# MOLECULE HOLDINGS INC.

## (formerly Everton Resources Inc.)

## Management's Discussion and Analysis

## For the three and nine months ended July 31, 2021
***(Amended and restated)***

## NOTICE TO READER

Molecule Holdings Inc. (the "Company") has amended and restated its Management's Discussion and Analysis for the interim period ended July 31, 2021 (the "Amended and Restated MD&A"), which was previously filed on SEDAR on September 29, 2021. The Company has prepared the Amended and Restated MD&A as a result of amending and restating the Company's unaudited consolidated interim financial statements for the three and nine months ended July 31, 2021, together with the accompanying notes thereto (the "Amended and Restated Financial Statements")

The Amended and Restated Financial Statements and Amended and Restated MD&A have been prepared as a result of reflecting the convertible debenture and warrants associated with the convertible debentures issued March 18, 2021 and July 30, 2021 as derivative financial liabilities at fair value through profit or loss as a result of the anti-dilution provisions associate with the convertible debentures (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 of the Amended and Restated Financial Statements.

The MD&A that was originally filed by the Company on SEDAR on September 29, 2021, is replaced and superseded by this Amended and Restated MD&A. Such previously filed MD&A should be disregarded.

This Management's Discussion and Analysis ("MD&A") for Molecule Holdings Inc. (formerly Everton Resources Inc.) (the "Company" or "Molecule Holdings") should be read in conjunction with the interim condensed consolidated financial statements for the Company for the three and nine months ended July 31, 2021 and the consolidated financial statements for the years ended October 31, 2020 and 2019 and the notes thereto.

The Company's unaudited interim condensed consolidated financial statements and the notes thereto have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34") under International Financial Reporting Standards ("IFRS") and are reported in Canadian dollars unless otherwise stated. All financial analysis, data and information set out in this MD&A is unaudited. This MD&A contains disclosure of material changes related to the Company occurring up to and including February 28, 2022.

## CAUTION REGARDING FORWARD-LOOKING STATEMENTS

Certain information contained in this document may contain "forward-looking statements". Forward-looking statements may include, among others, statements regarding the Company's future plans, costs, objectives, economic performance, or the assumptions underlying any of the foregoing. In this document, words such as "may", "would", "could", "will", "likely", "believe", "expect", "anticipate", "intend", "plan", "estimate" and similar words and the negative form thereof are used to identify forward-looking statements. Forward-looking statements should not be read as guarantees of future performance or results and will not necessarily be accurate indications of whether such future performance will be achieved. Forward-looking statements are based on information available at the time and/or management's good faith belief with respect to future events and are subject to known or unknown risks, uncertainties and other unpredictable factors, many of which are beyond the Company's control. These risks and uncertainties include, but are not limited to, those described under the headings "Risk Management and Capital Management" and "Inherent Risk Factors" in this MD&A and could cause actual events or results to differ materially from those projected in any forward-looking statements. The Company does not intend, nor does it undertake any obligation, to update or revise any forward-looking statements contained in this MD&A to reflect subsequent information, events or circumstances or otherwise, except if required by applicable law.

Please also refer to the Company's filing statement dated September 14, 2020, which may be viewed under the Company's SEDAR profile at www.sedar.com, for additional risks that could affect future results and could cause results to differ materially from those expressed in the forward-looking statements contained herein. In addition to the factors set out above and those identified in this MD&A under "*Inherent Risk Factors*", other factors not currently viewed as material could cause actual results to differ materially from those described in the forward-looking statements. Although the Company has attempted to identify important risks and factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors and risks that cause actions, events or results not to be anticipated, estimated or intended. Accordingly, readers should not place any undue reliance on forward-looking statements.

## COVID-19

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 cannabis-infused beverages ("CIBs") 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.

## BUSINESS OVERVIEW

Molecule Holdings Inc. was incorporated as "Everton Resources Inc." under the *Business Corporations Act* (Alberta) on November 7, 1996. On May 19, 2004, the Company continued into the *Business Corporations Act* (Canada) and changed its name to "Molecule Holdings Inc." on September 15, 2020.

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 CIBs. The Transaction is described in Note 7 to the consolidated financial statements.

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".

### *The Transaction*

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 in the consolidated financial statements.

Pursuant to the terms of the Arrangement Agreement, an aggregate 74,700,100 Common Shares were issued to the former shareholders of OpCo. An additional 1,215,500 Common Shares (the "Debt Shares") were issued to a director of the Company as contemplated in the Arrangement Agreement, as settlement of debt. With the completion of the Transaction and the issuance of the Debt Shares, the Company had 85,229,047

Common Shares issued and outstanding on the date of listing of the Common Shares on the CSE, on an undiluted basis.

In addition, pursuant to the terms of the Arrangement Agreement, 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.

Going Concern

The 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. The 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 nine months ended July 31, 2021, the Company commenced generating revenue, has no positive income or cash inflow from operations, has incurred losses since its inception and as at July 31, 2021, has a working capital deficiency. Continued operation of the Company is dependent on achieving profitable commercial operations, in the future, 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.

## CORPORATE DEVELOPMENT HIGHLIGHTS

*CLOSING OF PRIVATE PLACEMENTS AND OTHER FINANCING'*

FISCAL 2020

Convertible Debenture issued September 16, 2020

On September 16, 2020, and in connection with the completion of the Transaction, 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. 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.

FISCAL 2021

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 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.

In connection with the March 2021 Offering, the Company paid cash commissions of $57,500 and issues 533,333 compensation warrants exercisable at $0.15 for 36 months.

On July 30, 2021, as a result of the anti-dilution provisions of the March 2021 Offering and 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 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 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 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.

In connection with the July 2021 Offering, the Company paid cash commissions of $96,720 and 951,200 compensation warrants exercisable at $0.15 per Common Share for thirty-six months.

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 of 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.

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.

*RECEIPT OF STANDARD PROCESSING LICENCE*

On February 28, 2020, Molecule was issued the License. Refer to *"Business Overview"* for additional information.

*LEASE OF LAND & BUILDING IN THE THOUSAND ISLANDS' REGION OF EASTERN ONTARIO*

Effective April 1, 2019, OpCo entered into a lease with Thousand Island Farms Inc., a company owned by Andre Audet, a Director of the Company, for a parcel of land and a building located in the Thousand Islands' region of Eastern Ontario. 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 OpCo is not in default in the performance of any term of the lease, it 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 paid an amount of $5,000 in consideration for the grant of the purchase option, which is non-refundable.

*GRANTING OF STOCK OPTIONS*

On January 7, 2021, 500,000 stock options of the Company ("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.

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

On April 14, 2021, 80,000 Options with an exercise price of $0.50 per share expired.

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 share expired.

On November 8, 2011, the Company granted 575,000 Options with an exercise price of $0.15 per Common Share to two consultants. Refer to *"Advisory* Agreement" below for additional information.

On January 7, 2022, 500,000 Options with an exercise price of $0.20 per Common Share expired.

*ADVISORY AGREEMENT*

On November 8, 2021, the Company announced that it had engaged Cascade Ventures Ltd. ("Cascade") and
On November 8, 2021, the Company announced that it had engaged Cascade Ventures Ltd. ("Cascade") and
Just Capital Consulting Inc. ("JCC") to provide capital markets, public relations, marketing, communication and media services, whereby JCC and Cascade will receive an aggregate total cash fee of $155,710 plus

applicable taxes and whereby the Company granted 575,000 Options with an exercise price of $0.15 per share. The Options all vest on March 8, 2022 and expire on November 8, 2023. Also on November 8, 2021, the Company announced that it proposed to issue 1,692,000 Common Sharesin settlement of $169,200 of consulting fees, including fees owed to JCC and Cascade. Refer to *"Subsequent Events*".

*SHARES ISSUED IN ACCORDANCE WITH EMPLOYMENT AGREEMENT*

On December 1, 2019, OpCo issued 1,000,000 common shares, at a deemed value of $0.10 per share, to OpCo's Chief Regulatory Officer, in accordance with his terms of employment.

*ADOPTION OF RESTRICTED SHARE UNIT PLAN AND GRANTING OF 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 shall be 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.

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.

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

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.

*SIGNING OF CANNABIS SUPPLY AGREEMENT*

On November 26, 2020, the Company announced the signing of a cannabis supply agreement with Abcann Medicinals Inc., a wholly owned subsidiary of Vivo Cannabis Inc., enabling Molecule to use Vertosa emulsions in its cannabis beverages. Abcann has territory rights to Vertosa emulsion technology and generates the products on site. Vertosa's customized water-compatible solutions are reported to accelerate onset time, increase bioavailability, and improve the taste profile of cannabis-infused products.

*COMPLETION OF PRODUCTION-SCALE TEST RUNS OF CANNABIS INFUSED BEVERAGES*

On December 23, 2020, the Company announced that it had successfully completed a production-scale test run of CIBs at the Facility. The run represented the successful transition from bench-top to full-scale production testing. Production runs begin with water and proceed through filtration, flavoring, cannabis infusion, chilling, gas management, pasteurization and canning. Samples were taken during the course of the production and returned favorable results from testing that was performed in the Company's on-site laboratory.

On January 20, 2021, the Company announced that it had successfully completed another production-scale test run, aimed at refining and finalizing its processes and controls, thereby readying the Company for its sales amendment application and inventory accumulation.

*MODIFICATIONS OF WARRANTS*

On January 20, 2021, the Company extended the expiry date of an aggregate of 1,103,250 previously issued warrants for one additional year. 499,750 of the warrants (4,997,500 pre-consolidation) (the "February 6 Warrants") were originally issued on February 6, 2017, had a previous expiry date of February 6, 2021 and were extended in 2021 for one additional year, to February 6, 2022. 603,500 of the warrants (6,035,000 pre-consolidation) (the "February 21 Warrants") were originally issued on February 21, 2017, had a previous expiry date of February 21, 2021 and were extended in 2021 for one additional year, to February 21, 2022. Each of the 1,103,250 warrants entitle the holder to purchase a Common Share at an exercise price of $0.70. The February 6 Warrants and February 21 Warrants have now expired.

On July 30, 2021, as a result of the July 2021 Offering, the number of warrants issued in the March 2021 Offering increased from 3,333,333 to 6,000,000 and the exercise price was reduced from $0.23 to $0.15.

*SALES PARTNERSHIP WITH VORTEX CANNABIS INC.*

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 nine months and can be extended as required.

Molecule currently holds the License issued by Health Canada, which allows the Company to produce cannabis-infused products and sell them to other Licensed Producers ("LPs"). The 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 CIBs to market through Vortex, while completing its own sales amendment application.

*SIGNING OF MASTER SUPPLY AGREEMENT WITH THE ONTARIO CANNABIS STORE*

On February 3, 2021, the Company announced that Vortex had agreed to an agreement with the Ontario Cannabis Store (the "OCS") to supply 11 products of the Company to the OCS.

On March 9, 2021, the Company announced that it had received a full shipment of 355 ml. sleek aluminum cans. This shipment allowed Molecule to scale production, enabling the Company to fulfill its opening list of orders expected from the OCS.

On March 11, 2021, the Company announced that it has received its first pipeline fill orders for five of its brands from the OCS, and committed to shipping to the OCS Distribution Centre shortly after March 2021. The OCS anticipates further follow-up PO's, "one and two weeks after launch". This initial shipment was completed on April 30, 2021.

*BEVERAGE PRODUCTION AGREEMENT WITH PROPER CANNABIS*

On February 11, 2021, the Company announced that it had finalized a definitive agreement with Proper Cannabis and received its initial deposit for production and distribution of cannabis beverages.

*BRAND, SKU AND GEOGRAPHIC EXPANSION*

On April 28, 2021, the Company announced its line of *Molecule Crafted*™ cannabis beverage portfolio for launch in May 2021.

On May 6, 2021, the Company announced that its third (3rd) wholly-owned line of cannabis beverages, *Phresh Cannabis Beverages* ("PHRESH"), will be available in June 2021.

On May 19, 2021, the Company announced that its first five (5) beverages are now available for purchase online through the OCS online ecommerce portal.

On June 3, 2021, the Company announced that its newest brand PHRESH was picked up by the OCS for both online and retail distribution, being the sixth (6th) Company brand accepted and sold by OCS.
On November 10, 2021, the Company announced that it is entering into the final stages of Health Canada's review regarding "adding the activity of sale" to its License pursuant to the application submitted by the Company to Health Canada on August 29, 2021

On November 24, 2021, the Company announced its newest lineup of products under the brand name CANAJO. The CANAJO brand is expected to feature a family of coffee-inspired flavours with an assortment of THC and CBD levels designed for a wide variety of cannabis users.

On December 1, 2021, the Company announced positive results regarding its PHRESH Strawberry Kiwi SKU sugar-free beverage. In the three months ending November 30, 2021, the beverage experienced a store penetration rate of 36%, achieving a rank of 'Top 4' in the OCS to dispensary unit sales and a 'Top 2' status in 10mg Online Unit Sales through the OCS retail site.

On December 6, 2021, the Company announced it received a multi-SKU purchase order from the province of British Columbia. The launch includes the Company's newly announced CANAJO Espresso Spice 10mg THC drink. The order was completed and shipped to British Columbia in December.

On December 15, 2021, the Company announced it received a new purchase order from the Northwest Territories. The purchase order contained seven Molecule-developed product SKU's and was completed and prepared to be shipped to the Northwest Territories in early January.

On January 12, 2022, the Company announced its newest brand EMBODY. The EMBODY brand will focus on trend setting functional ingredients, unique flavour profiles and high CBD inputs. EMBODY is set to launch this spring as a multi-SKU offering.

On January 14, 2022, the Company announced it received a 4-SKU purchase order from the territory of Nunavut. The Company also received a replacement purchase order for all of the SKUs recently listed in British Columbia. Since December 2021, this marked the third new point of distribution, and the Company has added 14 new in-market SKUs, 2 new brands and 2 new flavours in existing brands.

On February 9, 2022, the Company announced its PHRESH brand achieved the number 2 ranking in unit sales in OCS retails stores in January 2022 and attained the number 1 ranking in 10mg sales for online sales through the OCS portal. In addition, the Company completed a corporate rebranding, together with its four cornerstone brands: PHRESH, KLÕN, CANAJO, and EMBODY.

On February 15, 2022, the Company announced the OCS selected 7 new flavours of Company beverages to include in its upcoming spring launch, including: CANAJO Regular, CANAJO Espresso Spice, EMBODY Blood Orange + Rosemary Sparkling Red Tea, EMBODY Mint + Honey Sparkling Green Tea, PHRESH Summer Punch, PHRESH STRAINS Pineapple Express, and PROPER Blueberry Pomegranate.

On February 17, 2022, the Company announced that the British Columbia Liquor Distribution Branch placed its third order for CANAJO Espresso Spice. Data collected from the first full month of sales since CANAJO launched in British Columbia retailers in mid-January indicated nearly 7,000 units were sold.
On February 17, 2022, the Company also announced that its sales team is now offering in-store activations across British Columbia and Ontario. These "pop-ups", held at cannabis retailers that carry Company brands, educate consumers on cannabis beverages and highlight product attributes.

*DEBT SETTLEMENTS AND SHARES FOR SERVICES*

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 to a Director that received a total of 1,215,500 Common Shares in settlement of $243,100 in debt.

On January 15, 2021, as amended on February 17, 2022, the Company signed an agreement with an online marketing company (the "Marketing Agreement"), pursuant to which the Company agreed to pay a total of $75,000 plus HST for services, 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, based on the closing price on each instalment date, provided that the issuance of the Common Shares shall not occur at a price less than $0.10 per Common Share. On January 26, 2021, the Company issued 135,600 Common Shares in settlement of the first installment of $16,950 ($15,000 plus HST). On September 7, 2021, the Company issued 342,423 Common Shares in settlement of the second and third instalments totaling $33,990 ($30,000 plus HST). Refer to *"Subsequent Events*".

On January 29, 2021, the Company issued 1,925,300 Common Shares in settlement of $288,795 in debt, including to directors of the Company that received a total of 933,333 Common Shares in settlement of $140,000 in consulting fees.

On February 21, 2021, the Company signed an agreement with Toronto-based marketing firm North Equities Corp., which specializes in various social media platforms, to facilitate greater investor engagement and widespread dissemination of the Company's news. On February 23, 2021, pursuant to the agreement, the Company issued 500,000 Common Shares at a price of $0.14 per Common Share, in settlement of the entire contract value.

*SALE OF MARKETABLE SECURITIES*

During the nine months ended July 31, 2021, the Company sold 999,600 shares of Precipitate Gold Corp. ("Precipitate") in aggregate for gross proceeds of $166,751.

*ANNUAL GENERAL MEETING*

On July 31, 2021, the Company held its Annual General Meeting. Shareholders of the Company approved all matters voted on at the meeting.

## SELECTED FINANCIAL INFORMATION

The following selected financial information is derived from the Company's unaudited interim condensed consolidated financial statements for the three and nine months ended July 31, 2021, which were prepared in accordance with IFRS:

| | **Three months ended July 31,** | | Nine months ended July 31, | |
|---|---|---|---|---|
| | **2021** | 2020 | **2021** | 2020 |
| | **$** | $ | **$** | $ |
| Net revenue from the sale of goods | **254,800** | - | **323,339** | |
| Net loss and total comprehensive loss | **(1,118,052)** | (366,047) | **(3,450,188)** | (1,180,257) |
| Basic and diluted loss weighted average number of common shares outstanding | **93,832,922** | 74,553,361 | **90,714,557** | 74,146,086 |
| Basic and diluted loss per common share | **(0.012)** | (0.005) | **(0.038)** | (0.016) |

| As at | **July 31, 2021** | October 31, 2020 |
|---|---|---|
| | **$** | $ |
| Current assets | **2,417,508** | 1,526,578 |
| Non-current financial liabilities | **827,508** | 737,625 |

## PAYMENT OF DIVIDENDS

The Company's current policy is to retain earnings to finance the development of its business. Therefore, the Company does not anticipate paying cash dividends on the Common Shares in the foreseeable future. The Company's dividend policy will be reviewed from time to time by the Board of Directors in the context of its earnings, financial condition and other relevant factors. Until the time that the Company does pay dividends, which it may never do, shareholders will not be able to receive a return on their Common Shares unless they sell them.

## RESULTS OF OPERATIONS

For the three months ended July 31, 2021 and 2020:

| For three months ended July 31, | **2021** | 2020 | Change |
|---|---|---|---|
| | **$** | $ | $ |
| Net revenue from sale of goods | **254,800** | - | 254,800 |
| Gross profit (loss) before fair value adjustments | **(273,446)** | - | (273,446) |
| **Gross profit (loss)** | **(276,058)** | - | (276,058) |
| Operating expenses | **(435,602)** | (366,047) | (69,555) |
| **Loss from operations** | **(711,660)** | (366,047) | (345,613) |
| Other income (loss) | **(406,392)** | - | (406,392) |
| **Net loss and total comprehensive loss** | **(1,118,052)** | (366,047) | (752,005) |

During the three months ended July 31, 2021, the Company recorded a net loss and total comprehensive loss of $1,118,052, as compared to a net loss and total comprehensive loss of $366,047, during the three months ended July 31, 2020, an increase of $752,005.

The increase loss for the three months ended July 31, 2021 was primarily attributable to variances in the following items: a decrease in gross margin, and increases in operating expenses and other losses as follows: increases in: (i) office and facilities, (ii) stock-based compensation, (iii) interest and financing fees on convertible debt, and (iv) change in fair value of financial liabilities at FVTPL; as partially offset by an increase in a reduction in: (v) professional fees, as further described below.

The operating expenses below exclude total costs of $113,807 for the three months ended October 31, 2021 (2020 – $nil) capitalized to inventory that are more fully described in Note 16 to the interim condensed consolidated financial statements for the three and nine months ended July 31, 2021.

Revenue

During the three months ended July 31, 2021, the Company earned net revenues of $254,800 from the sale of CIBs, commencing from its first shipment in April 2021. The Company's quarterly revenue peaked in fiscal 2021 during the third quarter, with $254,800 of net revenue from the sale of goods, as its brands rolled out through Vortex to OCS locations during the peak summer months.

Cost of goods sold

Cost of goods sold includes the cost of inventory expensed, packaging costs, shipping costs and related labour. During the three months ended July 31, 2021, the Company incurred cost of goods sold of $528,246 as compared to $nil during each of the three months ended July 31, 2020. The increase is due to the Company commencing commercial operations in April 2021 and scaling production through the subsequent two quarters of fiscal 2021.

Gross margin

The Company's cost of goods sold exceeded revenue for the three months ended July 31, 2021, as a result of the utilization level of the Facility. The result included a write-down of inventory to net realizable value of $2,612 for the three months ended July 31 2021. As the Company continues to increase production levels of CIBs, the Company expects to see gross margin increase.

Certain components of operating expenses and other income (loss) for the three months ended July 31, 2021 and 2020 are as follows:

| For three months ended July 31, | **2021** | 2020 | Change |
|---|---|---|---|
| | **$** | $ | $ |
| **Operating expenses** | | | |
| Office and facilities | **73,730** | 24,090 | (49,640) |
| Professional fees | **15,487** | 91,120 | 75,633 |
| Stock-based compensation | **129,732** | 61,956 | (67,776) |
| **Total Operating expenses** | **435,602** | 366,047 | (69,555) |
| **Other income (loss)** | | | |
| Interest and financing fees on convertible debt | **(228,689)** | - | (228,689) |
| Change in fair value of financial liabilities at FVTPL | **(133,667)** | - | (133,667) |
| **Total other income (loss)** | **(406,392)** | - | (440,371) |

(i) During the three months ended July 31, 2021, the Company incurred office and facilities expenses of $73,730 as compared to $24,090 during the three months ended July 31, 2020, an increase of $49,640. The increase during the three months ended July 31, 2021 is primarily due to preparing the Facility in late 2020 and early 2021 for commercial production.

(ii) During the three months ended July 31, 2021, the Company recognized stock-based compensation of $129,732 as compared to $61,956 during the three months ended July 31, 2020, an increase of $67,776. The increase during the three months ended July 31, 2021 is due primarily to the 4,522,763 RSUs granted to officers, employees and certain consultants on January 29, 2021, the 500,000 Options granted to a consultant on January 7, 2021 and the 2,600,000 Options granted to directors, officers, employees and consultants on February 8, 2021, versus the 1,000,000 Common Shares issued to OpCo's Chief Regulatory Officer on December 1, 2019, in accordance with his terms of employment.

(iii) During the three months ended July 31, 2021, the Company incurred interest and financing fees on convertible debt of $228,689 as compared to $nil during each of the three months ended July 31, 2020, as a result of the convertible debt financings in September 2020, March 2021 and July 2021 Offerings including $153,291 of debt issuance costs associated with the July 2021 Offering.

(iv) During the three months ended July 31, 2021, the Company incurred a loss in fair value of financial liabilities at FVTPL of $133,667 as compared to $nil during the three months ended July 31, 2020, an increase of $133,667 associated with the March 2021 Offering.

(v) During the three months ended July 31, 2021, the Company incurred professional fees of $15,487 as compared to $91,120 during the three months ended July 31, 2020, a decrease of $75,633. The higher expense during the three months ended July 31, 2020 is primarily due to professional fees incurred in connection with preparing for the reverse take-over transaction in in September 2020, as partially offset earlier in 2021 by the increased obligations associated with being public, following the reverse take-over transaction.

<u>For the nine months ended July 31, 2021 and 2020:</u>

| For nine months ended July 31, | **2021** | 2020 | Change |
|---|---|---|---|
| | **$** | $ | $ |
| Net revenue from sale of goods | **323,339** | - | 323,339 |
| Gross profit (loss) before fair value adjustments | **(332,730)** | - | (332,730) |
| **Gross profit (loss)** | **(341,680)** | - | (341,680) |
| **Operating expenses** | **(2,314,337)** | (1,187,453) | (1,126,884) |
| **Loss from operations** | **(2,656,017)** | (1,187,453) | (1,468,564) |
| Other income (loss) | **(794,171)** | 7,196 | (801,367) |
| **Net loss and total comprehensive loss** | **(3,450,188)** | (1,180,257) | (2,269,931) |

During the nine months ended July 31, 2021, the Company recorded a net loss and total comprehensive loss of $3,450,188 as compared to a net loss and total comprehensive loss of $ $1,180,257 during the nine months ended July 31, 2020, an increase of $2,269,931.

The increased loss for the nine months ended July 31, 2021 was primarily attributable to variances in the following items: a decrease in gross margin, and increases in operating expenses and other losses as follows: increases in: (i) office and facilities, (ii) supplies and testing (iii) depreciation of capital assets, (iv) stock-based compensation, (v) government assistance, (vi) interest and financing fees on convertible debt, and (vii) change in fair value of financial liabilities at FVTPL; as partially offset by a reduction in: (ix) management and consulting fees and (x) professional fees, as further described below.

The operating expenses below exclude total costs of $445,431 for the nine months ended October 31, 2021 (2020 – $nil) capitalized to inventory that are more fully described in Note 16 to the interim condensed consolidated financial statements for the three and nine months ended July 31, 2021.

Revenue

During the nine months ended October 31, 2021, the Company earned net revenues of $323,339 from the sale of CIBs. The Company's quarterly revenue peaked in fiscal 2021 during the third quarter, with $254,800 of net revenue from the sale of goods, as its brands rolled out through Vortex to OCS locations during the peak summer months.

Cost of goods sold

Cost of goods sold includes the cost of inventory expensed, packaging costs, shipping costs and related labour. The increased cost in 2021 of $656,069 is due to the Company commencing commercial operations in April 2021 and scaling production through the subsequent two quarters of fiscal 2021.

Gross margin

The Company's cost of goods sold exceeded revenue for the nine months ended July 31, 2021, as a result of the utilization level of the Facility. The result included a write-down of inventory to net realizable value of $8,950 for the nine months ended July 31, 2021. As the Company continues to increase production levels of CIBs, the Company expects to see gross margin increase.

Certain components of operating expenses and other income (loss) for the nine months ended July 31, 2021 and 2020 are as follows:

| For nine months ended July 31, | **2021** | 2020 | Change |
|---|---|---|---|
| | **$** | $ | $ |
| **Operating expenses** | | | |
| Management and consulting fees | **289,956** | 398,708 | 108,752 |
| Office and facilities | **262,968** | 86,181 | (176,787) |
| Professional fees | **149,425** | 254,692 | 105,267 |
| Supplies and testing | **166,021** | 28,870 | (137,151) |
| Depreciation of capital assets | **195,800** | 35,982 | (159,818) |
| Stock-based compensation | **955,626** | 187,856 | (767,770) |
| Government assistance | **(515)** | (96,932) | (96,417) |
| **Total operating expenses** | **2,314,337** | 1,187,453 | (1,126,884) |
| | | | 0 |
| **Other income (loss)** | | | |
| Interest and financing fees on convertible debt | **(486,487)** | - | (486,487) |
| Change in fair value of financial liabilities at FVTPL | **(178,737)** | - | (178,737) |
| **Total other income (loss)** | **(794,171)** | 7,196 | (801,367) |

(i) During the nine months ended July 31, 2021, the Company incurred office and facilities expenses of $262,968 as compared to $86,181 during the nine months ended July 31, 2020, an increase of $176,787. The increase during the nine months ended July 31, 2021 is primarily due to preparing the Facility in late 2020 and early 2021 for commercial production.

(ii) During the nine months ended July 31, 2021, the Company incurred supplies and testing expenses of $166,021 as compared to $28,870 during the nine months ended July 31, 2020, an increase of $137,151.

The increase during the nine months ended July 31, 2021 is primarily due to increased production run testing as the Company prepared for fulfilling its first orders in the second quarter of fiscal 2021 and as it scaled production through the nine months ended July 31, 2021.

(iii) During the nine months ended July 31, 2021, the Company recognized depreciation of $195,800, as compared to $35,982, during the nine months ended July 31, 2020, an increase of $159,818. The increase during the nine months ended July 31, 2021 is primarily due to commencing depreciation of the Company's leasehold improvements in December 2020 after it became ready for use in and the production equipment in January 2021 following the Company's first test production-scale CIB run in December 2020.

(iv) During the nine months ended July 31, 2021, the Company incurred stock-based compensation of $955,626 as compared to $187,856 during the nine months ended July 31, 2020, an increase of $767,770. The increase during the nine months ended July 31, 2021 is due primarily to the 4,522,763 RSUs granted to officers, employees and certain consultants on January 29, 2021, the 500,000 Options granted to a consultant on January 7, 2021 and the 2,600,000 Options granted to directors, officers, employees and consultants on February 8, 2021, versus the 1,000,000 Common Shares issued to OpCo's Chief Regulatory Officer on December 1, 2019, in accordance with his terms of employment.

(v) During the nine months ended July 31, 2021, the Company realized government assistance recoveries $515 as compared to $96,932 during the nine months ended July 31, 2020, related to investment tax credits recognized in connection with the government's Scientific Research and Experimental Development program ("SR&ED").

(vi) During the nine months ended July 31, 2021, the Company incurred interest and financing fees on convertible debt of $486,487 as compared to $nil during the nine months ended July 31, 2020, as a result of the convertible debt financings in September 2020, March 2021 and July 2021 including $311,786 of debt issuance costs associated with the March 2021 and July 2021 financings.

(vii) During the nine months ended July 31, 2021, the Company incurred a loss in fair value of financial liabilities at FVTPL of $178,737 as compared to $nil during the nine months ended July 31, 2020, an increase of $178,737 associated with the March 2021 Offering

(viii) During the nine months ended July 31, 2021, the Company recorded management and consulting fees of $289,956 as compared to $398,708, during the nine months ended July 31, 2020, a decrease of $108,752. The higher expense during the nine months ended July 31, 2020, resulted from activities associated with the Company's licence application which was received on February 28, 2020 and corporate advisory work in the lead up to the reverse take-over transaction in September 2020.

(ix) During the nine months ended July 31, 2021, the Company incurred professional fees of $149,425 as compared to $254,692 during the nine months ended July 31, 2020, a decrease of $105,267. The higher expense during the nine months ended July 31, 2020 is primarily due to professional fees incurred in connection with preparing for the reverse take-over transaction in September 2020, as partially offset earlier in 2021 by the increased obligations associated with being public, following the reverse take-over transaction.

## SUMMARY OF QUARTERLY RESULTS

The following information has been derived from the eight most recently completed quarters, all presented in accordance with IFRS:

| For the three months ended | July 31, 2021 | April 30, 2021 | January 31, 2021 | October 31, 2020 |
|---|---|---|---|---|
| | | $ | $ | $ |
| Net loss and comprehensive loss | (1,118,052) | (1,469,216) | (862,920) | (2,146,737) |
| Basic and diluted loss per Common Share | (0.012) | (0.016) | (0.010) | (0.028) |

| For the three months ended | July 31, 2020 | April 30, 2020 | January 31, 2020 | October 31, 2019 |
|---|---|---|---|---|
| | | $ | $ | $ |
| Net loss and comprehensive loss | (366,047) | (317,917) | (496,293) | (357,424) |
| Basic and diluted loss per Common Share | (0.005) | (0.004) | (0.007) | (0.005) |

The significant increase in the net loss and comprehensive loss during the three and six months ended April 30, 2021, as compared to other periods, excluding the quarter ended October 31, 2020 when the Company went through the RTO, is due to expenses incurred in connection with the Company preparing for and commencing commercial production of CIBs in late 2020 and early 2021, and due to the higher costs of being public subsequent to the Company's RTO in September 2020.

The results for the three months ended April 30, 2021 reflect the amended and restated unaudited condensed interim financial statements for the three and six months ended April 30, 2021.

## USE OF PROCEEDS

The Company has completed the following convertible debt financings between September 2020 and October 2021, for aggregate gross proceeds of approximately $3,439,000:

- On September 16, 2020, the Company raised gross proceeds of $1,025,000;
- On March 18, 2021, the Company raised gross proceeds of $1,000,000; and
- On July 31, 2021, the Company raised gross proceeds of $1,414,000.

For the period from closing of the September 2020 Offering to July 31, 2021, the Company has used the net proceeds of the financings as shown below.

| | |
|---|---|
| **Operating activites:** | |
| Management and consulting fees | **199,000** |
| Salaries and benefits | **242,000** |
| Office and facilities | **99,000** |
| Professional fees | **135,000** |
| Supplies and testing | **164,000** |
| Inventory production | **698,000** |
| **Investing and financing activities:** | |
| Investment in capital assets | **159,000** |
| Interest on convertible debt | **91,000** |
| Debt issuance costs | **423,000** |
| **Total operating expenses** | **2,210,000** |

## LIQUIDITY AND CAPITAL RESOURCES

The Company's liquidity depends on existing cash reserves, supplemented as necessary by equity and/or debt financings. As at July 31, 2021, the Company had a negative working capital of $1,203,903 including cash of $1,229,290, trade and other receivables of $509,951, prepaid expenses and deposits of $220,097, inventory of $458,170 and current liabilities of $3,621,411 including convertible debt and warrant liabilities at FVTPL totalling $2,606,617 that have maturities greater than 24 months after period-end but that are required to be included in current liabilities as they are derivative financial liabilities at FVTPL, accounts payable and accrued liabilities of $965,196 and current portion of lease liability of $49,598.

During the nine months ended July 31, 2021, the Company used cash of $1,779,337 to fund operating activities. ($457,125 for nine months ended July 31, 2020).

During the nine months ended July 31, 2021, the Company raised $1,000,000 and $1,414,000 in proceeds from the issuance of convertible debt on March 18, 2021 and July 30, 2021 respectively, and $166,751 in proceeds from the sale of shares in Precipitate.

During the nine months ended July 31, 2021, the Company extended its cash runway by issuing 1,925,300 Common Shares in settlement of $288,795 of debt and 635,600 Common Shares for services valued at $86,950. The Company also granted 4,522,763 RSUs on January 29, 2021 to officers, employees and certain consultants, 500,000 Options at an exercise price of $0.20 per share to a consultant on January 7, 2021 and 2,600,000 Options at an exercise price of $0.15 per share to directors, officers, employees and certain consultants on February 8, 2021.

As the Company's focus has been primarily on the retrofitting of the Facility in the Thousand Islands region of Eastern Ontario, obtaining its licence from Health Canada, and on preparing for and commencing production of CIBs, it has generated little operating revenue to date and has relied primarily on equity and/or debt financings to fund its operations. The Company may require additional equity and/or debt financing to fund its ongoing operations until it can achieve profitable operations.

## OFF-BALANCE SHEET ARRANGEMENTS

As at July 31, 2021 and as of the date of this MD&A, the Company does not have any off-balance sheet arrangements.

## PROPOSED TRANSACTIONS

As at the date of this MD&A, there are no proposed asset or business acquisitions or dispositions.

## 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 was as follows:

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

During the three and nine months ended July 31, 2021, facilities costs of $15,000 and $45,000, respectively, were paid/payable to a company owned by Andre Audet, the Company's former CEO and current Director (2020 – $15,000 and $45,000, respectively). During each of the three and nine months ended July 31, 2021, consulting fees of $11,000 were paid/payable to a company owned by Andre Audet, the Company's former CEO and current Director (2020 – $nil). During the three and nine months ended July 31, 2021, the Company also expensed $20,937 and $111,959 of stock-based compensation expense related to Mr. Audet (2020 – $6,670 and $6,670, respectively).

During the three and nine months ended July 31, 2021, salary of $20,000 and $71,799, respectively, was paid/payable to Phil Waddington, the Company's current COO and former CEO and Chief Regulatory Officer ("CRO"), for services rendered as CEO (2020 – $20,000 and $65,000, respectively, for services rendered as CRO). During the three and nine months ended July 31, 2021, the Company also expensed $22,743 and $96,460, respectively, of stock-based compensation expense related to Mr. Waddington (2020 – $6,670 and $106,670, respectively).

During the three and nine months ended July 31, 2021, consulting fees of $nil and $10,000, respectively, were paid/payable to Brendan Stutt, the Company's former CFO, for services rendered as CFO of the Company (2020 – $20,000 and $60,000, respectively). During each of the three and nine months ended July 31, 2021, the Company also expensed $nil of stock-based compensation expense related to Mr. Stutt (2020 – $13,330).

During the three and nine months ended July 31, 2021, consulting fees of $33,000 and $87,071, respectively, were paid/payable to Positive Venture Group Inc. ("Positive") for finance outsource services including the fees for the services of Mr. Jeff Stoss, the Company's CFO (2020 – $nil and $nil, respectively). During the three and nine months ended July 31, 2021, the Company also expensed $4,515 and $22,500, respectively, of stock-based compensation expense related to Positive (2020 – $nil and $nil, respectively).

During the three and nine months ended July 31, 2021, consulting fees of $40,000 and $61,000, respectively, were paid/payable to David Reingold, current CEO and Director of the Company, for consulting services rendered (2020 – $nil and $nil, respectively). During the three and nine months ended July 31, 2021, the Company also expensed $15,252 and $150,530, respectively, of stock-based compensation expense related to Mr. Reingold (2020 – $nil and $nil, respectively).

## CRITICAL ACCOUNTING ESTIMATES

See Note 2 to the Company's consolidated financial statements for the years ended October 31, 2020 and 2019.

## NEW ACCOUNTING POLICIES ISSUED BUT NOT YET EFFECTIVE

See Note 2 to the Company's consolidated financial statements for the years ended October 31, 2020 and 2019.

## CHANGE IN 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.

### 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 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 through other 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.

## NEW SIGNIFICANT MANAGEMENT JUDGEMENTS AND ESTIMATES

As a result of the Company commencing production during the three 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 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.

## FINANCIAL INSTRUMENTS, RISK MANAGEMENT AND CAPITAL MANAGEMENT

*Financial instruments*

The Company's financial instruments consist of cash, trade accounts receivable, 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.

The classification of financial instruments is as follows:

| | **July 31, 2021** | October 31, 2020 |
|---|---|---|
| | **$** | $ |
| **Financial assets** | | |
| Amortized cost | | |
| Cash | **1,229,290** | 902,519 |
| Trade accounts receivables | **461,203** | - |
| Fair value through profit or loss | | |
| Marketable securities | **-** | 239,904 |
| Total financial assets | **1,690,493** | 1,142,423 |
| **Financial liabilities** | | |
| Amortized cost | | |
| Accounts payable and accrued liabilities | **(965,196)** | (1,094,133) |
| Convertible debt | **(767,508)** | (697,625) |
| Other long-term liabilities | **(60,000)** | (40,000) |
| Fair value through profit or loss | | |
| Convertible debt | **(550,059)** | - |
| Warrant liability | **(2,056,558)** | - |
| Total financial liabilities | **(4,399,321)** | (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. 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.

*(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 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 unfavourable 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 after selling the remainder in the nine months ended July 31, 2021, resulting in a loss of $73,153 for the nine months ended July 31, 2021 (2020 – $nil).

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 nine months ended July 31, 2021.

## OUTSTANDING SHARE DATA

The authorized capital of the Company consists of an unlimited number of Common Shares without par value and an unlimited number of Preferred Shares. As of July 31, 2021, 95,036,903 Common Shares and 9,313,447 Preferred Shares were issued and outstanding. As at the date of this MD&A, an aggregate of 97,406,913 Common Shares and 9,313,447 Preferred Shares are issued and outstanding. All Preferred Shares were issued in connection with the Transaction to previous OpCo shareholders.

In addition to the Common Shares and Preferred Shares, the Company also has the following securities convertible into Common Shares:

| Security | Expiry date | Range of exercise price | Securities outstanding |
|---|---|---|---|
| | | $ | # |
| Common shares | - | - | 97,406,903 |
| Warrants | Up to August 13, 2024 | 0.15 - 0.30 | 2,435,533 |
| Stock options | Up to February 8, 2026 | 0.10 - 0.20 | 5,675,000 |
| Restricted share units | - | - | - |

*Convertible Debentures*

In addition to the above, the Company has also issued an aggregate of 4,499 convertible debentures, each consisting of a principal amount of $1,000 and convertible into Common Shares or units consisting of Common Shares and warrants, as further described below.

1,065 convertible debentures were issued on September 16, 2020 upon the conversion of subscription receipts issued by the Company in connection with the Transaction into convertible debentures. The principal amount is convertible into units of the Company at a price of $0.20 per unit. Each unit is comprised of one Common Share and one-half of one warrant exercisable at $0.30.

1,000 convertible debentures were issued in connection with the March 2021 Offering. Following completion of the July 2021 Offering, the principal amount of each debenture is now convertible into Common Shares at a price of $0.10 per Common Share.

1,414 convertible debentures were issued in connection with the July 2021 Offering. The principal amount of each convertible debenture is convertible into Common Shares at a price of $0.10 per Common Share

1,020 convertible debentures were issued in connection with the August 2021 Offering. The principal amount of each convertible debenture may be converted into Common Shares at a price of $0.10 per Common Share.

Please refer to *"Corporate Development Highlights" section* for additional details regarding the convertible debentures.

## INHERENT RISK FACTORS

You should carefully consider the following risks and uncertainties in addition to other information in this MD&A in evaluating Molecule Holdings and its business before making any investment decision. These risks and uncertainties are not the only ones the Company is facing. Additional risks and uncertainties not presently known to the Company, or that it currently deems immaterial, may also impair its operations. If any such risks actually occur, the business, financial condition, liquidity and results of the Company's operations could be materially adversely affected. The risk factors described below should be carefully considered by readers, including investors considering a purchase of securities of the Company.

An investment in securities of the Company should only be made by persons who can afford a significant or total loss of their investment.

*The Company's business requires compliance with regulatory or agency proceedings, investigations and audits*

The Company's business requires compliance with many laws and regulations, specifically Canadian cannabis laws that are still in the early stages and subject to unexpected changes. Failure to comply with these laws and regulations could subject the Company or the businesses in which it invests to regulatory or agency proceedings or investigations and could also lead to damage awards, fines and penalties. The Company may become involved in a number of government or agency proceedings, investigations and audits. The outcome of any regulatory or agency proceedings, investigations, audits, and other contingencies could harm the Company's reputation, require the Company to take, or refrain from taking, actions that could harm its operations or require the Company to pay substantial amounts of money, harming its financial condition. There can be no assurance that any pending or future regulatory or agency proceedings, investigations and audits will not result in substantial costs or a diversion of management's attention and resources or have a material adverse impact on the Company's business, financial condition and results of operation.

*Licensing requirements for cannabis companies in Canada*

The market for cannabis and cannabis derivative products in Canada is regulated by the *Cannabis Act* and *Cannabis Regulations*. Health Canada is the primary regulator of the cannabis industry as a whole. There is no guarantee that the Company will obtain all the necessary licences or approvals required for its business. In addition, failure to comply with the requirements of any licence or any failure to maintain such licence would have a material adverse impact on the business, financial condition and operating results of the Company.

*There is no assurance that the Company will turn a profit or generate immediate revenues*

The Company has no history of earnings or cash flow from operations and the Company may not generate material revenue or achieve self-sustaining operations for several years, if at all. There is no assurance as to whether the Company will be profitable, earn significant revenues, or pay dividends. The Company anticipates that it will incur substantial expenses relating to the development and initial operations of its investments and business and will have a high relative cost of goods sold while production remains at lower volumes.

The payment and amount of any future dividends will depend upon, among other things, the Company's results of investments, operations, cash flow, financial condition, and operating and capital requirements. There is no assurance that future dividends will be paid, and, if dividends are paid, there is no assurance with respect to the amount of any such dividends.

*Requirements for Further Financing and Dilution*

The Company may not have sufficient financial resources to undertake all of the activities as currently planned. The Company may need to obtain further financing, whether through debt financing, equity financing or other means. To obtain such funds the Company may sell additional securities, the effect of which could result in substantial dilution of the equity interests of the holders of the Company Shares. There can be no assurance that the Company will be able to raise the balance of the financing required or that such financing can be obtained without substantial dilution to shareholders or that the terms of such financing will be favourable. Failure to obtain additional financing on a timely basis could cause the Company to reduce or terminate its operations. Should additional financing be obtained at more favourable terms to the March 2021, July 2021 or August 2021 Offerings, there are anti-dilution provisions available to those investors that would require the Company to extend those beneficial terms to investors in those Offerings.

*The Company has a limited operating history*

The Company will not have a record of achievement to be relied upon. The Company's operations are subject to all the risks inherent in the establishment of a new business enterprise, including a lack of operating history. The Company cannot be certain that its investment strategy or development of the Company's business will be successful. The likelihood of the Company's success must be assessed in consideration of the problems, expenses, difficulties, complications and delays frequently encountered in connection with the establishment of any business. If the Company fails to address any of those risks or difficulties adequately, the business will likely suffer.

*The Company may be vulnerable to unfavorable publicity or consumer perception*

Cannabis and cannabis derivatives industries are highly dependent upon consumer perception regarding the safety, efficacy and quality of the cannabis produced. Consumer perception can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding the consumption of cannabis products. There can be no assurance that future scientific research, findings, regulatory proceedings, litigation, media attention or other research findings or publicity will be favorable to the cannabis market or any particular product, or consistent with earlier publicity. Future research reports, findings, regulatory proceedings, litigation, media attention or other publicity that are perceived as less favorable than, or that question, earlier research reports, findings or publicity could have a material adverse effect on the demand for cannabis and on the business, results of operations, financial condition and cash flows of the Company. Further, adverse publicity reports or other media attention regarding the safety, efficacy and quality of cannabis in general, or associating the consumption of cannabis with illness or other negative effects or events, could have such a material adverse effect. Such adverse publicity reports or other media attention could arise hindering market growth and state adoption due to inconsistent public opinion and perception of the medical-use and adult-use cannabis industry.

*The cannabis industry is subject to increasing competition*

There is potential that the Company will face intense competition from other companies, some of which can be expected to have longer operating histories and more financial resources and production and marketing experience than the Company. Because of the early stage of the industry in which the Company will operate, the Company will face additional competition from new entrants. If the number of users of marijuana products in Canada increases, the demand for products will increase and competition will become more intense, as current and future competitors begin to offer an increasing number of diversified products and pricing strategies. To remain competitive, the Company will require a continued high level of investment in research and development, marketing, sales and client support. The Company may not have sufficient resources to maintain research and development, marketing, sales and client support efforts on a competitive basis which could materially and adversely affect the business, financial condition and results of operations of the Company.

*Reliance on Management*

The success of the Company is dependent upon the ability, expertise, judgment, discretion and good faith of its senior management. While employment agreements or management agreements are customarily used as a primary method of retaining the services of key employees, these agreements cannot assure the continued services of such employees. Any loss of the services of such individuals could have a material adverse effect on the Company's business, operating results, financial condition or prospects.

*Ongoing Costs and Obligations*

The Company expects to incur significant ongoing costs and obligations related to its investment in infrastructure and growth and for regulatory compliance, which could have a material adverse impact on the Company's results of operations, financial condition and cash flows. In addition, future changes in regulations, more vigorous enforcement thereof or other unanticipated events could require extensive changes to the Company's operations, increased compliance costs or give rise to material liabilities, which could have a material adverse effect on the business, results of operations and financial condition of the Company.

*Product Liability*

Upon becoming a producer or distributor of products designed to facilitate cannabis ingestion by humans, the Company would face an inherent risk of exposure to product liability claims, regulatory action and litigation if such products are alleged to have caused significant loss or injury. In addition, tampering by unauthorized third parties or product contamination with respect to the cannabis used in such products may impact the risk of injury to consumers. Previously unknown adverse reactions resulting from human consumption of cannabis alone or in combination with other medications or substances could occur. As a supplier and/or producer and/or distributor and/or retailer of products designed to facilitate the consumption of cannabis, the Company may be subject to various product liability claims, including, among others, that the cannabis product caused injury or illness, included inadequate instructions for use or included inadequate warnings concerning possible side effects or interactions with other substances. A product liability claim or regulatory action against the Company could result in increased costs, could adversely affect the Company's reputation with its clients and consumers generally, and could have a material adverse effect on the business, results of operations, financial condition or prospects of the Company. There can be no assurances that the Company will be able to maintain product liability insurance on acceptable terms or with adequate coverage against potential liabilities. Such insurance is expensive and may not be available in the future on acceptable terms, or at all. The inability to maintain sufficient insurance coverage on reasonable terms or to otherwise protect against potential product liability claims could prevent or inhibit the commercialization of the Company's potential products or otherwise have a material adverse effect on the business, results of operations, financial condition or prospects of the Company.

*Product Recalls*

Manufacturers and distributors of products are sometimes subject to the recall or return of products for a variety of reasons, including product defects, such as contamination, unintended harmful side effects or interactions with other substances, packaging safety and inadequate or inaccurate labeling disclosure. Such recalls can cause unexpected expenses of the recall and any legal proceedings that might arise in connection with the recall. This can cause loss of a significant amount of sales. In addition, a product recall may require significant management attention. Although the Company will have detailed procedures in place for testing its products or require that third parties do the same where applicable, there can be no assurance that any quality, potency or contamination problems will be detected in time to avoid unforeseen product recalls, regulatory action or lawsuits. Additionally, if one of the Company's brands were subject to recall, the image of that brand and the Company could be harmed. Additionally, product recalls can lead to increased scrutiny of operations by applicable regulatory agencies, requiring further management attention and potential legal fees and other expenses.

*Product Approvals*

The Company may require advance approval of its products from authorities in the applicable jurisdiction. While the Company intends to follow the guidelines and regulations of each applicable local jurisdiction in preparing products for sale and distribution, there is no guarantee that such products will be approved to the extent necessary. If the products are approved, there is a risk that any jurisdiction may revoke its approval for such products based on changes in laws or regulations or based on its discretion or otherwise. If any of the Company's products are not approved or any existing approvals are rescinded, there is the potential to lead to a material adverse effect on the Company's business, financial condition, results of operations or prospects.

*Product Exchanges, Returns and Warranty Claims*

If the Company is unable to maintain or cause the maintenance of an acceptable degree of quality control of products it produces or distributes, the Company may incur costs associated with the exchange and return of the products as well as servicing its customers for warranty claims. Any of the foregoing on a significant scale may have a material adverse effect on the Company's business, results of operations and financial condition.

*Reliance on License*

The Company is dependent on the License, and the need to maintain the License in good standing. Failure to comply with the requirements or maintenance of any of the License may have a material adverse effect on the business, financial condition and operating results of the Company. Although management of the Company believes that they will continue to meet the requirements of the License for the duration of the

License, there can be no guarantee that Health Canada will extend or renew the License or, if the License is extended or renewed, that it will be extended or renewed on the same or similar term.

*Reliance on Facility*

The License is specific to the Facility operated in Lansdowne, Ontario and must remain in good standing for the Company to conduct the activities authorized thereunder. Adverse changes or developments affecting the Facility, including but not limited to the failure to maintain all requisite regulatory and ancillary permits and licenses, the failure to comply with applicable regulations, or a breach of security, could have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

In addition, any breach of the lease agreement for the Facility or any failure to renew such lease agreement, on materially similar or more favorable terms, may have a material adverse effect on the Company's business, financial condition, results of operations and prospects, and could also have an impact on the Company's ability to continue operating under the License or to renew the License.

The Facility is subject to regulation and oversight by applicable authorities, including the acquisition of all required regulatory and ancillary permits to conduct operations or undertake any construction. Any breach of regulatory requirements, security measures or other Facility requirements, including any failure to comply with recommendations or requirements arising from inspections by government regulators at all levels, could also have an impact on the Company's ability to maintain its lease agreement and/or keep the Facility in good standing, and to continue operating under the License or the prospect of renewing the License.

Disruption of operations at the Facility could adversely affect inventory supplies and the Company's ability to meet delivery deadlines. The Company's revenue is dependent on the uninterrupted operation of the Facility. The Company's production is subject to operational risks beyond its control including fire, breakdown, failure or substandard performance of its equipment and machinery, power shortage, labour disruption, natural disasters and any interruption in its operations as a result of any failure to comply with all applicable laws and regulations in the Facility's jurisdiction. Frequent or prolonged occurrence of any of the aforesaid events may have a material adverse effect on the Company's business, financial condition and results of operation. If there is any damage to the Facility, it may not be able to alleviate the impact of such damage in a timely and proper manner or at all. Any breakdown or malfunction of any of the Company's information technology systems and equipment could cause a material disruption of its operations. Adverse changes or developments affecting either of the Company's facilities.

*Results of Future Clinical Research*

Research in Canada and internationally regarding the medical benefits, viability, safety, efficacy, dosing and/or social acceptance of cannabis or isolated cannabinoids (such as CBD and THC) remains in early stages. There have been relatively few clinical trials on the benefits of cannabis or isolated cannabinoids (such as CBD and THC). Although the Company believes that the articles, reports and studies support their beliefs regarding the medical benefits, viability, safety, efficacy, dosing and/or social acceptance of cannabis, future research and clinical trials may prove such statements to be incorrect, or could raise concerns regarding, and perceptions relating to, cannabis. Given these risks, uncertainties and assumptions, holders or prospective purchasers of the Company Shares should not place undue reliance on such articles and reports. Future research studies and clinical trials may draw opposing conclusions or reach negative conclusions regarding the medical benefits, viability, safety, efficacy, dosing, social acceptance or other facts and perceptions related to cannabis, which could have a material adverse effect on the demand for the Company's products with the potential to lead to a material adverse effect on the Company's business, financial condition, results of operations or prospects.

*Reliance on Key Inputs*

The business of the Company would be dependent on a number of key inputs and their related costs including raw materials and supplies related to product development and manufacturing operations. Any significant interruption or negative change in the availability or economics of the supply chain for key inputs could materially impact the Company's business, financial condition, and results of operations or prospects. Some of these inputs may only be available from a single supplier or a limited group of suppliers. If a sole source supplier was to go out of business, the Company might be unable to find a replacement for such source in a timely manner or at all. If a sole source supplier were to be acquired by a competitor, that competitor may elect not to sell to the Company in the future. Any inability to secure required supplies and services or to do so on appropriate terms could have a materially adverse impact on the business, financial condition, results of operations or prospects of the Company.

*Dependence on Suppliers and Skilled Labour*

The ability of the Company to compete and grow will be dependent on it having access, at a reasonable cost and in a timely manner, to skilled labour, equipment, parts and components. No assurances can be given that the Company will be successful in maintaining its required supply of skilled labour, equipment, parts and components. It is also possible that the final costs of the major equipment contemplated by the Company's capital expenditure plans may be significantly greater than anticipated by the Company's management, and may be greater than funds available to the Company, in which circumstance the Company may curtail, or extend the timeframes for completing, its capital expenditure plans. This could have an adverse effect on the Company's business, financial condition, results of operations or prospects.

*Litigation*

The Company may become party to litigation from time to time in the ordinary course of business which could adversely affect its business. Should any litigation in which the Company becomes involved be determined against the Company, such a decision could adversely affect the Company's ability to continue operating and the market price for the Company Shares. Even if the Company is involved in litigation and wins, litigation can redirect significant company resources.

*Operating Risks and Insurance*

The Company's operations will be subject to hazards inherent in the cannabis industry, such as equipment defects, malfunction and failures, natural disasters which result in fires, accidents and explosions that can cause personal injury, loss of life, suspension of operations, damage to facilities, business interruption and damage to or destruction of property, equipment and the environment, labour disputes, and changes in the regulatory environment. These risks could expose the Company to substantial liability for personal injury, wrongful death, property damage, pollution, and other environmental damages. The frequency and severity of such incidents would affect operating costs, insurability and relationships with customers, employees and regulators.

The Company will continuously monitor its operations for quality control and safety. However, there are no assurances that the Company's safety procedures will always prevent such damages. Although the Company will maintain insurance coverage that it believes to be adequate and customary in the industry, there can be no assurance that such insurance will be adequate to cover its liabilities. In addition, there can be no assurance that the Company will be able to maintain adequate insurance in the future at rates it considers reasonable and commercially justifiable. The occurrence of a significant uninsured claim, a claim in excess of the insurance coverage limits then maintained by the Company, or a claim at a time when it is not able to obtain liability insurance, could have a material adverse effect on the Company, the Company's ability to conduct normal business operations and on the Company's business, financial condition, results of operations and cash flows in the future.

*Dilution*

The Company may enter into financings or other transactions involving the issuance of securities of the Company which may be dilutive to the other shareholders and any new equity securities issued could have rights, preferences and privileges superior to those of holders of Company Shares. The participants of the March 2021, July 2021 and August 2021 Offerings have anti-dilution protections that may afford them more beneficial rights to other investors.

*Changes in Laws, Regulations and Guidelines*

The Company's operations will be subject to various laws, regulations, guidelines and licensing requirements. While the Company is expected to be in compliance with all such laws, any changes to such laws, regulations, guidelines and policies due to matters beyond the control of the Company could have a material adverse effect on the Company's business, results of operations and financial condition.

*Constraints on Marketing Products*

The development of the Company's business and operating results may be hindered by applicable restrictions on sales and marketing activities imposed by government regulatory bodies. The regulatory environment in Canada limits companies' abilities to compete for market share in a manner similar to other industries. If the Company is unable to effectively market its products and compete for market share, or if the costs of compliance with government legislation and regulation cannot be absorbed through increased selling prices for its products, the Company's sales and results of operations could be adversely affected.

*COVID-19*

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

The continued global spread of COVID-19 could have an adverse impact on the business, operations and financial results of the Company, including with respect to issues related to labour, processing and supply chain. Molecule Holdings is implementing or will implement precautionary measures, which would not have otherwise been implemented prior to the COVID-19 outbreak, at the 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 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.

## SUBSEQUENT EVENTS

*Option Grant*

On November 8, 2021, the Company announced that it had engaged Cascade Ventures Ltd. ("Cascade") and Just Capital Consulting Inc. ("JCC") to provide capital markets, public relations, marketing, communication and media services, whereby JCC and Cascade will receive an aggregate total cash fee of $155,710 plus applicable taxes and whereby the Company granted 575,000 Options to purchase an equivalent number of Common Shares at an exercise price of $0.15 per Common Share until November 8, 2023.

*Expiry of Stock Options*

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

*Debt Settlement Transaction*

On January 11, 2022, the Company issued 1,692,000 Common Shares to three consultants at a deemed price of $0.10 per Common Share, in full and satisfaction of an aggregate of $169,200 in outstanding debt owing by the Company to each consultant for past consulting services provided to the Company.

*Expiry of Warrants*

On February 6 and 21, 2022, 499,750 and 603,500 warrants, respectively, expired.

*Issuance of Common Shares*

On February 18, 2022, the Company issued an aggregate of 335,577 Common Shares at a deemed price of $0.10 per Common Share to satisfy the final payments to a consultant under the Marketing Agreement totaling $33,990 ($30,000 plus HST).

## ADDITIONAL INFORMATION AND CONTINUOUS DISCLOSURE

Additional information on the Company is available on SEDAR at www.sedar.com.