31	**2020**	2019
	$	$
Net loss before income taxes	**(3,326,994)**	(1,091,247)
Expected income tax recovery based on statutory rate	**(882,000)**	(289,000)
Adjustment to expected income tax recovery:		
Stock-based compensation	**104,000**	42,000
Changes in temporary differences not recorded	**15,000**	(87,000)
Change in tax assets not recognized	**763,000**	334,000
Income tax provision (recovery)	**-**	-

Deferred income tax

Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

As at	**October 31, 2020**	October 31, 2019
	$	$
Non-capital loss carry-forwards	**15,135,000**	956,000
Mineral properties	**5,912,000**	-
Share issuance costs	**372,000**	262,000
	21,419,000	1,218,000

(Expressed in Canadian dollars)

Tax loss carry-forwards

As at October 31, 2020, the Company has the following non-capital losses for which no deferred tax asset was set up. The carry-forward balances expire as follows:

Year of Expiry	Amount
	$
2026	1,022,000
2027	1,504,000
2028	1,308,000
2029	1,476,000
2030	1,678,000
2031	1,049,000
2032	1,162,000
2033	830,000
2034	686,000
2035	517,000
2036	441,000
2037	560,000
2038	124,000
2039	1,222,000
2040	1,556,000
	15,135,000

17. SUBSEQUENT EVENTS

Shares for Services

On January 15, 2021, the Company announced the signing of an agreement with an online marketing company, pursuant to which the Company will pay a total of $75,000 plus HST, payable in 5 instalments over a twelve month period. The first instalment was due on signing, with subsequent instalments payable quarterly over the twelve month period. All amounts are payable in common shares of the Company, based on the closing price on each instalment date. On January 26, 2021, the Company issued 135,600 common shares at a price of $0.125 per common share, in settlement of the first installment of $16,950 ($15,000 plus HST).

Extension of warrants

On January 20, 2021, the Company announced that it had extended the expiry date of an aggregate of 1,103,250 previously issued warrants (the “Warrants”) for one additional year. 499,750 of the Warrants (4,997,500 pre-consolidation)(the “February 6 Warrants”) were originally issued on February 6, 2017 with an original expiry date of February 6, 2019 and were extended in 2019 for an additional two years, to February 6, 2021. 603,500 of the Warrants (6,035,000 pre-consolidation)(the “February 21 Warrants”) were originally issued on February 21, 2017 with an original expiry date of February 21, 2019 and were extended in 2019 for an additional two years, to February 21, 2021. The February 6 Warrants and February 21 Warrants will now expire on February 6, 2022 and February 21, 2022, respectively. Each of the 1,103,250 Warrants entitle the holder to purchase a common share of the Company at an exercise price of $0.70.

Granting of Restricted Share Units

On January 29, 2021, 4,522,763 Restricted Share Units were granted to officers, employees and certain consultants of the Company, which vest over a six month period.

Debt Settlement

On January 29, 2021, the Company issued 1,925,300 common shares in settlement of $288,795 in debt. Directors of the Company received a total of 933,333 common shares in settlement of $140,000 in debt.

Granting of stock options

On February 8, 2021, 2,600,000 stock options were granted to certain directors, officers, employees and consultants of the Company at an exercise price of $0.15 per share. The options all vest on the four month anniversary of the grant date and expire on February 8, 2026.