

# **MOLECULE HOLDINGS INC.**

**(formerly Everton Resources Inc.)**

## **Interim Condensed Consolidated Financial Statements**

**For the three and nine months ended July 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	July 31, 2021	October 31, 2020
	\$	\$
<b>ASSETS</b>		
Current assets		
Cash	1,229,290	902,519
Trade and other receivables (Note 3)	509,951	103,081
Inventory (Note 4)	458,170	145,352
Marketable securities (Note 5)	-	239,904
Prepaid expenses and deposits	220,097	135,722
	<b>2,417,508</b>	<b>1,526,578</b>
Capital assets (Note 7)	<b>3,531,300</b>	<b>3,920,403</b>
Total assets	<b>5,948,808</b>	<b>5,446,981</b>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable and accrued liabilities	965,196	1,094,133
Current portion of lease liability (Note 9)	49,598	43,209
	<b>1,014,794</b>	<b>1,137,342</b>
Lease liability (Note 9)	97,453	135,440
Convertible debt (Note 10)	2,698,887	697,625
Other long-term liabilities	60,000	40,000
Total liabilities	<b>3,871,134</b>	<b>2,010,407</b>
<b>EQUITY</b>		
Share capital (Note 11)	8,526,893	7,333,619
Warrants (Note 12)	318,492	55,184
Contributed surplus (Notes 13 and 14)	651,098	466,012
Deficit	(7,418,809)	(4,418,241)
Total equity	<b>2,077,674</b>	<b>3,436,574</b>
Total liabilities and equity	<b>5,948,808</b>	<b>5,446,981</b>

On behalf of the Board

(signed) "Andre Audet"  
Andre Audet, Director

(signed) "David Reingold"  
David Reingold, 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)

	Three months ended July 31,		Nine months ended July 31,	
	2021	2020	2021	2020
	\$	\$	\$	\$
Revenue from sale of goods (Note 15)	282,209	-	350,748	-
Excise taxes	(27,409)	-	(27,409)	-
Net revenue	254,800	-	323,339	-
Cost of goods sold (Notes 4 and 16)	528,246	-	656,069	-
Gross profit (loss) before fair value adjustments	(273,446)	-	(332,730)	-
Unrealized loss on changes in fair value of inventories on hand (Note 4)	(2,612)	-	(8,950)	-
<b>Gross profit (loss)</b>	<b>(276,058)</b>	-	<b>(341,680)</b>	-
Operating expenses				
Management and consulting fees (Note 16)	111,496	84,305	289,956	398,708
Salaries and benefits (Note 16)	54,985	78,989	251,269	261,910
Office and facilities (Note 16)	73,730	24,090	262,968	86,181
Professional fees	15,487	91,120	149,425	254,692
Supplies and testing	25,666	7,023	166,021	28,870
Travel and promotion	8,588	885	34,829	12,318
Depreciation of capital assets (Notes 7 and 16)	15,470	11,994	195,800	35,982
Interest on lease liability (Note 9)	448	5,685	8,958	17,868
Stock-based compensation (Notes 11, 13, 14 and 16)	129,732	61,956	955,626	187,856
Interest on convertible debt (Note 10)	101,504	-	215,604	-
Government assistance	-	-	(515)	(96,932)
<b>Loss before other items</b>	<b>(813,164)</b>	<b>(366,047)</b>	<b>(2,871,621)</b>	<b>(1,187,453)</b>
Other income (loss)				
Interest income	-	-	57	7,196
Change in fair value of financial assets at fair value through profit or loss (Note 5)	(10,225)	-	(73,153)	-
Fair value adjustment of convertible debt (Note 10)	(33,979)	-	(33,979)	-
Loss on disposal of capital assets (Note 7)	(32,026)	-	(32,026)	-
Foreign exchange gain (loss)	(1,785)	-	10,154	-
<b>Net loss and total comprehensive loss</b>	<b>(891,179)</b>	<b>(366,047)</b>	<b>(3,000,568)</b>	<b>(1,180,257)</b>
Basic and diluted net loss per common share	<b>(0.010)</b>	<b>(0.005)</b>	<b>(0.033)</b>	<b>(0.016)</b>
Basic and diluted weighted average number of common shares outstanding	<b>93,832,922</b>	<b>74,553,361</b>	<b>90,714,557</b>	<b>74,146,086</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 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>157,475</b>	<b>(1,091,247)</b>	<b>4,318,200</b>
Shares issued for services (Note 11)	900,000	90,000	-	-	-	90,000
Stock-based compensation	1,000,000	100,000	-	87,856	-	187,856
Net loss and total comprehensive loss	-	-	-	-	(1,180,257)	(1,180,257)
<b>Balance, July 31, 2020</b>	<b>74,700,100</b>	<b>5,441,972</b>	-	<b>245,331</b>	<b>(2,271,504)</b>	<b>3,415,799</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 11)	1,608,026	303,228	-	-	-	303,228
Shares issued for services (Note 11)	-	-	-	-	-	-
Shares issued on vesting of restricted share units (Note 14)	614,167	98,267	-	(98,267)	-	-
Equity component of convertible debentures (Note 10)	-	-	-	73,768	-	73,768
Broker warrants issued as part of convertible debenture financing	-	-	53,512	-	-	53,512
Stock-based compensation	-	-	-	204,648	-	204,648
Net loss and total comprehensive loss	-	-	-	-	(2,146,737)	(2,146,737)
<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 11)	1,925,300	288,795	-	-	-	288,795
Shares issued for services (Note 11)	635,600	86,950	-	-	-	86,950
Shares issued on vesting of restricted share units (Note 14)	6,240,263	817,529	-	(817,529)	-	-
Equity components of convertible debentures (Note 10)	-	-	150,381	75,237	-	225,618
Broker warrants issued as part of convertible debenture financing	-	-	71,962	-	-	71,962
Fair value adjustment on convertible debentures (Note 10)	-	-	33,979	-	-	33,979
Stock-based compensation	-	-	6,986	927,378	-	934,364
Net loss and total comprehensive loss	-	-	-	-	(3,000,568)	(3,000,568)
<b>Balance, July 31, 2021</b>	<b>95,036,903</b>	<b>8,526,893</b>	<b>318,492</b>	<b>651,098</b>	<b>(7,418,809)</b>	<b>2,077,674</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 nine months ended July 31,	2021	2020
	\$	\$
<b>OPERATING ACTIVITIES</b>		
Net loss for the period	(3,000,568)	(1,180,257)
Adjustments for:		
Stock-based compensation (Notes 11, 13, 14 and 16)	1,021,314	187,856
Depreciation of capital assets (Notes 7 and 16)	403,053	35,982
Interest on lease liability (Note 9)	14,402	17,868
Interest on convertible debt (Note 10)	215,603	-
Interest income	(57)	(7,196)
Unrealized loss on changes in fair value of inventories on hand (Note 4)	8,950	-
Loss on disposal of capital assets (Note 7)	32,026	-
Change in fair value of financial assets at fair value through profit or loss (Note 5)	73,153	-
Fair value adjustment on convertible debt (Note 10)	33,979	-
Changes in non-cash working capital items	(581,192)	488,622
<b>Net cash flows from operating activities</b>	<b>(1,779,337)</b>	<b>(457,125)</b>
<b>INVESTING ACTIVITIES</b>		
Interest received	57	7,196
Deposit	-	191,877
Proceeds from sale of marketable securities (Note 5)	166,751	-
Investment in capital assets (Note 7)	(75,976)	(1,417,158)
Proceeds from disposal of capital assets (Note 7)	30,000	-
<b>Net cash flows from investing activities</b>	<b>120,832</b>	<b>(1,218,085)</b>
<b>FINANCING ACTIVITIES</b>		
Proceeds from issuance of convertible debt (Note 10)	2,414,000	-
Convertible debt issuance costs (Note 10)	(311,787)	-
Interest paid on convertible debentures (Note 10)	(90,937)	-
Lease payments (Note 9)	(46,000)	(45,000)
Proceeds from other long-term obligations	20,000	40,000
<b>Net cash flows from financing activities</b>	<b>1,985,276</b>	<b>(5,000)</b>
Increase (decrease) in cash	326,771	(1,680,210)
Cash, beginning of the period	902,519	2,288,191
<b>Cash, end of the period</b>	<b>1,229,290</b>	<b>607,981</b>
Changes in non-cash working capital items consists of the following:		
Trade and other receivables	(406,870)	272,818
Inventory	(321,768)	(145,352)
Prepaid expenses and deposits	(84,375)	45,559
Accounts payable and accrued liabilities	231,821	315,597
	(581,192)	488,622
Supplemental information:		
Shares issued for debt and services	375,745	90,000

*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 and nine months ended July 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 and currently exists under the *Business Corporations Act* (Canada).

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 July 31, 2021, the Company only had four months of generating revenue from operations. The Company has no positive 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 profitable 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 and nine months ended July 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 April 30, 2021, Molecule Holdings has recently begun production and has implemented 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 September 28, 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.

### **(c) New and updated accounting policies**

As a result of the Company commencing production during the nine months ended July 31, 2021, the Company has expanded certain pre-existing accounting policies and adopted the following new accounting policies that were not previously included in the notes to the Company's 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 and nine months ended July 31, 2021

*(Expressed in Canadian dollars)*

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### Trade receivables

Trade receivables are recognized initially at the amount of consideration that is unconditional, unless they contain significant financing components when they are recognized at fair value. Trade receivables are subsequently measured at amortized cost using the effective interest method, less loss allowance.

### Inventory

Inventory is stated at the lower of cost and net realizable value. Cost is determined using the weighted average method. Cost includes all expenses directly attributable to the production, packaging and quality assurance processes as well as suitable portions of related production overheads, based on normal operating capacity, including materials, overhead, depreciation, amortization, consulting and labor-related costs (including stock-based compensation). The identified capitalized direct and indirect costs related to inventory are subsequently recorded within cost of goods sold on the consolidated statements of loss and comprehensive loss at the time the product is sold, with the exclusion of realized fair value amounts included in inventory sold and unrealized losses arising from changes in fair value less cost to sell during the period which are recorded as separate lines within gross profit (loss). Net realizable value is the estimated selling price in the ordinary course of business less any applicable selling expenses.

### Revenue recognition

Revenue from the direct sale of cannabis-infused beverages (“CIBs”) to customers for a fixed price is recognized when the Company transfers the control of the goods to the customer upon delivery and acceptance by the customer. The Company recognizes revenue in an amount that reflects the consideration which the Company expects to receive taking into account the impact which may arise from any rights of return on sales, price concessions or similar obligations. Net revenue is presented net of taxes, estimated returns, allowances and discounts.

Canada Revenue Agency (“CRA”) levies excise taxes on the sale of medical and adult-use cannabis products. The Company becomes liable for these excise duties when cannabis products are delivered to provincial retailers of cannabis products (the “Provincial Retailers”) through other Licensed Producers (“LPs”). Net revenue, as presented on the consolidated statements of loss and comprehensive loss, represents revenue from the sale of goods less applicable excise taxes.

### Cost of goods sold

Cost of goods sold includes the cost of inventory expensed, packaging costs, shipping costs and related labor.

## **(d) New significant management judgements and estimates**

As a result of the Company commencing production during the nine months ended July 31, 2021, the Company has the following new significant management judgements and estimates in applying the accounting policies of the Company that have significant effect on the financial statements.

### *New significant management judgements*

#### Revenue – Principal versus Agent

The Company evaluates whether it is the principal (reports on gross basis) or agent (reports on a net basis) for revenues generated by the direct sale of CIBs. The LP partners of the Company control the CIBs prior to the sale to its customers as regulated and mandated under the Cannabis Act and Health Canada legislation. The Company’s LP partners possessing the sole ability to monetize the sale of CIBs through the held sales agreements and purchase orders with Provincial Retailer customers. The Company presents the revenues



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

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)

For the three and nine months ended July 31, 2021

(Expressed in Canadian dollars)

from the sale of CIBs on a net basis, net of associated fees from the LPs, as it presently sells only to LPs, who then sell to Provincial Retailers.

### New significant management estimates

#### Valuation of Inventory

In calculating the net realizable value of inventory, management determines the selling prices based on prevalent sales prices, selling costs, and includes an estimate of spoiled or expired inventory based on the most reliable evidence available at the time, to record inventory at the lower of cost or net realizable value.

### 3. TRADE AND OTHER RECEIVABLES

Trade and other receivables consist of the following:

	July 31, 2021	October 31, 2020
	\$	\$
Trade accounts receivable	461,203	-
Sales taxes receivable	48,748	103,081
<b>Total trade and other receivables</b>	<b>509,951</b>	<b>103,081</b>

### 4. INVENTORY

Inventory consists of the following:

	July 31, 2021	October 31, 2020
	\$	\$
Raw materials	313,948	145,352
Finished goods	144,222	-
<b>Total inventory</b>	<b>458,170</b>	<b>145,352</b>

Capitalized costs relating to inventory expensed and included in cost of goods sold were \$418,930 and \$544,270 for the three and nine months ended July 31, 2021, respectively (July 31, 2020 – \$nil and \$nil). The unrealized fair value loss on inventory on hand fair value adjustment on the consolidated statement of loss for the three and nine months ended July 31, 2021 was \$2,612 and \$8,950, respectively (July 31, 2020 – \$nil and \$nil, respectively). There were no realized fair value adjustments on inventory sold on the consolidated statement for the three and nine months ended July 31, 2021 and 2020.

Total share-based compensation capitalized to inventory in the nine months ended July 31, 2021 was \$65,689 (July 31, 2020 – \$nil). Total depreciation capitalized to inventory in the nine months ended July 31, 2021 was \$207,253 (July 31, 2020 – \$nil). Total interest on lease liability capitalized to inventory in the nine months ended July 31, 2021 was \$5,444 (July 31, 2020 – \$nil).

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

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)

For the three and nine months ended July 31, 2021

(Expressed in Canadian dollars)

### 5. MARKETABLE SECURITIES

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

	July 31, 2021	October 31, 2020
	\$	\$
Precipitate Gold Corp. (1)	-	239,904
	-	239,904

(1) As at July 31, 2021 and October 31, 2020, nil and 999,600 common shares, respectively, of Precipitate Gold Corp. ("Precipitate") are included in marketable securities, within current assets. During the three and nine months ended July 31, 2021, the Company recorded a decrease in fair value of financial assets at fair value through profit or loss of \$10,225 and \$73,153, respectively, in connection with these marketable securities (2020 – \$nil and \$nil, respectively). During the nine months ended July 31, 2021, the Company sold 999,600 shares of Precipitate in aggregate for gross proceeds of \$166,751 (2020 – \$nil).

### 6. 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:

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

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

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)

For the three and nine months ended July 31, 2021

*(Expressed in Canadian dollars)***ALLOCATION**

	\$
<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.

**7. CAPITAL ASSETS**

	Right of use asset (1)	Leasehold improvements (2)	Equipment (3,4)	Total
	\$	\$	\$	\$
<b>Cost</b>				
Balance, October 31, 2020	239,865	1,412,551	2,343,949	3,996,365
Additions	-	32,172	43,804	75,976
Disposals	-	-	(67,665)	(67,665)
<b>Cost, July 31, 2021</b>	<b>239,865</b>	<b>1,444,723</b>	<b>2,320,088</b>	<b>4,004,676</b>
<b>Accumulated depreciation</b>				
Balance, October 31, 2020	75,962	-	-	75,962
Depreciation	35,982	168,373	198,698	403,053
Disposals	-	-	(5,639)	(5,639)
<b>Accumulated depreciation, July 31, 2021</b>	<b>111,944</b>	<b>168,373</b>	<b>193,059</b>	<b>473,376</b>
<b>Net book value, July 31, 2021</b>	<b>127,921</b>	<b>1,276,350</b>	<b>2,127,029</b>	<b>3,531,300</b>

(1) Effective April 1, 2019, OpCo 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 9).

(2) During the nine months ended July 31, 2021, the Company incurred expenditures of \$32,172 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.

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

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)

For the three and nine months ended July 31, 2021

(Expressed in Canadian dollars)

- (3) During the nine months ended July 31, 2021, the Company purchased equipment in the amount of \$43,804, to be used in the production of CIBs. The Company commenced recording depreciation on the equipment in January 2021 following completing its first production-scale cannabis beverage run.
- (4) During the nine months ended July 31, 2021, the Company capitalized \$207,252 (October 31, 2020 – \$nil) of depreciation to inventory. During the nine months ended July 31, 2021, depreciation expensed to the consolidated statements of loss and comprehensive loss was \$195,800 (2020 – \$35,982).

During the nine months ended July 31, 2021, the company sold equipment with book value of \$62,026 for proceeds of \$30,000.

	Right of use asset	Leasehold improvements (5)	'Equipment	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>

- (5) 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.
- (6) 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.

## 8. 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.)

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The classification of financial instruments is as follows:

	July 31, 2021	October 31, 2020
	\$	\$
<b>Financial assets</b>		
Amortized cost		
Cash	1,229,290	902,519
Trade accounts receivable	461,203	-
Fair value through profit or loss		
Marketable securities	-	239,904
<b>Total financial assets</b>	<b>1,690,493</b>	<b>1,142,423</b>
<b>Financial liabilities</b>		
Amortized cost		
Accounts payable and accrued liabilities	(965,196)	(1,094,133)
Convertible debt	(2,698,887)	(697,625)
Other long-term liabilities	(60,000)	(40,000)
<b>Total financial liabilities</b>	<b>(3,724,083)</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 customer or counterparty to its financial instruments fails to meet its contractual obligations. The Company's financial assets exposed to credit risk are primarily composed of trade accounts receivable and cash. The Company provides credit to its customer in the normal course of business and has established credit evaluation and monitoring processes to mitigate credit risk. Since that customer sells end products to Provincial Retailers, the Company has limited credit risk. 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.

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### (iii) Market risk

The Company previously held shares in a publicly listed company in the mineral exploration industry. The Company was thus previously exposed to market risk regarding these shares as unfavorable market conditions could result in their disposal at less than their carrying value. As at July 31, 2021, the Company held no more of these shares and had recognized a loss of \$73,153 for the nine months ended July 31, 2021 (2020 – \$nil).

### 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 July 31, 2021.

## 9. 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	14,402
Lease payments	(46,000)
<b>Balance, July 31, 2021</b>	<b>147,051</b>
Current	49,598
Long-term	97,453
	<b>147,051</b>

Effective April 1, 2019, OpCo 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.)

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During the nine months ended July 31, 2021, the Company capitalized \$5,444 (October 31, 2020 – \$nil) of interest on lease liability to inventory. During the nine months ended July 31, 2021, interest on lease liability expensed to the consolidated statements of loss and comprehensive loss was \$8,958 (October 31, 2020 – \$23,270).

### 10. CONVERTIBLE DEBT

Convertible debt consists of the following:

	July 31, 2021	October 31, 2020
	\$	\$
Convertible Debenture issued September 16, 2020	767,508	697,625
Convertible Debenture issued March 18, 2021	817,861	-
Convertible Debenture issued July 30, 2021	1,113,518	-
Total convertible debt	2,698,887	697,625

#### Convertible Debenture issued September 16, 2020

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 Gravititas 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.

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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.

	Debentures	Conversion feature	Total
	\$	\$	\$
<b>Balance, October 31, 2019</b>	-	-	-
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
<b>Balance, October 31, 2020</b>	<b>697,625</b>	<b>73,768</b>	<b>771,393</b>
Interest accretion on Debentures	137,806	-	137,806
Interest paid on Debentures	(67,923)	-	(67,923)
<b>Balance, July 31, 2021</b>	<b>767,508</b>	<b>73,768</b>	<b>841,276</b>

### Convertible Debenture issued March 18, 2021

On March 18, 2021, the Company completed a non-brokered private placement offering (the “March 2021 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”).



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(subject to adjustment) for a period of thirty-six (36) months from the date of closing of the March 2021 Offering (the "Closing"), expiring on March 18, 2024.

The Debentures bear interest at a simple rate of 8.00% per annum, payable quarterly in cash beginning on June 30, 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 OpCo, 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.

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 533,333 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.

In accordance with IAS 32 Financial Instruments – Presentation, the Company allocated the proceeds from the Convertible Debentures (\$1,000,000), net of transaction costs (\$158,495), between a liability component (\$763,675), warrant component (\$51,690), and an equity component (\$26,140), representing the conversion feature.

The fair value of the liability component at the time of issue was calculated as the discounted cash flows of the Convertible Debentures (the "Debentures"), assuming a market interest rate of 15% which was the estimated rate for the Debentures without the Warrants component and equity component (i.e. conversion feature). The effective interest rate of the Debentures after reflecting issuance costs was 27%.

The value of the Warrants and 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 (i.e. residual value). The residual value was allocated to the Warrants and the conversion feature based on proportion of their fair value. The fair value of the Warrants was estimated at \$182,888, using the Black-Scholes pricing model using the following assumptions: stock price of \$0.115, weighted-average exercise price of \$0.23, risk-free interest rate of 0.52%, expected life of warrants of 3 years, expected volatility of 100% and expected dividend rate of 0%. The fair value of the conversion feature was estimated at \$92,489 through residual value method by taking the difference between the principal amount of the Debentures and the fair value of the liability component. The residual of the principal less the present value of the liability component, being \$92,489, was allocated to the conversion feature and the warrants based on their relative fair value, resulting in an allocation of \$26,140 to the conversion feature and \$51,690 to the warrants.

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In connection with the Offerings, the Company paid cash commissions of \$57,500. The fair value of the 533,333 Compensation Warrants was estimated at \$34,605, using the Black-Scholes option pricing model using the following assumptions: stock price of \$0.115, weighted-average exercise price of \$0.15, risk-free interest rate of 0.52%, 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 total transaction costs in the amount of \$158,495. The issuance costs, which include the cash commissions, broker warrants, and other issuance costs, have been allocated to the liability and equity components in proportion to their initial carrying amounts.

	Debtures	Conversion feature	Warrants	Total
	\$	\$		\$
<b>Balance, October 31, 2020</b>	-	-	-	-
Proceeds from issuance of Convertible Debtures	907,511	31,064	61,425	1,000,000
less:				
Cash commissions	(52,182)	(1,786)	(3,532)	(57,500)
Broker warrants	(31,404)	(1,075)	(2,126)	(34,605)
Other issuance costs	(60,250)	(2,063)	(4,077)	(66,390)
Net proceeds from issuance of Convertible Debtures	763,675	26,140	51,690	841,505
Interest accretion on Debtures	77,200	-	-	77,200
Interest paid on Debtures	(23,014)	-	-	(23,014)
<b>Balance, July 31, 2021</b>	<b>817,861</b>	<b>26,140</b>	<b>51,690</b>	<b>895,691</b>

In accordance with the anti-dilution provisions of the March 2021 Offering and as a result of the more favorable July 2021 Offering terms described below, the following modifications to the March 2021 Offering resulted:

- The Warrant Exercise Price of the March 2021 Offering was reduced from \$0.23 to \$0.15 per Share;
- The number of Warrants issued to the participants of the March 2021 Offering was increased to six thousand (6,000) per \$1,000 in Principal Amount (or 6,000,000 Warrants in aggregate) from 3,333,333 Warrants originally issued on March 18, 2021; and
- The Conversion Price of the March 2021 Offering was reduced from \$0.15 to \$0.10 on July 30, 2021.

All other terms of the March 2021 Offering remain unmodified by the July 2021 Offering, including the Debture Maturity Date of September 18, 2022 and the Warrant exercise expiry date of March 18, 2024.

The fair value of the impact of the anti-dilution modifications to the Warrant Exercise Price, being a decrease from \$0.23 to \$0.15 per share, and the incremental 2,666,667 Warrants issued to the participants of the March 2021 Offering as a result of the July 2021 Offering was estimated at \$33,979, being the differential between the original estimated fair value of \$182,888 and the current estimated fair value of \$216,867 on the modification date using the Black-Scholes option pricing model using the following assumptions: stock price of \$0.080, weighted-average exercise price of \$0.15, risk-free interest rate of 0.57%, expected life of warrants of 2.64 years, expected volatility of 100% and expected dividend rate of 0%. The differential of \$33,979, was recognized as a fair value adjustment through the consolidated statement of loss and comprehensive loss on July 30, 2021.

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### Convertible Debenture issued July 30, 2021

On July 30, 2021, the Company completed the first closing of a non-brokered private placement offering (the "July 2021 Offering") of 1,414 unsecured convertible debenture units (each a "Unit", collectively the "Units") for gross proceeds of \$1,414,000. Each Unit is comprised of \$1,000 in principal amount (the "Principal Amount") of unsecured convertible debenture (each, a "Debenture", collectively the "Debentures") and six thousand (6,000) share purchase warrants (each a "Warrant", collectively the "Warrants") for each \$1,000 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 \$0.15 per Warrant Share (the "Exercise Price") (subject to adjustment) for a period of thirty-six (36) months from the date of closing of the July 2021 Offering (the "Closing"), expiring on July 30, 2024.

The Debentures bear interest at a simple rate of 8.00% per annum, payable semi-annually in cash beginning on January 30, 2022, and maturing twenty-four (24) months from the date of issuance, being July 30, 2023 (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 \$0.10 (the "Conversion Price"), subject to adjustment. The Company has a right to prepay or redeem the Principal Amount, in whole or in part, at par plus accrued and unpaid interest at any time.

The net proceeds of the July 2021 Offering are expected to be used for general working capital purposes.

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

In connection with the July 2021 Offering, the Company paid finder fees consisting of cash and 951,200 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 December 1, 2021.

In accordance with IAS 32 Financial Instruments – Presentation, the Company allocated the proceeds from the Convertible Debentures (\$1,414,000), net of transaction costs (\$153,292), between a liability component (\$1,112,920), warrant component (\$98,691), and an equity component (\$49,097), representing the conversion feature.

The fair value of the liability component at the time of issue was calculated as the discounted cash flows of the Convertible Debentures (the "Debentures"), assuming a market interest rate of 15% which was the estimated rate for the Debentures without the Warrants component and equity component (i.e. conversion feature). The effective interest rate of the Debentures after reflecting issuance costs was 20%.

The value of the Warrants and 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 (i.e. residual value). The residual value was allocated to the Warrants and the conversion feature based on proportion of their fair value. The fair value of the Warrants was estimated at \$333,192, using the Black-Scholes pricing model using the following assumptions: stock price of \$0.080, weighted-average exercise price of \$0.15, risk-free interest rate of 0.61%, expected life of warrants of 3 years, expected volatility of 100% and expected dividend rate of 0%. The fair value of the conversion feature was estimated at \$165,758 through residual value method by taking the difference between the principal amount of the Debentures and the fair value of the liability component. The residual of the principal less the present value of the liability component, being \$165,758, was allocated to the conversion feature and the warrants based on their relative fair value, resulting in an allocation of \$55,067 to the conversion feature and \$110,691 to the warrants.

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In connection with the July 2021 Offering, the Company paid cash commissions of \$96,720. The fair value of the 951,200 Compensation Warrants was estimated at \$37,357, using the Black-Scholes option pricing model using the following assumptions: stock price of \$0.080, weighted-average exercise price of \$0.15, risk-free interest rate of 0.61%, 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 total transaction costs in the amount of \$153,292. The issuance costs, which include the cash commissions, broker warrants, and other issuance costs, have been allocated to the liability and equity components in proportion to their initial carrying amounts.

	Debtures	Conversion feature	Warrants	Total
	\$	\$		\$
<b>Balance, October 31, 2020</b>	-	-	-	-
Proceeds from issuance of Convertible Debtures	1,248,242	55,067	110,691	1,414,000
less:				
Cash commissions	(85,382)	(3,767)	(7,571)	(96,720)
Broker warrants	(32,978)	(1,455)	(2,924)	(37,357)
Other issuance costs	(16,962)	(748)	(1,504)	(19,214)
Net proceeds from issuance of Convertible Debtures	1,112,920	49,097	98,692	1,260,709
Interest accretion on Debtures	598	-	-	598
Interest paid on Debtures	-	-	-	-
<b>Balance, July 31, 2021</b>	<b>1,113,518</b>	<b>49,097</b>	<b>98,692</b>	<b>1,261,307</b>

In accordance with the anti-dilution provisions of the March 2021 Offering and as a result of the more favorable July 2021 Offering, the following modifications to the March 2021 Offering resulted:

- The Warrant Exercise Price of the March 2021 Offering was reduced from \$0.23 to \$0.15 per Share;
- The number of Warrants issued to the participants of the March 2021 Offering was increased to six thousand (6,000) per \$1,000 in Principal Amount (or 6,000,000 Warrants in aggregate) from 3,333,333 Warrants originally issued on March 18, 2021; and
- The Conversion Price of the March 2021 Offering was reduced from \$0.15 to \$0.10 on July 30, 2021.

All other terms of the March 2021 Offering remain unmodified by the July 2021 Offering, including the Debture Maturity Date of September 18, 2022 and the Warrant exercise expiry date of March 18, 2024.

The fair value of the impact of the anti-dilution modifications to the Warrant Exercise Price, being a decrease from \$0.23 to \$0.15 per share, and the incremental 2,666,667 Warrants issued to the participants of the March 2021 Offering as a result of the July 2021 Offering was estimated at \$33,979, being the differential between the original estimated fair value of \$182,888 and the current estimated fair value of \$216,867 on the modification date using the Black-Scholes option pricing model using the following assumptions: stock price of \$0.080, weighted-average exercise price of \$0.15, risk-free interest rate of 0.57%, expected life of warrants of 2.64 years, expected volatility of 100% and expected dividend rate of 0%. The differential of \$33,979, was recognized as a fair value adjustment through the consolidated statement of loss and comprehensive loss.

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### 11. 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 14)	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 and 6)	635,600	86,950
Shares issued on vesting of restricted share units (Note 14)	6,240,263	817,529
<b>Balance, July 31, 2021</b>	<b>95,036,903</b>	<b>8,526,893</b>

- (1) On December 15, 2019, March 15, 2020 and June 15, 2020, OpCo 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, OpCo 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).

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- (6) On February 21, 2021, the Company signed an agreement with an online marketing company, pursuant to which the Company will pay a total of \$70,000 plus HST. Amounts are payable in common shares of the Company. On February 23, 2021, the Company issued 500,000 common shares at a price of \$0.14 per common share, as the payment of \$70,000 invoiced to the company. No further payments are due for the duration of Agreement's 6-month term.

### 12. 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 10)	615,000	0.23
<b>Balance, October 31, 2020</b>	<b>1,718,250</b>	<b>0.53</b>
Issued as part of March 2021 convertible debenture financing (Note 10)	3,866,666	0.15
Issued as part of convertible debenture financing (Note 10)	12,101,867	0.15
<b>Balance July 31, 2021</b>	<b>17,686,783</b>	<b>0.19</b>

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

Number of warrants	Issue date fair value	Exercise price	Expiry date
#	\$	\$	
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
533,333	34,605	0.15	March 18, 2024
6,000,000	85,669	0.15	March 18, 2024 (2)
951,200	37,357	0.15	July 30, 2024
8,484,000	98,691	0.15	July 30, 2024
<b>17,686,783</b>	<b>318,492</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

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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 \$6,986 in stock-based compensation expense relating to warrants was included in profit or loss for the nine months ended July 31, 2021 related to this extension (2020 – \$nil) and credited to warrants.

- (2) On July 30, 2021, as a result of the July 2021 Offering (Note 10), the number of Warrants issued in the March 2021 Offering (Note 10) increased from 3,333,333 to 6,000,000 and the exercise price was reduced from \$0.23 to \$0.15, resulting in a fair value adjustment of \$33,979.

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>		

### 13. 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:

	<b>Number of options</b>	<b>Weighted average exercise price</b>
	#	\$
<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 and 2)	3,100,000	0.16
Expired (3)	(80,000)	(0.50)
<b>Balance, July 31, 2021</b>	<b>6,580,000</b>	<b>0.19</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.
- (2) 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.

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(3) On April 14, 2021, 80,000 stock options with an exercise price of \$0.50 per share expired.

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

Exercise prices	Outstanding			Exercisable		
	Number outstanding	Weighted average remaining contractual (in years)	Weighted average exercise price	Number vested	Weighted average exercise price	Weighted average vested exercise price
\$	#	(in years)	\$	#	\$	\$
\$0.10	2,500,000	3.42	0.10	2,500,000	0.10	0.10
\$0.15	2,600,000	4.53	0.15	2,600,000	0.15	0.15
\$0.20	1,250,000	0.25	0.20	1,250,000	0.20	0.20
\$1.30	230,000	0.04	1.30	230,000	1.30	1.30
	<b>6,580,000</b>	<b>3.14</b>	<b>0.18</b>	<b>6,580,000</b>		<b>0.18</b>

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

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

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:

	Nine months ended July 31, 2021	Year ended October 31, 2020
Stock options granted	3,100,000	1,060,000
Weighted average fair value	0.09	0.04
Weighted-average exercise price	0.16	0.46
Weighted-average market price at date of grant	0.14	0.16
Expected life of stock options (years)	4.35	1.06
Expected stock price volatility	100%	100%
Risk-free interest rate	1.40%	0.27%
Expected dividend yield	0%	0%



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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, \$ 362,028 of stock-based compensation expense relating to stock options was included in loss and comprehensive loss or capitalized in inventory for the nine months ended July 31, 2021 (2020 – \$87,856) and credited to contributed surplus.

### 14. RESTRICTED SHARE UNITS

On June 1, 2020, OpCo adopted a Restricted Share Unit (“RSU”) plan and on January 21, 2021 the Company adopted a RSU plan (collectively, the “RSU Plan”). The Company continues to honour the vesting of the RSUs issued under the OpCo 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	(6,240,263)	0.13
<b>Balance, July 31, 2021</b>	-	n/a

- (1) On June 1, 2020, 1,706,667 RSUs were granted to officers, employees and certain consultants of OpCo, 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 OpCo, 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.

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In total \$652,300 of stock-based compensation expense relating to RSUs was included in loss and comprehensive loss or capitalized in inventory for the nine months ended July 31, 2021 (2020 – \$nil) and credited to contributed surplus.

### 15. REVENUES FROM THE SALES OF GOODS

On January 26, 2021, the Company announced that it had signed a binding term sheet with Vortex Cannabis Inc. (“Vortex”) which sets out the terms of a service agreement (the “Service Agreement”) whereby Vortex will sell products produced by Molecule to the provincial retailers of cannabis products (the “Provincial Retailers”). The Service Agreement allows Molecule to begin selling its line of cannabis infused beverages throughout Canada, starting initially with Ontario and Quebec. Under the terms of the Service Agreement, Molecule will pay a percentage of revenues to Vortex for its services. The initial term of the Service Agreement covers six months and can be extended as required.

The Company currently holds a Standard Processing Licence (the “Licence”) issued by Health Canada, which allows the Company to produce cannabis-infused products and sell them to other Licensed Producers (“LPs”). A Standard Processing Licence requires an amendment to allow processors to sell cannabis products directly to Provincial Retailers (the “Sales Amendment”). Rather than waiting until the Sales Amendment is issued, this Service Agreement allows Molecule to bring its line of cannabis-infused beverages to market through Vortex, while completing its own sales amendment application.

Total revenue from the sale of goods consists entirely of sales to Vortex for the three and nine months ended July 31, 2021, and is presented net of provisions for sales returns and price concessions and excise taxes. During the three and nine months ended July 31, 2021, the Company accrued \$18,013 and \$22,388 (July 30, 2020 – \$nil) of net sales provisions and price concessions, respectively. During the three and nine months ended July 31, 2021, the Company accrued \$27,409 and \$27,409 (July 30, 2020 – \$nil) for excise taxes, respectively.

### 16. SELECTED OPERATING EXPENSES BY NATURE

The following table disaggregates the following operating expenses as presented on the interim condensed consolidated statements of loss and comprehensive loss into specified classifications based upon their nature:

	Management and consulting fees	Salaries and benefits	Office and facilities	Depreciation and amortization	Stock-based compensation	Total
	\$	\$	\$	\$	\$	\$
Operating expenses	111,496	54,985	73,730	15,470	129,732	385,413
Capitalized to inventory	134	113,345	24,437	154,037	39,671	331,624
<b>Total for the three months ended July 31, 2021</b>	<b>111,630</b>	<b>168,330</b>	<b>98,167</b>	<b>169,507</b>	<b>169,403</b>	<b>717,037</b>
Operating expenses	289,956	251,269	262,968	195,800	955,626	1,955,619
Capitalized to inventory	759	135,520	36,211	207,252	65,689	445,431
<b>Total for the nine months ended July 31, 2021</b>	<b>290,715</b>	<b>386,789</b>	<b>299,179</b>	<b>403,052</b>	<b>1,021,315</b>	<b>2,401,050</b>

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### 17. 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 and facilities lease payments payable to a company related to a Director of the Company (Note 9) was as follows:

	Three months ended July 31,		Nine months ended July 31,	
	2021	2020	2021	2020
	\$	\$	\$	\$
Salaries	<b>20,000</b>	20,000	<b>71,799</b>	65,000
Consulting fees (1)	<b>84,000</b>	20,000	<b>169,071</b>	60,000
Stock-based compensation	<b>63,447</b>	26,670	<b>381,449</b>	126,670
Total remuneration	<b>167,447</b>	66,670	<b>622,319</b>	251,670
Lease payments (1)	<b>15,000</b>	15,000	<b>45,000</b>	45,000

(1) As at July 31, 2021, unpaid consulting fees and facilities lease payments in the aggregate amount of \$62,200 are owed to management and a company related to a Director 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 9, 10 and 11 additional related party disclosure.

### 18. 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.

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### **19. SUBSEQUENT EVENTS**

#### Shares for Services

On September 14, 2021, the Company issued 342,423 common shares pursuant to the agreement signed on January 15, 2021 with an online marketing company (Note 11), in settlement of the second and third of 5 instalments totaling \$33,990 (\$30,000 plus HST), based on an average closing price of \$0.099 per common share.

#### Convertible Debenture Financing

On August 13, 2021, the Company completed the second closing of a non-brokered private placement offering that had a first closing on July 30, 2021 (the "August 2021 Offering") of 1,020 unsecured convertible debenture units (each a "Unit", collectively the "Units") for gross proceeds of \$1,020,000. Each Unit is comprised of \$1,000 in principal amount (the "Principal Amount") of unsecured convertible debenture (each, a "Debenture", collectively the "Debentures") and six thousand (6,000) share purchase warrants (each a "Warrant", collectively the "Warrants") for each \$1,000 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 \$0.15 per Warrant Share (the "Exercise Price") (subject to adjustment) for a period of thirty-six (36) months from the date of closing of the August 2021 Offering (the "Closing"), expiring on August 13, 2024.

The Debentures will bear interest at a simple rate of 8.00% per annum, payable semi-annually in cash beginning on January 30, 2022, and maturing twenty-four (24) months from the date of issuance, being August 13, 2023 (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 \$0.10 (the "Conversion Price"), subject to adjustment. The Company has a right to prepay or redeem the Principal Amount, in whole or in part, at par plus accrued and unpaid interest at any time.

The net proceeds of the August 2021 Offering are expected to be used for general working capital purposes.

Subject to the policies of the Canadian Securities Exchange (the "CSE") and approval if required, the Debentures and the Warrants provide for 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 finder fees consisting of cash and 336,000 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 December 14, 2021.

In accordance with IAS 32 Financial Instruments – Presentation, the Company allocated the proceeds from the Convertible Debentures (\$1,020,000), net of transaction costs (\$49,982), between a liability component (\$900,429), warrant component (\$82,098), and an equity component (\$37,473), representing the conversion feature.

The fair value of the liability component at the time of issue is calculated as the discounted cash flows of the Convertible Debentures (the "Debentures"), assuming a market interest rate of 15% which was the estimated rate for the Debentures without the Warrants component and equity component (i.e. conversion feature). The effective interest rate of the Debentures after reflecting issuance costs was 20%.

The value of the Warrants and the conversion feature of the Debentures will be recognized as the difference between the principal amount of the Debentures and the fair value of the liability component (i.e. residual value). The residual value is allocated to the Warrants and the conversion feature based on proportion of their

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fair value. The fair value of the Warrants is estimated at \$261,964, using the Black-Scholes pricing model using the following assumptions: stock price of \$0.085, weighted-average exercise price of \$0.15, risk-free interest rate of 0.65%, expected life of warrants of 3 years, expected volatility of 100% and expected dividend rate of 0%. The fair value of the conversion feature is estimated at \$119,571 through residual value method by taking the difference between the principal amount of the Debentures and the fair value of the liability component. The residual of the principal less the present value of the liability component, being \$119,571, will be allocated to the conversion feature and the warrants based on their relative fair value, resulting in an allocation of \$37,473 to the conversion feature and \$82,098 to the warrants.

In connection with the August 2021 Offering, the Company paid cash commissions of \$35,600. The fair value of the 336,000 Compensation Warrants is estimated at \$14,382, using the Black-Scholes option pricing model using the following assumptions: stock price of \$0.085, weighted-average exercise price of \$0.15, risk-free interest rate of 0.65%, expected life of warrants of 3 years, expected volatility of 100% and expected dividend rate of 0%, and will be included in warrants in the consolidated statement of financial position.

The Company incurred total transaction costs in the amount of \$49,982. The issuance costs, which include the cash commissions, broker warrants, and other issuance costs, will be allocated to the liability and equity components in proportion to their initial carrying amounts.

### **20. COMPARATIVE FIGURES**

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