AMENDED AND RESTATED

MOLECULE HOLDINGS INC.

(formerly Everton Resources Inc.)

Interim Condensed Consolidated Financial Statements

For the three and six months ended April 30, 2021

(Amended and restated)

(Expressed in Canadian Dollars)

(Unaudited)

Interim Condensed Consolidated Financial Statements

NOTICE TO READER

The unaudited condensed interim financial statements for the three and six months ended April 30, 2021, together with the accompanying notes thereto, and originally filed on June 29, 2021, are hereby amended and restated (the "Amended and Restated Financial Statements"). The Amended and Restated Financial Statements have been prepared as a result of reflecting the convertible debenture and warrants associated with the convertible debenture issued March 18, 2021 as a derivative financial liability at fair value through profit or loss as a result of the anti-dilution provisions associated with the convertible debenture (the "Amendments"). Notes 8 and 10 to the Amended and Restated Financial Statements were also updated to reflect the Amendments and Note 19 was updated for additional subsequent events to the filing date hereof. The effect of the Amendments does not impact the Company's ongoing operations or cash position. Further detail regarding the Amendments can be seen in Note 2(c) of the Amended and Restated Financial Statements.

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	**April 30, 2021**	October 31, 2020
	$	$
ASSETS		
Current assets		
Cash	**256,330**	902,519
Trade and other receivables (Note 3)	**185,743**	103,081
Inventory (Note 4)	**391,951**	145,352
Marketable securities (Note 5)	**79,936**	239,904
Prepaid expenses and deposits	**240,318**	135,722
	1,154,278	1,526,578
Capital assets (Note 7)	**3,765,727**	3,920,403
Total assets	**4,920,005**	5,446,981
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	**570,684**	1,094,133
Current portion of lease liability (Note 9)	**47,418**	43,209
Convertible debt and warrant liabilities at fair value through profit or loss (Note 10)	**1,088,425**	-
	1,706,527	1,137,342
Lease liability (Note 9)	**111,152**	135,440
Convertible debt (Note 10)	**762,576**	697,625
Other long-term liabilities	**60,000**	40,000
Total liabilities	**2,640,255**	2,010,407
EQUITY		
Share capital (Note 11)	**8,249,256**	7,333,619
Warrants (Note 12)	**96,775**	55,184
Contributed surplus (Notes 13 and 14)	**684,096**	466,012
Deficit	**(6,750,377)**	(4,418,241)
Total equity	**2,279,750**	3,436,574
Total liabilities and equity	**4,920,005**	5,446,981

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 April 30, 2021	2020	**Six months ended April 30, 2021**	2020
	$	$	**$**	$
Net revenue from sale of goods (Note 15)	**68,539**	-	**68,539**	-
Cost of goods sold (Notes 4 and 16)	**127,823**	-	**127,823**	-
Gross profit (loss) before fair value adjustments	**(59,284)**	-	**(59,284)**	-
Write-down of inventory to net realizable value (Note 4)	**(6,338)**	-	**(6,338)**	-
Gross profit (loss)	**(65,622)**	-	**(65,622)**	-
Operating expenses				
Management and consulting fees (Note 16)	**78,105**	162,202	**178,460**	314,403
Salaries and benefits (Note 16)	**59,262**	78,868	**196,284**	182,921
Office and facilities (Note 16)	**93,409**	26,941	**189,238**	62,091
Professional fees	**58,465**	105,420	**133,938**	163,572
Supplies and testing	**102,624**	13,581	**140,355**	21,847
Travel and promotion	**11,097**	3,933	**26,241**	11,433
Depreciation of capital assets (Notes 7 and 16)	**116,057**	11,994	**180,330**	23,988
Interest on lease liability (Note 9)	**3,399**	5,958	**8,510**	12,183
Stock-based compensation (Notes 11, 13, 14 and 16)	**567,226**	8,806	**825,894**	125,900
Government assistance	**-**	(96,932)	**(515)**	(96,932)
	1,089,644	320,771	**1,878,735**	821,406
Loss before other items	**(1,155,266)**	(320,771)	**(1,944,357)**	(821,406)
Other income (loss)				
Interest income	**-**	2,854	**57**	7,196
Interest and financing fees on convertible debt (Note 10)	**(213,709)**	-	**(257,798)**	-
Change in fair value of financial assets at fair value through profit or loss (Note 5)	**(32,940)**	-	**(62,928)**	-
Change in fair value of financial liabilities at fair value through profit or loss (Note 10)	**(79,049)**	-	**(79,049)**	-
Foreign exchange gain	**11,748**	-	**11,939**	-
Net loss and total comprehensive loss	**(1,469,216)**	(317,917)	**(2,332,136)**	(814,210)
Basic and diluted net loss per common share	**(0.016)**	(0.004)	**(0.026)**	(0.011)
Basic and diluted weighted average number of common shares outstanding	**91,600,065**	74,256,767	**89,129,531**	73,940,211

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	$	$	$	$	$
Balance, October 31, 2019	**72,800,100**	**5,251,972**	**-**	**157,475**	**(1,091,247)**	**4,318,200**
Shares issued for services (Note 11)	600,000	60,000	-	-	-	60,000
Stock-based compensation	1,000,000	100,000	-	25,900	-	125,900
Net loss and total comprehensive loss	-	-	-	-	(814,210)	(814,210)
Balance, April 30, 2020	**74,400,100**	**5,411,972**	**-**	**183,375**	**(1,905,457)**	**3,689,890**
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)	300,000	30,000	-	-	-	30,000
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	-	-	-	266,604	-	266,604
Net loss and total comprehensive loss	-	-	-	-	(2,512,784)	(2,512,784)
Balance, October 31, 2020	**86,235,740**	**7,333,619**	**55,184**	**466,012**	**(4,418,241)**	**3,436,574**
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)	4,117,450	539,892	-	(539,892)	-	-
Broker warrants issued as part of convertible debenture financing	-	-	34,605	-	-	34,605
Stock-based compensation	-	-	6,986	757,976	-	764,962
Net loss and total comprehensive loss	-	-	-	-	(2,332,136)	(2,332,136)
Balance, April 30, 2021	**92,914,090**	**8,249,256**	**96,775**	**684,096**	**(6,750,377)**	**2,279,750**

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 six months ended April 30,	2021	2020
	$	$
OPERATING ACTIVITIES		
Net loss for the period	**(2,332,136)**	(814,210)
Adjustments for:		
Stock-based compensation (Notes 11, 13, 14 and 16)	**851,912**	125,900
Depreciation of capital assets (Notes 7 and 16)	**233,545**	23,988
Interest on lease liability (Note 9)	**9,921**	12,183
Interest on convertible debt (Note 10)	**99,303**	-
Convertible debt financing fees (Note 10)	**158,495**	-
Interest income	**(57)**	(7,196)
Write-down of inventory to net realizable value (Note 4)	**6,338**	-
Change in fair value of financial assets at fair value through profit or loss (Note 5)	**62,928**	-
Change in fair value of financial liabilities at fair value through profit or loss (Note 10)	**79,049**	-
Changes in non-cash working capital items	**(640,244)**	418,479
Net cash flows from operating activities	**(1,470,946)**	**(240,856)**
INVESTING ACTIVITIES		
Interest received	**57**	7,196
Proceeds from sale of marketable securities (Note 5)	**97,040**	-
Investment in capital assets (Note 7)	**(78,869)**	(1,332,269)
Net cash flows from investing activities	**18,228**	(1,325,073)
FINANCING ACTIVITIES		
Proceeds from issuance of convertible debt (Note 10)	**1,000,000**	-
Convertible debt issuance costs (Note 10)	**(158,495)**	-
Interest paid on convertible debentures (Note 10)	**(24,976)**	-
Lease payments (Note 9)	**(30,000)**	(30,000)
Proceeds from other long-term obligations	**20,000**	40,000
Net cash flows from financing activities	**806,529**	10,000
Decrease in cash	**(646,189)**	**(1,555,929)**
Cash, beginning of the period	**902,519**	**2,288,191**
Cash, end of the period	**256,330**	**732,262**
Changes in non-cash working capital items consists of the following:		
Trade and other receivables	**(82,662)**	158,859
Inventory	**(246,599)**	(145,352)
Prepaid expenses and deposits	**(99,876)**	238,560
Accounts payable and accrued liabilities	**(211,107)**	166,412
	(640,244)	**418,479**
Supplemental information:		
Shares issued for debt and services	**375,745**	**60,000**

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

1. NATURE OF OPERATIONS AND GOING CONCERN

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

On September 16, 2020, the Company completed a reverse takeover transaction pursuant to a statutory plan of arrangement (the "Transaction") whereby the Company acquired all of the issued and outstanding common shares (the "OpCo Shares") of Molecule Inc. ("OpCo"), which became a wholly-owned subsidiary of the Company. Concurrent with the closing of the Transaction, the Company effected a consolidation of its common shares on the basis of one (1) new class "A" common share (each post-consolidation common share, a "Common Share") for every ten (10) pre-consolidation common shares, changed its name to "Molecule Holdings Inc." and assumed the business operations of OpCo, being the production and co-packing of cannabis-infused beverages ("CIBs").

The Transaction was completed pursuant to the terms of an arrangement agreement dated November 27, 2019, as amended (the "Arrangement Agreement"). As a result of the Transaction, the former shareholders of OpCo acquired control of the Company. OpCo is deemed as the acquirer for accounting purposes, and therefore its assets, liabilities and operations are included in the consolidated financial statements at their fair value on September 16, 2020, as described in Note 7.

On February 28, 2020, OpCo was issued a Standard Processing Licence by Health Canada (the "Licence") under the Cannabis Act and Cannabis Regulations. The Licence authorizes OpCo to: (i) possess cannabis; (ii) produce cannabis, other than obtaining it by cultivating, propagating or harvesting it; and (iii) sell cannabis in accordance with subsection 17(5) of the Cannabis Regulations and the conditions of the Licence.

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

<u>Going Concern</u>

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.

During the six months ended April 30, 2021, the Company commenced generating revenue, has no positive income or cash inflow from operations, has incurred losses since its inception and as at April 30, 2021, has a working capital deficiency. Continued operation of the Company is dependent on achieving profitable commercial operations, which requires continued financial support through equity and/or debt financings until profitable commercial operations are achieved. 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 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.

<u>COVID-19</u>

On January 30, 2020, the World Health Organization ("WHO") declared the ongoing novel coronavirus "COVID-19" outbreak a global health emergency and on March 11, 2020, the WHO expanded its classification of the outbreak to a worldwide pandemic. Federal, state, provincial and municipal governments across North

America enacted measures to combat the spread of COVID-19. These measures, which have included travel restrictions, border closures, non-essential business closures, quarantines, self-isolations, and social distancing, have, among other things, resulted in widespread business, employment and economic disruptions. The global pandemic continues to evolve and the ultimate impact of the COVID-19 outbreak is highly uncertain.

The continued global spread of COVID-19 could have an adverse impact on the business, operations and financial results of the Company, including with respect to issues related to labour, processing and supply chain. Since commencing production of CIBSs in the second quarter of fiscal 2021, the Company has implemented precautionary measures, which would not have otherwise been implemented prior to the COVID-19 outbreak, at its production facility (the "Facility") located in Lansdowne, Ontario 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-quarantine policies may limit staffing at the Facility. In addition, the COVID-19 pandemic may adversely affect the Company's ability to successfully market and sell its products, as sales volumes of CIBs 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, as at the date hereof the Company is unable to accurately estimate the impact or level of materiality of COVID-19 on its business, operations or financial results. The Company will continue to 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 February 28, 2022.

(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) Restatement

The Company has amended and restated its unaudited condensed interim consolidated financial statements for the three and six months ended April 30, 2021, which were previously filed on SEDAR to properly account for convertible debentures and related costs issued in March 2021. The impact of restatements as at April 30, 2021 and for the three and six months ended April 30, 2021 is summarized below:

(Expressed in Canadian dollars)

Statement of financial position as at April 30, 2021:

	As reported $	Adjustment $	As restated $
Convertible debt and warrant liabilities at FVTPL (Note 10)	-	1,088,425	1,088,425
Convertible debt (Note 10)	1,550,424	(787,848)	762,576
Total liabilities	2,339,678	300,577	2,640,255
Warrants (Note 12)	148,465	(51,690)	96,775
Contributed surplus (Notes 13 and 14)	710,236	(26,140)	684,096
Deficit	(6,527,630)	(222,747)	(6,750,377)
Total equity	2,580,327	(300,577)	2,279,750
Total liabilities and equity	4,920,005	-	4,920,005

Statements of loss and comprehensive loss for the three and six months ended April 30, 2021:

For the three months ended April 30, 2021	As reported $	Adjustment $	As restated $
Interest on convertible debt (Note 10)	70,011	(70,011)	-
Loss before other items	(1,225,277)	70,011	(1,155,266)
Interest and financing fees on convertible debt (Note 10)	-	(213,709)	(213,709)
Change in fair value of financial liabilities at fair value through profit or loss (Note 10)	-	(79,049)	(79,049)
Net loss and total comprehensive loss	(1,246,469)	(222,747)	(1,469,216)
Basic and diluted net loss per common share	(0.014)	(0.002)	(0.016)

For the six months ended April 30, 2021	As reported $	Adjustment $	As restated $
Interest on convertible debt (Note 10)	114,100	(114,100)	-
Loss before other items	(2,058,457)	114,100	(1,944,357)
Interest and financing fees on convertible debt (Note 10)	-	(257,798)	(257,798)
Change in fair value of financial liabilities at fair value through profit or loss (Note 10)	-	(79,049)	(79,049)
Net loss and total comprehensive loss	(2,109,389)	640,173	(1,469,216)
Basic and diluted net loss per common share	(0.024)	(0.002)	(0.026)

Statements of cash flow for six months ended April 30, 2021:

	As reported $	Adjustment $	As restated $
Net loss for the period	(2,109,389)	(222,747)	(2,332,136)
Interest on convertible debt (Note 10)	114,100	(14,797)	99,303
Convertible debt financing fees (Note 10)	-	158,495	158,495
Fair value adjustment on convertible debt (Note 10)	-	79,049	79,049
Changes in non-cash working capital items	(640,244)	-	(640,244)
Net cash flows from operating activities	(1,470,946)	-	(1,470,946)

(d) New and updated accounting policies

As a result of the Company commencing production during the three months ended April 30, 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.

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 an allowance for any rights of return on sales, price concessions and discounts.

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 labour-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, along with impairment losses on the write-down of inventory to net realizable value during the period, which are recorded as a separate line 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 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 labour.

(e) New significant management judgements and estimates

As a result of the Company commencing production during the three months ended April 30, 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.

(Expressed in Canadian dollars)

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 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.

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.

(f) Comparative figures

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

3. TRADE AND OTHER RECEIVABLES

Trade and other receivables consist of the following:

	April 30, 2021	October 31, 2020
	$	$
Trade accounts receivable	**76,641**	-
Sales taxes receivable	**109,102**	103,081
Total trade and other receivables	**185,743**	103,081

4. INVENTORY

Inventory consists of the following:

	April 30, 2021	October 31, 2020
	$	$
Raw materials	**376,539**	145,352
Finished goods	**15,412**	-
Total inventory	**391,951**	145,352

Capitalized costs relating to inventory expensed and included in cost of goods sold were $125,340 and $125,340 for the three and six months ended April 30, 2021, respectively (April 30, 2020 – $nil and $nil). The write-down of inventories to net realizable value on the consolidated statements of loss and comprehensive loss for the three and six months ended April 30, 2021 was $6,338 and $6,338, respectively (April 30, 2020 – $nil and $nil, respectively). As at April 30, 2021 and 2020, raw materials are carried at cost. As at April 30, 2021, finished goods are carried at net realizable value.

(Expressed in Canadian dollars)

Total share-based compensation capitalized to inventory in the six months ended April 30, 2021 was $26,018 (April 30, 2020 – $nil). Total depreciation capitalized to inventory in the six months ended April 30, 2021 was $53,215 (April 30, 2020 – $nil). Total interest on lease liability capitalized to inventory in the six months ended April 30, 2021 was $1,411 (April 30, 2020 – $nil).

5. MARKETABLE SECURITIES

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

	April 30, 2021	October 31, 2020
	$	$
Precipitate Gold Corp. (1)	**79,936**	239,904
	79,936	239,904

(1) As at April 30, 2021 and October 31, 2020, 499,600 and 999,600 common shares, respectively, of Precipitate Gold Corp. ("Precipitate") are included in marketable securities, within current assets. During the three and six months ended April 30, 2021, the Company recorded a decrease in fair value of financial assets at fair value through profit or loss of $32,940 and $62,928, respectively, in connection with these marketable securities (2020 – $nil and $nil, respectively). During the three and six months ended April 30, 2021, the Company sold 500,000 shares of Precipitate in aggregate for gross proceeds of $97,040 (2020 – $nil).

6. REVERSE TAKE-OVER

On September 16, 2020, the Company completed the Transaction, pursuant to which it acquired all of the issued and outstanding OpCo Shares of 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 Common 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 (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

(Expressed in Canadian dollars)

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

In connection with the RTO, the Company recognized a listing expense in the amount of $1,395,006 in the year ended October 31, 2020, such amount being equal to the consideration paid less the net assets acquired under the Transaction.

7. CAPITAL ASSETS

	Right of use asset (1)	Leasehold improvements (2)	Equipment (3)	Total
	$	$	$	$
Cost				
Balance, October 31, 2020	239,865	1,412,551	2,343,949	3,996,365
Additions	-	32,172	46,697	78,869
Cost, April 30, 2021	**239,865**	**1,444,723**	**2,390,646**	**4,075,234**
Accumulated depreciation				
Balance, October 31, 2020	75,962	-	-	75,962
Depreciation	23,988	96,137	113,420	233,545
Accumulated depreciation, April 30, 2021	**99,950**	**96,137**	**113,420**	**309,507**
Net book value, April 30, 2021	**139,915**	**1,348,586**	**2,277,226**	**3,765,727**

(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 six months ended April 30, 2021, the Company incurred expenditures of $32,172 in leasehold improvements on the Facility. The Company commenced recording depreciation on the leasehold improvements when the Facility became ready for use in December 2020.

(3) During the six months ended April 30, 2021, the Company purchased equipment in the amount of $46,697, 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 CIB run.

(Expressed in Canadian dollars)

(4) During the six months ended April 30, 2021, the Company capitalized $53,215 (October 31, 2020 – $nil) of depreciation to inventory. During the six months ended April 30, 2021, depreciation expensed to the consolidated statements of loss and comprehensive loss was $180,330 (2020 – $23,988).

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

(5) During the year ended October 31, 2020, the Company incurred expenditures of $329,923 in leasehold improvements on the Facility. 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 CIBs. 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.

(Expressed in Canadian dollars)

The classification of financial instruments is as follows:

	April 30, 2021	October 31, 2020
	$	$
Financial assets		
Amortized cost		
Cash	**256,330**	902,519
Trade accounts receivables	**76,641**	-
Fair value through profit or loss		
Marketable securities	**79,936**	239,904
Total financial assets	**412,907**	1,142,423
Financial liabilities		
Amortized cost		
Accounts payable and accrued liabilities	**(570,684)**	(1,094,133)
Convertible debt	**(762,576)**	(697,625)
Other long-term liabilities	**(60,000)**	(40,000)
Fair value through profit or loss		
Convertible debt	**(212,382)**	-
Warrant liability	**(876,043)**	-
Total financial liabilities	**(2,481,685)**	(1,831,758)

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 and cash equivalents. 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 and cash equivalents are 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.

(iii) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and other price risk, such as equity price risk and commodity risk. Financial instruments affected by market risk include marketable securities and derivative financial instruments, like the convertible debt and warrant liabilities measured at FVTPL.

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 unfavourable market conditions could result in the disposal at less than their value at April 30, 2021. As at April 30, 2021, the value of these listed shares was $79,936. At April 30, 2021, had the price for these publicly listed shares been 10% lower, the comprehensive loss for the three months ended April 30, 2021, would have been $7,994 greater. Conversely, had the price been 10% higher, the comprehensive loss would have been $7,994 less.

There are anti-dilution provisions in the convertible debt and warrant liabilities measured at FVTPL that expose the company to interest rate risk and equity price risk, including the exercise price and conversion feature terms for the convertible debentures and the exercise price for the associated warrants, in the event of a future financing at more favourable terms.

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 April 30, 2021.

(Expressed in Canadian dollars)

9. LEASE LIABILITY

	$
Balance, October 31, 2019	**215,379**
Interest expense	23,270
Lease payments	(60,000)
Balance, October 31, 2020	**178,649**
Interest expense	9,921
Lease payments	(30,000)
Balance, April 30, 2021	**158,570**
Current	47,418
Long-term	111,152
	158,570

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 included in the Facility. The lease has an initial five-year term which expires in April 2024, unless extended by the Company. For and during the first and second year of the lease, the base rent was $60,000 per annum, 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 per annum, payable in equal monthly instalments of $5,250. For and during the fifth year of the lease, the base rent is $66,150 per annum, 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 an irrevocable option to purchase, during the lease term, the premises and land for a purchase price which was $875,000 if exercised in the first year of the lease, which purchase price increases 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.

During the six months ended April 30, 2021, the Company capitalized $1,411 (October 31, 2020 – $nil) of interest on lease liability to inventory. During the six months ended April 30, 2021, interest on lease liability expensed to the consolidated statements of loss and comprehensive loss was $8,510 (October 31, 2020 – $23,270).

10. CONVERTIBLE DEBT

Convertible debt consists of the following:

	April 30, 2021	October 31, 2020
	$	$
Convertible debentures and warrants measured at FVTPL		
Convertible debentures and warrants issued March 18, 2021	**1,088,425**	-
Total convertible debt and warrant liabilities measured at FVTPL	**1,088,425**	-
Convertible debentures measured at amortized cost		
Convertible debentures issued September 16, 2020	**762,576**	697,625
Total long-term portion of convertible debt	**762,576**	697,625
Total convertible debt	**1,851,001**	**697,625**

Convertible Debenture issued September 16, 2020

On September 16, 2020, and in connection with the completion of the Transaction (Note 7), the Company satisfied the 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 "September 2020 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 September 2020 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 of the Company. The September 2020 Offerings included a related party transaction as certain 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. 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 at a price of $0.20 per unit, at the sole option of the respective holder of the convertible debenture. 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.

Upon exercise of the option, each unit will be comprised of one Common Share and one-half of one Common Share purchase warrant. Each warrant will be exercisable to purchase one Common Share at an exercise price of $0.30 per Common Share until September 16, 2023.

In connection with the non-brokered offering, the Agent also provided fiscal advisory services pursuant to the terms of a fiscal advisory agreement (the "Fiscal Advisory Agreement"). Pursuant to the Agency Agreement and the Fiscal Advisory Agreement, the Company issued an aggregate of 410,000 broker warrants and 40 convertible debentures (the "Compensation Debentures"). Each broker warrant is exercisable into one unit at a price of $0.20 per unit until September 16, 2023. Each Compensation Debenture has the same terms as the convertible debentures.

In accordance with IAS 32, 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, assuming a market interest rate of 12% which was their estimated rate for the without the equity component (i.e. conversion feature). Their combined effective interest rate 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 September 2020 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' within shareholders' equity 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.

(Expressed in Canadian dollars)

	Debentures	Conversion feature	Total
	$	$	$
Balance, October 31, 2019	**-**	**-**	**-**
Proceeds from issuance of Convertible Debentures	924,195	100,805	1,025,000
less:			
Cash commissions	(73,936)	(8,064)	(82,000)
Broker warrants	(48,249)	(5,263)	(53,512)
Compensation debentures	(36,066)	(3,934)	(40,000)
Other issuance costs	(125,709)	(13,710)	(139,419)
Net proceeds from issuance of Convertible Debentures	640,235	69,834	710,069
Issuance of Compensation Debentures	36,066	3,934	40,000
Interest accretion on Debentures	21,324	-	21,324
Balance, October 31, 2020	**697,625**	**73,768**	**771,393**
Interest accretion on Debentures	89,927	-	89,927
Interest paid on Debentures	(24,976)	-	(24,976)
Balance, April 30, 2021	**762,576**	**73,768**	**836,344**

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 for gross proceeds of $1,000,000. Each unit is comprised of $1,000 in principal amount of senior secured convertible debenture and one share purchase warrant for each $0.30 of principal amount, each warrant entitling the holder thereof to acquire one Common Share at an exercise price of $0.23 per Common Share (subject to adjustment) for a period of thirty-six months from the date of closing of the March 2021 Offering, 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 months from the date of issuance, being September 18, 2022. 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 at a conversion price of $0.15, subject to adjustment. As of the date that is four months and one day following the closing date, the Company will have a right to prepay or redeem the principal amount in cash, 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 obligations under the debentures are secured by the assets of the Company and OpCo, which has also acted as guarantor, including a pledge of the shares of the guarantor.

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

As a result of the anti-dilution provisions associated with the debenture, the entire convertible debenture and warrants are accounted for as derivative financial liabilities at FVTPL, as the financial liabilities cannot be settled for a fixed number of the Company's own equity instruments.

(Expressed in Canadian dollars)

The fair value of the convertible debenture at the time of issue of $856,435 was calculated as the higher of the discounted expected future cash outflows required to settle the liability and the fair value of the Common Shares required to settle it upon conversion.

The fair value of the warrants at the time of issue 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 excess of the fair value of the convertible debenture and warrant liabilities over the proceeds from the convertible debenture of $39,323 was recorded as a loss in fair value of financial liabilities at FVTPL.

In connection with the March 2021 Offering, the Company paid cash commissions of $57,500 and issued 533,333 compensation warrants exercisable at $0.15 for 36 months. The fair value of the 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' within shareholders' equity 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 immediately expensed in financing fees in the consolidated statements of loss and comprehensive loss.

On April 30, 2021, the fair value of the convertible debenture liability component was adjusted to $866,667, plus accrued interest of $9,376 ($876,043 in aggregate) calculated as the higher of the discounted expected future cash outflows required to settle the liability and the fair value of the Common Shares required to settle it upon conversion, resulting in a loss in fair value of financial liabilities at FVTPL of $10,232 for the three and six months ended April 30, 2021.

Also on April 30, 2021, the fair value of the warrants was adjusted to $212,382, using the Black-Scholes pricing model using the following assumptions: stock price of $0.13, weighted-average exercise price of $0.23, risk-free interest rate of 0.45%, expected life of warrants of 2.88 years, expected volatility of 100% and expected dividend rate of 0%, resulting in a loss in fair value of financial liabilities at FVTPL of $29,494 for the three and six months ended April 30, 2021.

	Debentures	**Warrants**	**Other income (loss)**	**Total**
	$	$	$	$
Balance, October 31, 2020 and October 31, 2019	**-**	**-**	**-**	**-**
Proceeds from issuance of Convertible Debentures	856,435	182,888	(39,323)	1,000,000
less:				
Cash commissions	-	-	(57,500)	(57,500)
Broker warrants	-	-	(34,605)	(34,605)
Other issuance costs	-	-	(66,390)	(66,390)
Net proceeds from issuance of Convertible Debentures	856,435	182,888	(197,818)	841,505
Interest accrued on Debentures	9,376	-	(9,376)	-
Change in financial liabilities at FVTPL	10,232	29,494	(39,726)	-
Balance, April 30, 2021	**876,043**	**212,382**	**(246,920)**	**841,505**

(Expressed in Canadian dollars)

11. SHARE CAPITAL

Authorized
An unlimited number of the following shares:

Common Shares – voting, no par value
Preferred Shares – issued in connection with the Transaction (Note 18)

Issued
9,313,447 Preferred Shares as at April 30, 2021 and October 31, 2020

Common Shares issued are as follows:

	Number of shares	
	#	$
Balance, October 31, 2019	**72,800,100**	**5,251,972**
Shares issued pursuant to RTO (Note 5)	9,313,447	1,490,152
Shares issued for debt (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
Balance, October 31, 2020	**86,235,740**	**7,333,619**
Shares issued for debt (4)	1,925,300	288,795
Shares issued for services (5)	635,600	86,950
Shares issued on vesting of restricted share units (Note 14)	4,117,450	539,892
Balance, April 30, 2021	**92,914,090**	**8,249,256**

(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) On September 16, 2020, the Company issued 1,340,500 Common Shares in settlement of $263,100 in debt. On October 14, 2020, the Company issued 267,526 Common Shares in settlement of $40,128 in debt. In total, the Company issued 1,608,026 Common Shares in settlement of $303,228 in debt during the year ended October 31, 2020, including a Director that received a total of 1,215,500 Common 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.

(Expressed in Canadian dollars)

(5) During the six months ended April 30, 2021, the Company issued 635,600 Common Shares valued at $86,950 to consultants for services rendered.

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
	#	$
Balance, October 31, 2019	**-**	**-**
Issued pursuant to RTO (Note 5)	1,103,250	0.70
Issued as part of September 2020 convertible debenture financing (Note 10)	615,000	0.23
Balance, October 31, 2020	**1,718,250**	**0.53**
Issued as part of March 2021 convertible debenture financing (Note 10)	533,333	0.15
Balance April 30, 2021	**2,251,583**	**0.44**

As at April 30, 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
2,251,583	**96,775**		

(1) On January 20, 2021, the Company extended the expiry date of an aggregate of 1,103,250 previously issued warrants for one additional year. In total, an additional $6,986 in stock-based compensation expense relating to Warrants was included in profit or loss for the year ended October 31, 2021 related to this extension (2020 – $nil) and credited to 'Warrants' in shareholders' equity in the consolidated statement of financial position.

(Expressed in Canadian dollars)

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

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

Refer to Note 10 for details on warrants measured at FVTPL.

13. STOCK OPTIONS

The Company's incentive stock 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 issued by the Company (the "Options"):

	Number of options	Weighted average exercise price
	#	$
Balance, October 31, 2019	**2,500,000**	**0.10**
Issued pursuant to RTO (Note 5)	1,060,000	0.46
Balance, October 31, 2020	**3,560,000**	**0.21**
Granted (1 and 2)	3,100,000	0.16
Expired (3)	(80,000)	(0.50)
Balance, April 30, 2021	**6,580,000**	**0.19**

(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.

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

(Expressed in Canadian dollars)

As at April 30, 2021, the following stock options were outstanding and exercisable:

	Outstanding			Exercisable	
Exercise prices	**Number outstanding**	**Weighted average remaining contractual life**	**Weighted average outstanding exercise price**	**Number vested**	**Weighted average vested exercise price**
$	#	(in years)	$	#	$
$0.10	2,500,000	3.68	0.10	2,500,000	0.10
$0.15	2,600,000	4.78	0.15	-	0.15
$0.20	1,250,000	0.50	0.20	1,090,000	0.20
$1.30	230,000	0.29	1.30	230,000	1.30
	6,580,000	**3.39**	**0.18**	**3,820,000**	**0.20**

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

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

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

	Six months ended April 30, 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%

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.

(Expressed in Canadian dollars)

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, $189,358 of stock-based compensation expense relating to Options was included in loss and comprehensive loss or capitalized in inventory for the six months ended April 30, 2021 (2020 – $25,900) and credited to contributed surplus.

14. RESTRICTED SHARE UNITS

On June 1, 2020, the Company adopted a Restricted Share Unit ("RSU") plan (the "RSU Plan"), pursuant to which the Company may issue RSUs to various participants. 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.

Upon vesting, the RSU holder is entitled to receive payment from the Company in settlement of such vested RSUs, in a number of Common Shares, issued from treasury, equal to the number of RSUs being settled.

The following table reflects the continuity of RSUs:

	Number of RSUs	Weighted-average market price at date of grant
	#	$
Balance, October 31, 2019	**-**	**-**
Granted (1)(2)	2,456,667	0.16
Vested	(739,167)	0.16
Balance, October 31, 2020	**1,717,500**	**0.16**
Granted (3)	4,522,763	0.12
Vested	(4,117,450)	0.13
Balance, April 30, 2021	**2,122,813**	**0.13**

(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.

(2) On September 9, 2020, 750,000 RSUs were granted to certain consultants of the Company, which vest quarterly over a twelve-month period.

(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, $568,618 of stock-based compensation expense relating to RSUs was included in loss and comprehensive loss or capitalized in inventory for the six months ended April 30, 2021 (2020 – $nil) and credited to contributed surplus.

(Expressed in Canadian dollars)

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"), setting 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 CIBs 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 was six months. The term was subsequently extended for an additional six months and then indefinitely, while allowing the Company to end the Service Agreement with sixty days' notice.

The Company's Licence allows the Company to produce CIBs and sell them to other LPs. A Standard Processing Licence, such as the License, requires an amendment to allow the holder thereof to sell cannabis products directly to Provincial Retailers (a "Sales Amendment"). Rather than waiting until a Sales Amendment is issued to the Company, the Service Agreement allows the Company to bring CIBs 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 six months ended April 30, 2021, and is presented net of provisions for sales returns and price concessions. During the three and six months ended April 30, 2021, the Company reserved or realized $4,374 (April 30, 2021 – $nil) for sales provisions and price concessions. The Company has not yet incurred excise taxes in its net revenues as those taxes are incurred by the LP that sells to the Provincial Retailers.

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	78,105	59,262	93,409	116,057	567,226	914,059
Capitalized to inventory	625	22,175	11,774	53,215	26,018	113,807
Total for the three months ended April 30, 2021	**78,730**	**81,437**	**105,183**	**169,272**	**593,244**	**1,027,866**
Operating expenses	178,460	196,284	189,238	180,330	825,894	1,570,206
Capitalized to inventory	625	22,175	11,774	53,215	26,018	113,807
Total for the six months ended April 30, 2021	**179,085**	**218,459**	**201,012**	**233,545**	**851,912**	**1,684,013**

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.

(Expressed in Canadian dollars)

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 April 30,		**Six months ended April 30,**	
	2021	2020	**2021**	2020
	$	$	**$**	$
Salaries	**30,000**	30,000	**51,799**	45,000
Consulting fees (1)	**22,821**	25,000	**85,071**	40,000
Stock-based compensation	**177,405**	-	**318,002**	100,000
Total remuneration	**230,226**	55,000	**454,872**	185,000
Lease payments (1)	**15,000**	15,000	**30,000**	30,000

(1) As at April 30, 2021, unpaid consulting fees and Facilities lease payments in the aggregate amount of $19,600 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.

19. SUBSEQUENT EVENTS

Sale of marketable securities

In May and June 2021, the Company sold 499,600 shares of Precipitate in aggregate for gross proceeds of $69,711.

Sale of capital assets

During the three months ended July 31, 2021 and October 31, 2021, the Company sold equipment with book values of $62,026 and $119,851 respectively ($181,877 in aggregate) for net proceeds of $30,000 and $47,000 respectively ($77,000 in aggregate).

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 for gross proceeds of $1,414,000. Each unit is comprised of $1,000 in principal amount of unsecured convertible debenture and six thousand share purchase warrants for each $1,000 of principal amount, each warrant entitling the holder thereof to acquire one Common Share at an exercise price of $0.15 per Common Share (subject to adjustment) for a period of thirty-six months from the date of closing of the July 2021 Offering, 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 months from the date of issuance, being July 30, 2023. 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 at a conversion price of $0.10, subject to adjustment. As of the date that is four months and one day following the closing date, the Company will have a right to prepay or redeem the principal amount in cash, 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 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.

As a result of the anti-dilution provisions associated with the debenture, the entire convertible debenture and warrants are accounted for as derivative financial liabilities at FVTPL, as the financial liabilities cannot be settled for a fixed number of the Company's own equity instruments.

The fair value of the convertible debenture at the time of issue of $1,154,767 was calculated as the higher of the discounted expected future cash outflows required to settle the liability and the fair value of the Common Shares required to settle it upon conversion.

The fair value of the warrants at the time of issue was estimated at $333,192, using the Black-Scholes pricing model using the following assumptions: stock price of $0.08, 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 excess of the fair value of the convertible debenture and warrant liabilities over the proceeds from the convertible debenture of $73,959 was recorded as a loss in fair value of financial liabilities at FVTPL.

In connection with the July 2021 Offering, the Company paid cash commissions of $96,720 and issued 951,200 compensation warrants exercisable at $0.15 per Common Share for thirty-six months. The fair value of the 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' within shareholders' equity in the consolidated statement of financial position.

The Company incurred total transaction costs in the amount of $153,291. The issuance costs, which include the cash commissions, Broker Warrants, and other issuance costs, have been immediately expensed in financing fees in the consolidated statements of loss and comprehensive loss.

On July 30, 2021, as a result of the anti-dilution provisions of the March 2021 Offering and the more favourable July 2021 Offering terms described above, 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 Common Share;
- The number of warrants issued to the participants of the March 2021 Offering was increased to six thousand 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 or August 2021 Offering, which did not differ from the terms of the July 2021 Offering, including the maturity date of September 18, 2022 and the warrant exercise expiry date of March 18, 2024.

Convertible Debentures Issued August 13, 2021

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 for gross proceeds of $1,020,000. Each unit is comprised of $1,000 in principal amount of unsecured convertible debenture and six thousand share purchase warrants for each $1,000 of principal amount, each warrant entitling the holder thereof to acquire one Common Share at an exercise price of $0.15 per Common Share (subject to adjustment) for a period of thirty-six months from the date of closing of the August 2021 Offering, expiring on August 13, 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 months from the date of issuance, being August 13, 2023. 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 at a conversion price of $0.10, subject to adjustment. As of the date that is four months and one day following the closing date, the Company will have a right to prepay or redeem the principal amount in cash, 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 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.

As a result of the anti-dilution provisions associated with the debenture, the entire convertible debenture and warrants are accounted for as derivative financial liabilities at FVTPL, as the financial liabilities cannot be settled for a fixed number of the Company’s own equity instruments.

The fair value of the convertible debenture at the time of issue of $867,000 was calculated as the higher of the discounted expected future cash outflows required to settle the liability and the fair value of the Common Shares required to settle it upon conversion.
The fair value of the warrants at the time of issue was estimated at $333,192, 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 excess of the fair value of the convertible debenture and warrant liabilities over the proceeds from the convertible debenture of $108,964 was recorded as a loss in fair value of financial liabilities at FVTPL.

In connection with the August 2021 Offering, the Company paid cash commissions of $35,600 and issued 336,000 compensation warrants exercisable at $0.15 for 36 months. The fair value of the 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 shareholders' equity 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 and broker warrants, have been immediately expensed in financing fees in the consolidated statements of loss and comprehensive loss.

Shares for Services, Granting of Stock Options

In January 2022, the Company issued 1,692,000 Common Shares valued at $240,690 for services rendered, issued 678,000 Common Shares to settle $67,980 of debt and issued 575,000 Options exercisable at $0.15 per Common Share with a two-year term to consultants of the Company.

All of the Common Shares above are subject to a four-month hold period from their issuance dates.

Expiry of Stock Options

On August 15, 2021, 230,000 Options with an exercise price of $1.30 per share expired. On September 15, 2021, 750,000 Options with an exercise price of $0.20 per Common Share expired. On January 7, 2022, 500,000 Options with an exercise price of $0.20 per Common Share expired.

Expiry of Warrants

On February 6 and 21, 2022, 499,750 and 603,500 warrants respectively with exercise prices of $0.70 per Common Share expired.