

# **MOLECULE HOLDINGS INC.**

**(formerly Everton Resources Inc.)**

## **Interim Condensed Consolidated Financial Statements**

**For the three months ended January 31, 2021**

*(Expressed in Canadian Dollars)*

*(Unaudited)*

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### **Interim Condensed Consolidated Financial Statements**

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The accompanying unaudited interim condensed consolidated financial statements have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these unaudited interim condensed consolidated financial statements.

**Molecule Holdings Inc. (formerly Everton Resources Inc.)**

Interim Condensed Consolidated Statements of Financial Position (Unaudited)

*(Expressed in Canadian dollars)*

As at	January 31, 2021	October 31, 2020
	\$	\$
<b>ASSETS</b>		
Current assets		
Cash	267,760	902,519
Sales taxes receivable	88,278	103,081
Inventory (Note 3)	197,553	145,352
Marketable securities (Note 4)	209,916	239,904
Prepaid expenses	172,867	135,722
	<b>936,374</b>	1,526,578
Capital assets (Note 6)	<b>3,914,613</b>	3,920,403
Total assets	<b>4,850,987</b>	5,446,981
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable and accrued liabilities	804,372	1,094,133
Current portion of lease liability (Note 8)	45,283	43,209
	<b>849,655</b>	1,137,342
Lease liability (Note 8)	123,477	135,440
Convertible debt (Note 9)	716,738	697,625
Other long-term liabilities	40,000	40,000
Total liabilities	<b>1,729,870</b>	2,010,407
<b>EQUITY</b>		
Share capital (Note 10)	7,901,619	7,333,619
Warrants (Note 11)	62,170	55,184
Contributed surplus (Notes 12 and 13)	438,489	466,012
Deficit	(5,281,161)	(4,418,241)
Total equity	<b>3,121,117</b>	3,436,574
Total liabilities and equity	<b>4,850,987</b>	5,446,981

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 unaudited interim condensed consolidated financial statements.*

**Molecule Holdings Inc. (formerly Everton Resources Inc.)**

Interim Condensed Consolidated Statements of Loss and Comprehensive Loss (Unaudited)

*(Expressed in Canadian dollars)*

For the three months ended January 31	2021	2020
	\$	\$
Operating expenses		
Management and consulting fees	100,355	152,201
Salaries and benefits	137,022	104,053
Office and facilities	95,829	35,150
Professional fees	75,473	58,152
Supplies and testing	37,731	8,266
Travel and promotion	15,144	7,500
Depreciation of capital assets (Note 6)	64,273	11,994
Interest on lease liability (Note 8)	5,111	6,225
Stock-based compensation (Notes 10, 12 and 13)	258,668	117,094
Interest on convertible debt (Note 9)	44,089	-
Government assistance	(515)	-
Loss before other items	(833,180)	(500,635)
Other income (loss)		
Interest income	57	4,342
Change in fair value of financial assets at fair value through profit or loss (Note 4)	(29,988)	-
Foreign exchange gain	191	-
Net loss and total comprehensive loss	(862,920)	(496,293)
Basic and diluted net loss per common share	(0.01)	(0.01)
Basic and diluted weighted average number of common shares outstanding	86,739,555	73,630,435

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

**Molecule Holdings Inc. (formerly Everton Resources Inc.)**

Interim Condensed Consolidated Statements of Changes in Equity (Unaudited)

(in Canadian dollars)

	Share Capital		Warrants	Contributed Surplus	Deficit	Total
	# of shares	\$	\$	\$	\$	\$
<b>Balance, October 31, 2019</b>	<b>72,800,100</b>	<b>5,251,972</b>	<b>-</b>	<b>157,475</b>	<b>(1,091,247)</b>	<b>4,318,200</b>
Shares issued for services (Note 10)	300,000	30,000	-	-	-	30,000
Stock-based compensation	1,000,000	100,000	-	17,094	-	117,094
Net loss and total comprehensive loss	-	-	-	-	(496,293)	(496,293)
<b>Balance, January 31, 2020</b>	<b>74,100,100</b>	<b>5,381,972</b>	<b>-</b>	<b>174,569</b>	<b>(1,587,540)</b>	<b>3,969,001</b>
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)	600,000	60,000	-	-	-	60,000
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	-	-	-	275,410	-	275,410
Net loss and total comprehensive loss	-	-	-	-	(2,830,701)	(2,830,701)
<b>Balance, October 31, 2020</b>	<b>86,235,740</b>	<b>7,333,619</b>	<b>55,184</b>	<b>466,012</b>	<b>(4,418,241)</b>	<b>3,436,574</b>
Shares issued for debt (Note 10)	1,925,300	288,795	-	-	-	288,795
Shares issued for services (Note 10)	135,600	16,950	-	-	-	16,950
Shares issued on vesting of restricted share units (Note 13)	1,994,638	262,255	-	(262,255)	-	-
Stock-based compensation	-	-	6,986	234,732	-	241,718
Net loss and total comprehensive loss	-	-	-	-	(862,920)	(862,920)
<b>Balance, January 31, 2021</b>	<b>90,291,278</b>	<b>7,901,619</b>	<b>62,170</b>	<b>438,489</b>	<b>(5,281,161)</b>	<b>3,121,117</b>

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

**Molecule Holdings Inc. (formerly Everton Resources Inc.)**

Interim Condensed Consolidated Statements of Cash Flows (Unaudited)

*(Expressed in Canadian dollars)*

For the three months ended January 31,	2021	2020
	\$	\$
<b>OPERATING ACTIVITIES</b>		
Net loss for the period	(862,920)	(496,293)
Adjustments for:		
Stock-based compensation	258,668	117,094
Depreciation of capital assets	64,273	11,994
Interest on lease liability	5,111	6,225
Interest on convertible debt	44,089	-
Interest income	(57)	(4,342)
Change in fair value of financial assets at fair value through profit or loss	29,988	-
Changes in non-cash working capital items	(75,509)	(92,796)
<b>Net cash flows from operating activities</b>	<b>(536,357)</b>	<b>(458,118)</b>
<b>INVESTING ACTIVITIES</b>		
Interest received	57	4,342
Deposit	-	11,477
Investment in capital assets	(58,483)	(515,783)
<b>Net cash flows from investing activities</b>	<b>(58,426)</b>	<b>(499,964)</b>
<b>FINANCING ACTIVITIES</b>		
Interest paid on convertible debentures	(24,976)	-
Lease payments	(15,000)	(15,000)
<b>Net cash flows from financing activities</b>	<b>(39,976)</b>	<b>(15,000)</b>
Decrease in cash	(634,759)	(973,082)
Cash, beginning of the period	902,519	2,288,191
<b>Cash, end of the period</b>	<b>267,760</b>	<b>1,315,109</b>
Changes in non-cash working capital items consists of the following:		
Sales taxes receivable	14,803	163,873
Inventory	(52,201)	(144,975)
Prepaid expenses	(37,145)	(1,852)
Accounts payable and accrued liabilities	(966)	(109,842)
	(75,509)	(92,796)
Supplemental information:		
Shares issued for debt and services	305,745	30,000

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

## **Molecule Holdings Inc. (formerly Everton Resources Inc.)**

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)

For the three months ended January 31, 2021

*(Expressed in Canadian dollars)*

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### **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, 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".

#### Going Concern

These unaudited interim condensed consolidated financial statements have been prepared on a basis that 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. These unaudited interim condensed consolidated financial statements do not reflect any adjustments that may be necessary should the Company be unable to continue as a going concern.

As at January 31, 2021, 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. 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 conditions indicate the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern. If the going concern basis is not appropriate, material adjustments may be necessary to the carrying amounts and/or classification of assets and liabilities.

#### *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.

## **Molecule Holdings Inc. (formerly Everton Resources Inc.)**

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)

For the three months ended January 31, 2021

*(Expressed in Canadian dollars)*

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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. As at January 31, 2021, 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. SIGNIFICANT ACCOUNTING POLICIES**

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

These unaudited interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34"). The notes presented in these unaudited interim condensed consolidated financial statements include only significant events and transactions occurring since the last fiscal year end and do not fully include all matters required to be disclosed in the annual audited consolidated financial statements and should be read in conjunction with the Company's annual audited consolidated financial statements for the years ended October 31, 2020 and 2019. The policies applied in these unaudited interim condensed consolidated financial statements are based on International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These condensed consolidated interim financial statements were authorized for issue by the Board of Directors on March 31, 2021.

### **(b) Basis of presentation**

These unaudited interim condensed 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 Company and its subsidiaries.

These unaudited interim condensed consolidated interim financial statements have been prepared using accounting policies that are consistent with those used in the preparation of the Company's audited consolidated financial statements for the years ended October 31, 2020 and 2019.

### **Molecule Holdings Inc. (formerly Everton Resources Inc.)**

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)

For the three months ended January 31, 2021

(Expressed in Canadian dollars)

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#### **3. INVENTORY**

Inventory consists of the following:

	<b>January 31, 2021</b>	October 31, 2020
	\$	\$
Raw materials	<b>197,553</b>	145,352
Finished goods	-	-
<b>Total inventory</b>	<b>197,553</b>	145,352

As at January 31, 2021 and 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:

	<b>January 31, 2021</b>	October 31, 2020
	\$	\$
Precipitate Gold Corp. (1)	<b>209,916</b>	239,904
	<b>209,916</b>	239,904

(1) As at January 31, 2021 and October 31, 2020, 999,600 common shares of Precipitate Gold Corp. ("Precipitate") have been included in marketable securities, within current assets. During the three months ended January 31, 2021, the Company recorded a decrease in fair value of financial assets at fair value through profit or loss of \$29,988, in connection with these marketable securities (2020 – \$Nil).

#### **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 was the legal acquirer, OpCo was 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, the consolidated financial statements are presented with OpCo as the continuing entity.

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



**Molecule Holdings Inc. (formerly Everton Resources Inc.)**

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)

For the three months ended January 31, 2021

*(Expressed in Canadian dollars)*

<b>CONSIDERATION PAID</b>	<b>Estimated fair value</b>
	\$
9,313,447 common shares	1,490,152
1,103,250 warrants	1,672
1,060,000 stock options	40,532
	<b>1,532,356</b>
<b>ALLOCATION</b>	
	\$
<b>ASSETS</b>	
Cash	271,340
Marketable securities	352,305
Sales taxes receivable	31,257
Deferred transaction costs	22,276
Prepaid expenses	129,600
<b>Total identifiable assets acquired</b>	<b>806,778</b>
<b>LIABILITIES</b>	
Accounts payable and accrued liabilities	(554,128)
Loan payable	(92,700)
Amount due to related party	(22,600)
<b>Total liabilities assumed</b>	<b>(669,428)</b>
<b>Net assets acquired</b>	<b>137,350</b>

In connection with the RTO, the Company recognized a listing expense in the amount of \$1,395,006 in the year ended October 31, 2020, 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
	\$	\$	\$	\$
<b>Cost</b>				
Balance, October 31, 2020	239,865	1,412,551	2,343,949	3,996,365
Additions	-	28,621	29,862	58,483
<b>Cost, January 31, 2021</b>	<b>239,865</b>	<b>1,441,172</b>	<b>2,373,811</b>	<b>4,054,848</b>
<b>Accumulated depreciation</b>				
Balance, October 31, 2020	75,962	-	-	75,962
Depreciation	11,994	24,019	28,260	64,273
<b>Accumulated depreciation, January 31, 2021</b>	<b>87,956</b>	<b>24,019</b>	<b>28,260</b>	<b>140,235</b>
<b>Net book value, January 31, 2021</b>	<b>151,909</b>	<b>1,417,153</b>	<b>2,345,551</b>	<b>3,914,613</b>

## Molecule Holdings Inc. (formerly Everton Resources Inc.)

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)

For the three months ended January 31, 2021

(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 three months ended January 31, 2021, the Company incurred expenditures of \$28,621 in leasehold improvements on its facility in Lansdowne, Ontario. The Company commenced recording depreciation on the leasehold improvements when the facility became ready for use in December 2020.
- (3) During the three months ended January 31, 2021, the Company purchased equipment in the amount of \$29,862, to be used in the production of cannabis-infused beverages. The Company commenced recording depreciation on the equipment in January 2021 following completing its first production-scale cannabis beverage run.

	Right of use asset	Leasehold improvements (4)	Equipment (5)	Total
	\$	\$	\$	\$
<b>Cost</b>				
Balance, October 31, 2019	239,865	1,082,628	775,592	2,098,085
Additions	-	329,923	1,568,357	1,898,280
<b>Cost, October 31, 2020</b>	<b>239,865</b>	<b>1,412,551</b>	<b>2,343,949</b>	<b>3,996,365</b>
<b>Accumulated depreciation</b>				
Balance, October 31, 2019	27,986	-	-	27,986
Depreciation	47,976	-	-	47,976
<b>Accumulated depreciation, October 31, 2020</b>	<b>75,962</b>	<b>-</b>	<b>-</b>	<b>75,962</b>
<b>Net Book Value, October 31, 2020</b>	<b>163,903</b>	<b>1,412,551</b>	<b>2,343,949</b>	<b>3,920,403</b>

- (4) 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 did not record any depreciation on the leasehold improvements during the year ended October 31, 2020 as the facility was not yet ready for use.
- (5) 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 did not record any depreciation on the equipment during the year ended October 31, 2020 as it was not yet ready for use.

## 7. FINANCIAL INSTRUMENTS, RISK MANAGEMENT AND CAPITAL MANAGEMENT

### Financial instruments

The Company's financial instruments consist of cash, marketable securities, 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.

## Molecule Holdings Inc. (formerly Everton Resources Inc.)

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)

For the three months ended January 31, 2021

(Expressed in Canadian dollars)

The classification of financial instruments is as follows:

	January 31, 2021	October 31, 2020
	\$	\$
<b>Financial assets</b>		
Amortized cost		
Cash	267,760	902,519
Fair value through profit or loss		
Marketable securities	209,916	239,904
<b>Total financial assets</b>	<b>477,676</b>	<b>1,142,423</b>
<b>Financial liabilities</b>		
Amortized cost		
Accounts payable and accrued liabilities	(804,372)	(1,094,133)
Convertible debt	(716,738)	(697,625)
Other long-term liabilities	(40,000)	(40,000)
<b>Total financial liabilities</b>	<b>(1,561,110)</b>	<b>(1,831,758)</b>

### 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.

#### *(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.

## Molecule Holdings Inc. (formerly Everton Resources Inc.)

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)

For the three months ended January 31, 2021

(Expressed in Canadian dollars)

### (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 January 31, 2021. As at January 31, 2021, the value of these listed shares was \$209,916. At January 31, 2021, had the price for these publicly listed shares been 10% lower, the comprehensive loss for the three months ended January 31, 2021, would have been \$20,992 greater. Conversely, had the price been 10% higher, the comprehensive loss would have been \$20,992 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 period ended January 31, 2021.

## 8. LEASE LIABILITY

	\$
<b>Balance, October 31, 2019</b>	<b>215,379</b>
Interest expense	23,270
Lease payments	(60,000)
<b>Balance, October 31, 2020</b>	<b>178,649</b>
Interest expense	5,111
Lease payments	(15,000)
<b>Balance, January 31, 2021</b>	<b>168,760</b>
Current	45,283
Long-term	123,477
	<b>168,760</b>

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.

## **Molecule Holdings Inc. (formerly Everton Resources Inc.)**

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)

For the three months ended January 31, 2021

*(Expressed in Canadian dollars)*

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### **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.

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.

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	Debtures	Conversion feature	Total
	\$	\$	\$
<b>Balance, October 31, 2019</b>	-	-	-
Proceeds from issuance of Convertible Debtures	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 debtures	(36,066)	(3,934)	(40,000)
Other issuance costs	(125,709)	(13,710)	(139,419)
Net proceeds from issuance of Convertible Debtures	640,235	69,834	710,069
Issuance of Compensation Debtures	36,066	3,934	40,000
Interest accretion on Debtures	21,324	-	21,324
<b>Balance, October 31, 2020</b>	<b>697,625</b>	<b>73,768</b>	<b>771,393</b>
Interest accretion on Debtures	44,089	-	44,089
Interest paid on Debtures	(24,976)		(24,976)
<b>Balance, January 31, 2021</b>	<b>716,738</b>	<b>73,768</b>	<b>790,506</b>

## 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	
	#	\$
<b>Balance, October 31, 2019</b>	<b>72,800,100</b>	<b>5,251,972</b>
Shares issued pursuant to RTO (Note 5)	9,313,447	1,490,152
Shares issued for debt (3)	1,608,026	303,228
Shares issued for services (1)	900,000	90,000
Shares issued on vesting of restricted share units (Note 13)	614,167	98,267
Stock-based compensation (2)	1,000,000	100,000
<b>Balance, October 31, 2020</b>	<b>86,235,740</b>	<b>7,333,619</b>
Shares issued for debt (4)	1,925,300	288,795
Shares issued for services (5)	135,600	16,950
Shares issued on vesting of restricted share units (Note 13)	1,994,638	262,255
<b>Balance, January 31, 2021</b>	<b>90,291,278</b>	<b>7,901,619</b>

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- (1) 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.
- (2) 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 was included within stock-based compensation expense in the statements of loss and comprehensive loss for the three months ended January 31, 2020.
- (3) 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, including a Director that received a total of 1,215,500 shares in settlement of \$243,100 in debt.
- (4) On January 29, 2021, the Company issued 1,925,300 common shares in settlement of \$288,795 in debt, including Directors of the Company that received a total of 933,333 common shares in settlement of \$140,000 in consulting fees.
- (5) On January 15, 2021, the Company signed 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).

### 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
	#	\$
<b>Balance, October 31, 2019</b>	-	-
Issued pursuant to RTO (Note 5)	1,103,250	0.70
Issued as part of convertible debenture financing (Note 9)	615,000	0.23
<b>Balance, October 31, 2020 and January 31, 2021</b>	<b>1,718,250</b>	<b>0.53</b>

## Molecule Holdings Inc. (formerly Everton Resources Inc.)

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As at January 31, 2021, the following warrants were issued and outstanding:

<b>Number of warrants</b>	<b>Issue date fair value</b>	<b>Exercise price</b>	<b>Expiry date</b>
#	\$	\$	
499,750	3,739	0.70	February 6, 2022 (1)
603,500	4,919	0.70	February 21, 2022 (1)
410,000	37,477	0.20	September 16, 2023
205,000	16,035	0.30	September 16, 2023
<b>1,718,250</b>	<b>62,170</b>		

- (1) On January 20, 2021, the Company 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, had a previous expiry date of February 6, 2021 and were extended in 2021 for one additional year, to February 6, 2022. 603,500 of the Warrants (6,035,000 pre-consolidation) (the "February 21 Warrants") were originally issued on February 21, 2017, had a previous expiry date of February 21, 2021 and were extended in 2021 for one additional year, to February 21, 2022. 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. In total, an additional \$6,968 in stock-based compensation expense relating to warrants was included in profit or loss for the three-month period ended January 31, 2021 related to this extension (2020 – \$Nil) and credited to warrants.

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

<b>Number of warrants</b>	<b>Issue date fair value</b>	<b>Exercise price</b>	<b>Expiry date</b>
#	\$	\$	
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
<b>1,718,250</b>	<b>55,184</b>		

## 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.



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The following table reflects the continuity of stock options:

	Number of options #	Weighted average exercise price \$
<b>Balance, October 31, 2019</b>	<b>2,500,000</b>	<b>0.10</b>
Issued pursuant to RTO (Note 5)	1,060,000	0.46
<b>Balance, October 31, 2020</b>	<b>3,560,000</b>	<b>0.21</b>
Granted (1)	500,000	0.20
<b>Balance, January 31, 2021</b>	<b>4,060,000</b>	<b>0.21</b>

(1) On January 7, 2021, 500,000 stock options were granted to a consultant of the Company at an exercise price of \$0.20 per share, with 34% vesting on the grant date, and 34% and 33% vesting three and six months following the grant date respectively, which expire one year following the grant date.

As at January 31, 2021, the following stock options were outstanding and exercisable:

Exercise prices	Number outstanding	Outstanding		Exercisable	
		Weighted average remaining contractual life	Weighted average outstanding exercise price	Number vested	Weighted average vested exercise price
\$	#	(in years)	\$	#	\$
\$0.10	2,500,000	3.92	0.10	2,500,000	0.10
\$0.20	1,250,000	0.75	0.20	920,000	0.20
\$0.50	80,000	0.20	0.50	80,000	0.50
\$1.30	230,000	0.54	1.30	230,000	1.30
	<b>4,060,000</b>	<b>2.68</b>	<b>0.21</b>	<b>3,730,000</b>	<b>0.21</b>

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

Exercise prices	Number outstanding	Outstanding		Exercisable	
		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
	<b>3,560,000</b>	<b>3.17</b>	<b>0.21</b>	<b>3,560,000</b>	<b>0.21</b>

## Molecule Holdings Inc. (formerly Everton Resources Inc.)

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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:

	Three months ended January 31, 2021	Year ended October 31, 2020
Stock options granted	500,000	1,060,000
Weighted average fair value	0.04	0.04
Weighted-average exercise price	0.20	0.46
Weighted-average market price at date of grant	0.14	0.16
Expected life of stock options (years)	1.00	1.06
Expected stock price volatility	100%	100%
Risk-free interest rate	1.63%	0.27%
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, \$8,600 of stock-based compensation expense relating to stock options were included in statement of loss and comprehensive loss for the three-month period ended January 31, 2021 (2020 – \$17,094) 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.

The following table reflects the continuity of RSUs:

	Number of RSUs #	Weighted-average market price at date of grant \$
<b>Balance, October 31, 2019</b>	-	-
Granted (1)(2)	2,456,667	0.16
Vested	(739,167)	0.16
<b>Balance, October 31, 2020</b>	<b>1,717,500</b>	<b>0.16</b>
Granted (3)	4,522,763	0.12
Vested	(1,994,638)	0.13
<b>Balance, January 31, 2021</b>	<b>4,245,625</b>	<b>0.13</b>

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- (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.
- (3) On January 29, 2021, 4,522,763 RSUs were granted to officers, employees and certain consultants of the Company, with 1,422,138 vesting on the grant date and the remainder vesting quarterly over two quarters from the grant date.

In total, \$243,082 of stock-based compensation relating to RSUs were included in loss and comprehensive loss for the three-month period ended January 31, 2021 (2020 – \$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 three months ended January 31	2021	2020
	\$	\$
Salaries	21,799	15,000
Consulting fees (1)	77,250	30,000
Stock-based compensation	140,597	100,000
	<b>239,646</b>	<b>145,000</b>

- (1) As at January 31, 2021, unpaid consulting fees in the amount of \$32,400 are owed to management and have been included in accounts payable and accrued liabilities (\$139,000 as at October 31, 2020). The amounts owing are unsecured, non-interest bearing and due on demand.

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

## **Molecule Holdings Inc. (formerly Everton Resources Inc.)**

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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. SUBSEQUENT EVENTS**

#### 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 months following the grant date and expire on February 8, 2026.

#### Shares for Services

On February 25, 2021, the Company announced the signing of an agreement with an investor relations company, pursuant to which the Company will pay a total of \$70,000 in common shares of the Company. The Company issued 500,000 common shares at a price of \$0.14 per common share, in settlement of the entire contract value. The common shares are subject to a hold period expiring on June 24, 2021.

#### Convertible debenture financing

On March 19, 2021, the Company completed a non-brokered private placement offering (the "Offering") of 1,000 senior secured convertible debenture units (each a "Unit", collectively the "Units") for gross proceeds of \$1,000,000. Each Unit is comprised of \$1,000 in principal amount (the "Principal Amount") of senior secured convertible debenture (each, a "Debenture", collectively the "Debentures") and one share purchase warrant (each a "Warrant", collectively the "Warrants") for each \$0.30 of Principal Amount, each Warrant entitling the holder thereof to acquire one common share of the Company (each a "Warrant Share", collectively the "Warrant Shares") at an exercise price of \$0.23 per Warrant Share (the "Exercise Price") (subject to adjustment) for a period of thirty-six (36) months from the date of closing of the Offering (the "Closing"), expiring on March 18, 2024.

The Debentures will bear interest at a simple rate of 8.00% per annum, payable quarterly in cash beginning on June 30th, 2021, and maturing eighteen (18) months from the date of issuance, being September 18, 2022 (the "Maturity Date"). The holders of the Debenture are entitled to convert the Principal Amount of the Debentures at any time prior to the Maturity Date into common shares of the Company at a conversion price of \$0.15 (the "Conversion Price"), subject to adjustment. As of the date that is four (4) months and one (1) day following the Closing Date, the Company will have a right to prepay or redeem the Principal Amount, in whole or in part, at par plus accrued and unpaid interest at any time by providing a minimum of 30 days' and a maximum of 60 days' notice.

The net proceeds of the Offering are expected to be used for general working capital purposes.

The obligations under the Debentures are secured by the assets of the Company and its wholly owned subsidiary, Molecule Inc., which has also acted as guarantor (the "Guarantor"), including a pledge of the shares of the Guarantor (collectively, the "Security"). The enforcement of the Security is subject to the terms and conditions of the certificates representing the Debentures (the "Debenture Certificates") and to an Agency and Interlender Agreement entered into among the holders of the Debenture Certificates, the Company, the Guarantor, and an agent.

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Subject to the policies of the Canadian Securities Exchange (the “CSE”) and approval if required, the Debentures and the Warrants provide for change of control as well as anti-dilution adjustments, including corporate actions of the Company as well as future equity issuances below the Conversion Price or Exercise Price, as applicable.

The Company paid a lending fee in connection with the Offering as well as commission to a finder consisting of cash and 583,333 compensation warrants (the “Compensation Warrants”). Each Compensation Warrant is exercisable into one common share of the Corporation for a period of 36 months at an exercise price of \$0.15.

All securities issued pursuant to the Offering are subject to a statutory hold period of four months and a day following the Closing Date, expiring on July 19, 2021.

### Sale of marketable securities

On February 26 and March 1, 2021, the Company sold 500,000 shares of Precipitate in aggregate for gross proceeds of \$97,040.

## **17. COMPARATIVE FIGURES**

Certain figures for 2020 have been reclassified to conform to the presentation adopted in 2021.