MOLECULE HOLDINGS INC.

Interim Condensed Consolidated Financial Statements

For the three months ended January 31, 2022

(Expressed in Canadian Dollars)

(Unaudited)

Interim Condensed Consolidated Financial Statements

NOTICE TO READER

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

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

Molecule Holdings Inc.
Interim Condensed Consolidated Statements of Financial Position (Unaudited)
(Expressed in Canadian dollars)

As at	**January 31, 2022**	October 31, 2021
	$	$
ASSETS		
Current assets		
Cash and cash equivalents (Note 3)	**299,922**	1,203,327
Trade and other receivables (Note 4)	**470,499**	391,190
Inventory (Note 5)	**753,280**	640,360
Prepaid expenses and deposits	**382,259**	472,529
	1,905,960	2,707,406
Capital assets (Note 6)	**3,158,454**	3,248,329
Total assets	**5,064,414**	5,955,735
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	**913,935**	816,964
Current portion of lease liability (Note 8)	**51,588**	50,071
Convertible debt and warrant liabilities at fair value through profit or loss (Note 9)	**3,755,962**	3,487,856
	4,721,485	4,354,891
Lease liability (Note 8)	**71,889**	85,369
Convertible debt (Note 9)	**825,844**	817,087
Other long-term liabilities	**60,000**	60,000
Total liabilities	**5,679,218**	5,317,347
EQUITY		
Share capital (Note 10)	**8,729,993**	8,560,793
Warrants (Note 11)	**147,328**	147,328
Contributed surplus (Notes 12 and 13)	**581,283**	575,861
Deficit	**(10,073,408)**	(8,645,594)
Total equity	**(614,804)**	638,388
Total liabilities and equity	**5,064,414**	5,955,735

On behalf of the Board

(signed) "Andre Audet"	(signed) "David Reingold"
Andre Audet, Director	David Reingold, Director

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

Molecule Holdings Inc.

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

(Expressed in Canadian dollars)

For the three months ended January 31,	**2022**	2021
	$	$
Net revenue from sale of goods (Note 14)	**259,924**	-
Cost of goods sold (Notes 5 and 15)	**404,734**	-
Gross profit (loss) before inventory write-down	**(144,810)**	-
Write-down of inventory to net realizable value (Note 5)	**(40,506)**	-
Gross profit (loss)	**(185,316)**	-
Operating expenses		
Management and consulting fees (Note 15)	**254,604**	100,355
Salaries and benefits (Note 15)	**170,192**	137,022
Office and facilities (Note 15)	**123,803**	95,829
Professional fees	**127,311**	75,473
Supplies and testing	**38,085**	37,731
Travel and promotion	**5,237**	15,144
Interest on lease liability (Note 8)	**379**	5,111
Depreciation of capital assets (Notes 6 and 15)	**9,831**	64,273
Stock-based compensation (Notes 10, 12, 13 and 15)	**174,622**	258,668
Government assistance	**-**	(515)
	904,064	789,091
Loss before other items	**(1,089,380)**	(789,091)
Other income (loss)		
Interest income	**3,040**	57
Interest and financing fees on convertible debt (Note 9)	**(113,778)**	(44,089)
Change in fair value of financial assets at fair value through profit or loss	**-**	(29,988)
Change in fair value of financial liabilities at fair value through profit or loss (Note 9)	**(225,849)**	-
Foreign exchange gain (loss)	**(1,847)**	191
Net loss and total comprehensive loss	**(1,427,814)**	(862,920)
Basic and diluted net loss per common share	**(0.015)**	(0.010)
Basic and diluted weighted average number of common shares outstanding	**95,765,543**	86,739,555

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

Molecule Holdings Inc.
Interim Condensed Consolidated Statements of Changes in Equity (Unaudited)
(in Canadian dollars)

	Share Capital		Warrants	Contributed Surplus	Deficit	Total
	# of shares	$	$	$	$	$
Balance, October 31, 2020	**86,235,740**	**7,333,619**	**55,184**	**466,012**	**(4,418,241)**	**3,436,574**
Shares issued for debt (Note 10)	1,925,300	288,795	-	-	-	288,795
Shares issued for services (Note 10)	135,600	16,950	-	-	-	16,950
Shares issued on vesting of restricted share units (Note 13)	1,994,638	262,255	-	(262,255)	-	-
Stock-based compensation	-	-	6,986	234,732	-	241,718
Net loss and total comprehensive loss	-	-	-	-	(862,920)	(862,920)
Balance, January 31, 2021	**90,291,278**	**7,901,619**	**62,170**	**438,489**	**(5,281,161)**	**3,121,117**
Shares issued for debt (Note 10)	-	-	-	-	-	-
Shares issued for services (Note 10)	842,423	103,900	-	-	-	103,900
Shares issued on vesting of restricted share units (Note 13)	4,245,625	555,274	-	(555,274)	-	-
Broker warrants issued as part of convertible debenture financing (Note 9)	-	-	85,158	-	-	85,158
Stock-based compensation	-	-	-	692,646	-	692,646
Net loss and total comprehensive loss	-	-	-	-	(3,364,433)	(3,364,433)
Balance, October 31, 2021	**95,379,326**	**8,560,793**	**147,328**	**575,861**	**(8,645,594)**	**638,388**
Shares issued for services (Note 10)	1,692,000	169,200	-	-	-	169,200
Stock-based compensation	-	-	-	5,422	-	5,422
Net loss and total comprehensive loss	-	-	-	-	(1,427,814)	(1,427,814)
Balance, January 31, 2022	**97,071,326**	**8,729,993**	**147,328**	**581,283**	**(10,073,408)**	**(614,804)**

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

Molecule Holdings Inc.
Interim Condensed Consolidated Statements of Cash Flows (Unaudited)
(Expressed in Canadian dollars)

For the three months ended January 31,	2022	2021
	$	$
OPERATING ACTIVITIES		
Net loss for the period	**(1,427,814)**	(862,920)
Adjustments for:		
Stock-based compensation (Notes 10, 12, 13 and 15)	**174,622**	258,668
Depreciation of capital assets (Notes 6 and 15)	**160,916**	64,273
Interest on lease liability (Note 8)	**3,787**	5,111
Interest on convertible debt (Note 9)	**113,778**	44,089
Interest income	**(3,040)**	(57)
Write-down of inventory to net realizable value (Note 5)	**40,506**	-
Change in fair value of financial assets at fair value through profit or loss	**-**	29,988
Change in fair value of financial liabilities at fair value through profit or loss (Note 9)	**225,849**	-
Changes in non-cash working capital items	**(45,542)**	(75,509)
Net cash flows from operating activities	**(756,938)**	(536,357)
INVESTING ACTIVITIES		
Interest received	**3,088**	57
Investment in capital assets (Note 6)	**(71,041)**	(58,483)
Net cash flows from investing activities	**(67,953)**	(58,426)
FINANCING ACTIVITIES		
Interest paid on convertible debentures (Note 9)	**(62,764)**	(24,976)
Lease payments (Note 8)	**(15,750)**	(15,000)
Net cash flows from financing activities	**(78,514)**	(39,976)
Decrease in cash and cash equivalents	**(903,405)**	(634,759)
Cash and cash equivalents, beginning of the period	**1,203,327**	902,519
Cash and cash equivalents, end of the period	**299,922**	267,760
Changes in non-cash working capital items consists of the following:		
Trade and other receivables	**(79,357)**	14,803
Inventory	**(153,426)**	(52,201)
Prepaid expenses and deposits	**90,270**	(37,145)
Accounts payable and accrued liabilities	**96,971**	(966)
	(45,542)	(75,509)
Supplemental information:		
Shares issued for debt and services (Note 10)	**169,200**	305,745

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

1. NATURE OF OPERATIONS AND GOING CONCERN

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

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

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

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

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

<u>Going Concern</u>

These unaudited condensed interim consolidated financial statements have been prepared on a basis that assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of operations for the foreseeable future. These interim condensed consolidated financial statements do not reflect any adjustments that may be necessary should the Company be unable to continue as a going concern.

As at January 31, 2022, the Company had been generating revenue for less than one year, has no positive income or cash inflow from operations, has incurred losses since its inception and as at January 31, 2022, 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 may cast significant doubt about the Company's ability to continue as a going concern. If the going concern basis is not appropriate, material adjustments may be necessary to the carrying amounts and/or classification of assets and liabilities.

<u>COVID-19</u>

On January 30, 2020, the World Health Organization ("WHO") declared the ongoing novel coronavirus "COVID-19" outbreak a global health emergency and on March 11, 2020, the WHO expanded its classification of the outbreak to a worldwide pandemic. Federal, state, provincial and municipal governments across North America enacted measures to combat the spread of COVID-19. These measures, which have included travel restrictions, border closures, non-essential business closures, quarantines, self-isolations, and social distancing, have, among other things, resulted in widespread business, employment and economic disruptions. The global pandemic continues to evolve and the ultimate impact of the COVID-19 outbreak is highly uncertain.

The continued global spread of COVID-19 could have an adverse impact on the business, operations and financial results of the Company, including with respect to issues related to labour, processing and supply chain. Since commencing production of CIBSs in the second quarter of fiscal 2021, the Company has implemented precautionary measures, which would not have otherwise been implemented prior to the COVID-19 outbreak, at its production facility (the "Facility") located in Lansdowne, Ontario to ensure the safety of its personnel, suppliers and consumers, which may adversely impact the Company's labour productivity and its supply chains. For example, mandatory or voluntary self-quarantine policies may limit staffing at the Facility. In addition, the COVID-19 pandemic may adversely affect the Company's ability to successfully market and sell its products, as sales volumes of CIBs may be adversely impacted by consumer "social distancing" behaviours. Continued spread of COVID-19 globally could also lead to a deterioration of general economic conditions including a possible national or global recession. Due to the unpredictability and scale of the effects of COVID-19, as at the date hereof the Company is unable to accurately estimate the impact or level of materiality of COVID-19 on its business, operations or financial results. The Company will continue to monitor the situation in order to assess any possible adverse impact on its business, supply chain and customers on an ongoing basis and to determine which measures, if any, will be taken to mitigate such adverse impact.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation and compliance with IFRS

These unaudited interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34"). The notes presented in these unaudited interim condensed consolidated financial statements include only significant events and transactions occurring since the last fiscal year end and do not fully include all matters required to be disclosed in the annual audited consolidated financial statements and should be read in conjunction with the Company's annual audited consolidated financial statements for the years ended October 31, 2021 and 2020. The policies applied in these unaudited interim condensed consolidated financial statements are based on International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These condensed interim consolidated financial statements were authorized for issue by the Board of Directors on March 29, 2022.

(b) Basis of presentation

These unaudited interim condensed consolidated financial statements have been prepared on a historical cost basis and are expressed in Canadian dollars, which is also the functional currency of the Company and its subsidiaries.

These unaudited interim condensed consolidated financial statements have been prepared using accounting policies that are consistent with those used in the preparation of the Company's audited consolidated financial statements for the years ended October 31, 2021 and 2020.

(Expressed in Canadian dollars)

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	January 31, 2022	October 31, 2021
	$	$
Cash at banks	139,922	178,327
Short-term deposits	160,000	1,025,000
Total cash and cash equivalents	299,922	1,203,327

Short-term deposits consist of cashable Guaranteed Investment Certificates (“GICs”) with one-year terms that are redeemable prior to maturity, and earn interest at rates between 0.35% to 0.65% per annum.

4. TRADE AND OTHER RECEIVABLES

Trade and other receivables consist of the following:

	January 31, 2022	October 31, 2021
	$	$
Trade accounts receivable	282,779	289,903
Sales taxes receivable	187,720	101,287
Total trade and other receivables	470,499	391,190

5. INVENTORY

Inventory consists of the following:

	January 31, 2022	October 31, 2021
	$	$
Raw materials	524,779	416,160
Finished goods	228,501	224,200
Total inventory	753,280	640,360

The Company recognizes the costs of inventory expensed in two separate lines on the interim condensed consolidated statements of loss and comprehensive loss. Capitalized costs expensed and included in cost of goods sold was $404,734 for the three months ended January 31, 2022 (2021 – $nil). The write-down of inventories to net realizable value on the interim condensed consolidated statements of loss and comprehensive loss for the three months ended January 31, 2022 was $40,506 (2021 – $nil). As at January 31, 2022 and October 31, 2021, raw materials are carried at cost. As at January 31, 2022 and October 31, 2021, finished goods are carried at net realizable value.

Total share-based compensation capitalized to inventory for the three months ended January 31, 2022 was $nil (2021 – $nil). Total depreciation capitalized to inventory for the three months ended January 31, 2022 was $151,085 (2021 – $nil). Total interest on lease liability capitalized to inventory for the three months ended January 31, 2022 was $3,408 (2021 – $nil).

(Expressed in Canadian dollars)

6. CAPITAL ASSETS

	Right of use asset	Leasehold improvements	Equipment (1)	Total
	$	$	$	$
Cost				
Balance, October 31, 2021	239,865	1,444,723	2,190,226	3,874,814
Additions	-	-	71,041	71,041
Cost, January 31, 2022	**239,865**	**1,444,723**	**2,261,267**	**3,945,855**
Accumulated depreciation				
Balance, October 31, 2021	123,938	240,610	261,937	626,485
Depreciation (2)	11,994	72,236	76,686	160,916
Accumulated depreciation, January 31, 2022	**135,932**	**312,846**	**338,623**	**787,401**
Net book value, January 31, 2022	**103,933**	**1,131,877**	**1,922,644**	**3,158,454**

(1) During the three months ended January 31, 2022, the Company purchased equipment in the amount of $71,041, to be used in the production of CIBs.

(2) During the three months ended January 31, 2022, the Company capitalized $151,085 (2020 – $nil) of depreciation to inventory and expensed $9,831 (2020 – $64,273) to the interim condensed consolidated statements of loss and comprehensive loss.

	Right-of-use asset (3)	Leasehold improvements (4)	Equipment (5)	Total
	$	$	$	$
Cost				
Balance, October 31, 2020	239,865	1,412,551	2,343,949	3,996,365
Additions	-	32,172	44,692	76,864
Disposals (7)	-	-	(198,415)	(198,415)
Cost, October 31, 2021	**239,865**	**1,444,723**	**2,190,226**	**3,874,814**
Accumulated depreciation				
Balance, October 31, 2020	75,962	-	-	75,962
Depreciation (6)	47,976	240,610	278,475	567,061
Disposals (7)	-	-	(16,538)	(16,538)
Accumulated depreciation, October 31, 2021	**123,938**	**240,610**	**261,937**	**626,485**
Net book value, October 31, 2021	**115,927**	**1,204,113**	**1,928,289**	**3,248,329**

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

(Expressed in Canadian dollars)

(4) During the year ended October 31, 2021, the Company incurred capital expenditures of $32,172 in leasehold improvements on the Facility. The Company commenced recording depreciation on the leasehold improvements when the Facility became ready for use in December 2020.

(5) During the year ended October 31, 2021, the Company purchased equipment in the amount of $44,692, to be used in the production of CIBs. The Company commenced recording depreciation on the equipment used at the Facility in January 2021 following the completion of its first production-scale CIB run.

(6) During the year ended October 31, 2021, the Company capitalized $364,544 (2020 – $nil) of depreciation to inventory and expensed $202,517 (2020 – $47,976) to the consolidated statements of loss and comprehensive loss.

(7) During the year ended October 31, 2021, the company sold equipment with book value of $181,877 for net proceeds of $77,000, resulting in a loss of $104,877.

7. FINANCIAL INSTRUMENTS, RISK MANAGEMENT AND CAPITAL MANAGEMENT

Financial instruments

The Company's financial instruments consist of cash and cash equivalents, trade accounts receivables, accounts payable and accrued liabilities, convertible debt and warrant liabilities 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:

	January 31, 2022	October 31, 2021
	$	$
Financial assets		
Amortized cost		
Cash	**139,922**	178,327
Trade accounts receivable	**282,779**	289,903
Fair value through profit or loss		
Cash equivalents	**160,000**	1,025,000
Total financial assets	**582,701**	1,493,230
Financial liabilities		
Amortized cost		
Accounts payable and accrued liabilities	**(913,935)**	(816,964)
Convertible debt	**(825,844)**	(817,087)
Other long-term liabilities	**(60,000)**	(60,000)
Fair value through profit or loss		
Convertible debt	**(3,117,105)**	(3,001,008)
Warrant liability	**(638,857)**	(486,848)
Total financial liabilities	**(5,555,741)**	(5,181,907)

Risk management

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

(i) Credit risk

Credit risk is the risk of an unexpected loss if a customer or counterparty to its financial instruments fails to meet its contractual obligations. The Company's financial assets exposed to credit risk are primarily composed of trade accounts receivable and cash and cash equivalents. The Company provides credit to its customer in the normal course of business and has established credit evaluation and monitoring processes to mitigate credit risk. Since that customer sells end products to Provincial Retailers, the Company has limited credit risk. The Company's cash and cash equivalents are held at reputable financial institutions with high external credit ratings. It is Management's opinion that the Company is not exposed to significant credit risk.

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

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

(ii) Liquidity risk

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

(iii) Market risk

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

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.

(Expressed in Canadian dollars)

Management reviews its capital management approach on an ongoing basis. There have been no changes to the Company's capital management approach during the period ended January 31, 2022 and October 31, 2021.

8. LEASE LIABILITY

	$
Balance, October 31, 2020	**178,649**
Interest expense	18,541
Lease payments	(61,750)
Balance, October 31, 2021	**135,440**
Interest expense	3,787
Lease payments	(15,750)
Balance, January 31, 2022	**123,477**
Current	51,588
Long-term	71,889
	123,477

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

During the three months ended January 31, 2022, the Company capitalized $3,408 (2021 – $nil) of interest on lease liability to inventory. During the three months ended January 31, 2022, interest on lease liability expensed to the interim condensed consolidated statements of loss and comprehensive loss was $379 (2021 – $ 5,111).

(Expressed in Canadian dollars)

9. CONVERTIBLE DEBT

Convertible debt consists of the following:

	January 31, 2022	October 31, 2021
	$	$
Convertible debentures and warrants measured at FVTPL		
Convertible debentures and warrants issued March 18, 2021	**1,109,349**	1,050,866
Convertible debentures and warrants issued July 30, 2021	**1,540,498**	1,418,402
Convertible debentures and warrants issued August 13, 2021	**1,106,115**	1,018,588
Total convertible debt and warrant liabilities measured at FVTPL	**3,755,962**	3,487,856
Convertible debentures measured at amortized cost		
Convertible debentures issued September 16, 2020	**825,844**	817,087
Total long-term portion of convertible debt	**825,844**	817,087
Total convertible debt	**4,581,806**	**4,304,943**

Convertible Debenture issued September 16, 2020

On September 16, 2020, and in connection with the completion of the Transaction (Note 7), the Company satisfied the escrow release conditions of the brokered private placement offering of subscription receipts led by Gravitas Securities Inc. (the “Agent”), pursuant to the terms of an agency agreement dated July 29, 2020 (the “Agency Agreement”) and the concurrent non-brokered private placement offering of subscription receipts (collectively, the “September 2020 Offerings”), which closed on July 29, 2020. Upon the satisfaction of all related release conditions as agreed by the Company and the Agent, each of the 1,025 subscription receipts issued pursuant to the September 2020 Offerings, which were issued at a price of $1,000 per subscription receipt, were deemed to be automatically exchanged without any additional consideration or further action on the part of the holders thereof into one convertible debenture of the Company. The September 2020 Offerings were considered a related party transaction as certain Directors of the Company participated in the private placement for a total amount of $85,000.

Each convertible debenture is an unsecured debt obligation of the Company and consists of a principal amount of $1,000 bearing interest at the simple rate of 8% per annum and maturing on September 16, 2023. Prior to the maturity date, and subject to exercise by the Company of an acceleration provision, all the outstanding principal and accrued interest of the convertible debentures may be converted into units of the Company at a price of $0.20 per unit, at the sole option of the respective holder of the convertible debenture. Unless the option is exercised prior to the maturity date, the Company will subsequently make a cash payment to the holders of the convertible debentures to settle the outstanding principal and accrued interest of each respective convertible debenture.

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

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

(Expressed in Canadian dollars)

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

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

In connection with the September 2020 Offerings, the Company paid cash commissions of $82,000. The fair value of the 410,000 broker warrants was estimated at $53,512, using the Black-Scholes option pricing model using the following assumptions: stock price of $0.16, weighted-average exercise price of $0.23, risk-free interest rate of 0.28%, expected life of warrants of 3 years, expected volatility of 100% and expected dividend rate of 0%, and is included in 'Warrants' within shareholders' equity in the consolidated statement of financial position. The Company incurred other issuance costs in the amount of $139,419. The issuance costs, which include the cash commissions, broker warrants, Compensation Debentures and other issuance costs, have been allocated to the liability and equity components in proportion to their initial carrying amounts.

	Debentures	**Conversion feature**	**Total**
	$	$	$
Balance, October 31, 2019	**-**	**-**	**-**
Proceeds from issuance of Convertible Debentures	924,195	100,805	1,025,000
less:			
Cash commissions	(73,936)	(8,064)	(82,000)
Broker warrants	(48,249)	(5,263)	(53,512)
Compensation debentures	(36,066)	(3,934)	(40,000)
Other issuance costs	(125,709)	(13,710)	(139,419)
Net proceeds from issuance of Convertible Debentures	640,235	69,834	710,069
Issuance of Compensation Debentures	36,066	3,934	40,000
Interest accretion on Debentures	21,324	-	21,324
Balance, October 31, 2020	**697,625**	**73,768**	**771,393**
Interest accretion on Debentures	187,385	-	187,385
Interest paid on Debentures	(67,923)	-	(67,923)
Balance, October 31, 2021	**817,087**	**73,768**	**890,855**
Interest accretion on Debentures	51,357	-	51,357
Interest paid on Debentures	(42,600)	-	(42,600)
Balance, January 31, 2022	**825,844**	**73,768**	**899,612**

Convertible Debenture issued March 18, 2021

On March 18, 2021, the Company completed a non-brokered private placement offering (the "March 2021 Offering") of 1,000 senior secured convertible debenture units for gross proceeds of $1,000,000. Each unit is comprised of $1,000 in principal amount of senior secured convertible debenture and one share purchase warrant for each $0.30 of principal amount, each warrant entitling the holder thereof to acquire one Common Share at an exercise price of $0.23 per Common Share (subject to adjustment) for a period of thirty-six months from the date of closing of the March 2021 Offering, expiring on March 18, 2024.

The debentures bear interest at a simple rate of 8.00% per annum, payable quarterly in cash beginning on June 30, 2021, and maturing eighteen months from the date of issuance, being September 18, 2022. The holders of the debenture are entitled to convert the principal amount of the debentures at any time prior to the maturity date into Common Shares at a conversion price of $0.15, subject to adjustment. As of the date that is four months and one day following the closing date, the Company will have a right to prepay or redeem the principal amount in cash, in whole or in part, at par plus accrued and unpaid interest at any time by providing a minimum of 30 days' and a maximum of 60 days' notice.

The obligations under the debentures are secured by the assets of the Company and OpCo, which has also acted as guarantor, including a pledge of the shares of the guarantor.

The debentures and the warrants provide for change of control as well as anti-dilution adjustments, including corporate actions of the Company as well as future equity issuances below the conversion price or exercise price, as applicable

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

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

The fair value of the warrants at the time of issue was estimated at $182,888, using the Black-Scholes pricing model using the following assumptions: stock price of $0.115, weighted-average exercise price of $0.23, risk-free interest rate of 0.52%, expected life of warrants of 3 years, expected volatility of 100% and expected dividend rate of 0%.

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

In connection with the March 2021 Offering, the Company paid cash commissions of $57,500 and issued 533,333 compensation warrants exercisable at $0.15 for 36 months. The fair value of the compensation warrants was estimated at $34,605, using the Black-Scholes option pricing model using the following assumptions: stock price of $0.115, weighted-average exercise price of $0.15, risk-free interest rate of 0.52%, expected life of warrants of 3 years, expected volatility of 100% and expected dividend rate of 0%, and is included in 'Warrants' within shareholders' equity in the consolidated statement of financial position.

The Company incurred total transaction costs in the amount of $158,495. The issuance costs, which include the cash commissions, broker warrants, and other issuance costs, have been immediately expensed in financing fees in the consolidated statements of loss and comprehensive loss.

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

On October 31, 2021, the fair value of the convertible debenture liability component was adjusted to $910,856, plus accrued interest of $10,247 ($921,103 in aggregate), calculated as the higher of the discounted expected future cash outflows required to settle the liability and the fair value of the Common Shares required to settle it upon conversion, resulting in a loss in fair value of financial liabilities at FVTPL of $54,421 for the year ended October 31, 2021.

Also on October 31, 2021, the fair value of the warrants was adjusted to $129,763, using the Black-Scholes pricing model using the following assumptions: stock price of $0.06, weighted-average exercise price of $0.15, risk-free interest rate of 1.00%, expected life of warrants of 2.38 years, expected volatility of 100% and expected dividend rate of 0%, resulting in a gain in fair value of financial liabilities at FVTPL of $53,125 for the year ended October 31, 2021.

On January 31, 2022, the fair value of the convertible debenture liability component was adjusted to $934,880, plus accrued interest of $4,160 ($939,040 in aggregate), calculated as the higher of the discounted expected future cash outflows required to settle the liability and the fair value of the Common Shares required to settle it upon conversion, resulting in a loss in fair value of financial liabilities at FVTPL of $24,024 for the three months ended January 31, 2022.

Also on January 31, 2022, the fair value of the warrants was adjusted to $170,309, using the Black-Scholes pricing model using the following assumptions: stock price of $0.075, weighted-average exercise price of $0.15, risk-free interest rate of 1.31%, expected life of warrants of 2.13 years, expected volatility of 100% and expected dividend rate of 0%, resulting in a loss in fair value of financial liabilities at FVTPL of $40,546 for the three months ended January 31, 2022.

(Expressed in Canadian dollars)

	Debentures	Warrants	Other Income (loss)	Total
	$	$	$	$
Balance, October 31, 2020	**-**	**-**	**-**	**-**
Proceeds from issuance of Convertible Debentures	856,435	182,888	(39,323)	1,000,000
less:				-
Cash commissions	-	-	(57,500)	(57,500)
Broker warrants	-	-	(34,605)	(34,605)
Other issuance costs	-	-	(66,390)	(66,390)
Net proceeds from issuance of Convertible Debentures	856,435	182,888	(197,818)	841,505
Interest accretion on Debentures	56,275	-	(56,275)	-
Interest paid on Debentures	(46,028)	-	-	(46,028)
Change in financial liabilities at FVTPL	54,421	(53,125)	(1,296)	-
Balance, October 31, 2021	**921,103**	**129,763**	**(255,389)**	**795,477**
Interest accretion on Debentures	14,077	-	(14,077)	-
Interest paid on Debentures	(20,164)	-	-	(20,164)
Change in financial liabilities at FVTPL	24,024	40,546	(64,570)	-
Balance, January 31, 2022	**939,040**	**170,309**	**(334,036)**	**775,313**

Convertible Debenture issued July 30, 2021

On July 30, 2021, the Company completed the first closing of a non-brokered private placement offering (the "July 2021 Offering") of 1,414 unsecured convertible debenture units for gross proceeds of $1,414,000. Each unit is comprised of $1,000 in principal amount of unsecured convertible debenture and six thousand share purchase warrants for each $1,000 of principal amount, each warrant entitling the holder thereof to acquire one Common Share at an exercise price of $0.15 per Common Share (subject to adjustment) for a period of thirty-six months from the date of closing of the July 2021 Offering, expiring on July 30, 2024.

The debentures bear interest at a simple rate of 8.00% per annum, payable semi-annually in cash beginning on January 30, 2022, and maturing twenty-four months from the date of issuance, being July 30, 2023. The holders of the debenture are entitled to convert the principal amount of the debentures at any time prior to the maturity date into Common Shares at a conversion price of $0.10, subject to adjustment. As of the date that is four months and one day following the closing date, the Company will have a right to prepay or redeem the principal amount in cash, in whole or in part, at par plus accrued and unpaid interest at any time by providing a minimum of 30 days' and a maximum of 60 days' notice.

The debentures and the warrants provide for change of control as well as anti-dilution adjustments, including corporate actions of the Company as well as future equity issuances below the conversion price or exercise price, as applicable.

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

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

The fair value of the warrants at the time of issue was estimated at $333,192, using the Black-Scholes pricing model using the following assumptions: stock price of $0.08, weighted-average exercise price of $0.15, risk-free interest rate of 0.61%, expected life of warrants of 3 years, expected volatility of 100% and expected dividend rate of 0%.

The excess of the fair value of the convertible debenture and warrant liabilities over the proceeds from the convertible debenture of $73,959 was recorded as a loss in fair value of financial liabilities at FVTPL.

In connection with the July 2021 Offering, the Company paid cash commissions of $96,720 and issued 951,200 compensation warrants exercisable at $0.15 per Common Share for thirty-six months. The fair value of the compensation warrants was estimated at $37,357, using the Black-Scholes option pricing model using the following assumptions: stock price of $0.080, weighted-average exercise price of $0.15, risk-free interest rate of 0.61%, expected life of warrants of 3 years, expected volatility of 100% and expected dividend rate of 0%, and is included in ‘Warrants’ within shareholders’ equity in the consolidated statement of financial position.

The Company incurred total transaction costs in the amount of $153,292. The issuance costs, which include the cash commissions, Broker Warrants, and other issuance costs, have been immediately expensed in financing fees in the consolidated statements of loss and comprehensive loss.

On October 31, 2021, the fair value of the convertible debenture liability component was adjusted to $1,182,782, plus accrued interest of $29,132 ($1,211,914 in aggregate), calculated as the higher of the discounted expected future cash outflows required to settle the liability and the fair value of the Common Shares required to settle it upon conversion, resulting in a loss in fair value of financial liabilities at FVTPL of $28,015 for the year ended October 31, 2021.

Also on October 31, 2021, the fair value of the warrants was adjusted to $206,488, using the Black-Scholes pricing model using the following assumptions: stock price of $0.06, weighted-average exercise price of $0.15, risk-free interest rate of 1.00%, expected life of warrants of 2.75 years, expected volatility of 100% and expected dividend rate of 0%, resulting in a gain in fair value of financial liabilities at FVTPL of $126,704 for the year ended October 31, 2021.

On January 31, 2022, the fair value of the convertible debenture liability component was adjusted to $1,211,806, plus accrued interest of $57,566 ($1,269,373 in aggregate), calculated as the higher of the discounted expected future cash outflows required to settle the liability and the fair value of the Common Shares required to settle it upon conversion, resulting in a loss in fair value of financial liabilities at FVTPL of $29,025 for the three months ended January 31, 2022.

Also on January 31, 2022, the fair value of the warrants was adjusted to $270,967, using the Black-Scholes pricing model using the following assumptions: stock price of $0.075, weighted-average exercise price of $0.15, risk-free interest rate of 1.42%, expected life of warrants of 2.50 years, expected volatility of 100% and expected dividend rate of 0%, resulting in a loss in fair value of financial liabilities at FVTPL of $64,479 for the three months ended January 31, 2022.

(Expressed in Canadian dollars)

	Debentures	Warrants	Other Income (loss)	Total
	$	$	$	$
Balance, October 31, 2020	**-**	**-**	**-**	**-**
Proceeds from issuance of Convertible Debentures	1,154,767	333,192	(73,959)	1,414,000
less:				-
Cash commissions	-	-	(96,720)	(96,720)
Broker warrants	-	-	(37,357)	(37,357)
Other issuance costs	-	-	(19,214)	(19,214)
Net proceeds from issuance of Convertible Debentures	1,154,767	333,192	(227,250)	1,260,709
Interest accretion on Debentures	29,132	-	(29,132)	-
Interest paid on Debentures	-	-	-	-
Change in financial liabilities at FVTPL	28,015	(126,704)	98,689	-
Balance, October 31, 2021	**1,211,914**	**206,488**	**(157,693)**	1,260,709
Interest accretion on Debentures	28,592	-	(28,592)	-
Interest paid on Debentures	-	-	-	-
Change in financial liabilities at FVTPL	29,025	64,479	(93,504)	-
Balance, January 31, 2022	**1,269,531**	**270,967**	**(279,789)**	**1,260,709**

<u>Convertible Debentures Issued August 13, 2021</u>

On August 13, 2021, the Company completed the second closing of a non-brokered private placement offering that had a first closing on July 30, 2021 (the “August 2021 Offering”) of 1,020 unsecured convertible debenture units for gross proceeds of $1,020,000. Each unit is comprised of $1,000 in principal amount of unsecured convertible debenture and six thousand share purchase warrants for each $1,000 of principal amount, each warrant entitling the holder thereof to acquire one Common Share at an exercise price of $0.15 per Common Share (subject to adjustment) for a period of thirty-six months from the date of closing of the August 2021 Offering, expiring on August 13, 2024.

The debentures bear interest at a simple rate of 8.00% per annum, payable semi-annually in cash beginning on January 30, 2022, and maturing twenty-four months from the date of issuance, being August 13, 2023. The holders of the debenture are entitled to convert the principal amount of the debentures at any time prior to the maturity date into Common Shares at a conversion price of $0.10, subject to adjustment. As of the date that is four months and one day following the closing date, the Company will have a right to prepay or redeem the principal amount in cash, in whole or in part, at par plus accrued and unpaid interest at any time by providing a minimum of 30 days’ and a maximum of 60 days’ notice.

The debentures and the warrants provide for change of control as well as anti-dilution adjustments, including corporate actions of the Company as well as future equity issuances below the conversion price or exercise price, as applicable.

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

The fair value of the convertible debenture at the time of issue of $867,000 was calculated as the higher of the discounted expected future cash outflows required to settle the liability and the fair value of the Common Shares required to settle it upon conversion.
The fair value of the warrants at the time of issue was estimated at $333,192, using the Black-Scholes pricing model using the following assumptions: stock price of $0.085, weighted-average exercise price of $0.15, risk-free interest rate of 0.65%, expected life of warrants of 3 years, expected volatility of 100% and expected dividend rate of 0%.

The excess of the fair value of the convertible debenture and warrant liabilities over the proceeds from the convertible debenture of $108,964 was recorded as a loss in fair value of financial liabilities at FVTPL.

In connection with the August 2021 Offering, the Company paid cash commissions of $35,600 and issued 336,000 compensation warrants exercisable at $0.15 for 36 months. The fair value of the compensation warrants is estimated at $14,382, using the Black-Scholes option pricing model using the following assumptions: stock price of $0.085, weighted-average exercise price of $0.15, risk-free interest rate of 0.65%, expected life of warrants of 3 years, expected volatility of 100% and expected dividend rate of 0%, and will be included in ‘Warrants’ in shareholders’ equity in the consolidated statement of financial position.

The Company incurred total transaction costs in the amount of $49,982. The issuance costs, which include the cash commissions and broker warrants, have been immediately expensed in financing fees in the consolidated statements of loss and comprehensive loss.

On October 31, 2021, the fair value of the convertible debenture liability component was adjusted to $850,106, plus accrued interest of $17,885 ($867,991 in aggregate), calculated as the higher of the discounted expected cash outflows required to settle the liability and the fair value of the Common Shares required to settle it upon conversion, resulting in a gain in fair value of financial liabilities at FVTPL of $16,894 for the year ended October 31, 2021.

Also on October 31, 2021, the fair value of the warrants was adjusted to $150,597, using the Black-Scholes pricing model using the following assumptions: stock price of $0.06, weighted-average exercise price of $0.15, risk-free interest rate of 1.00%, expected life of warrants of 2.79 years, expected volatility of 100% and expected dividend rate of 0%, resulting in a gain in fair value of financial liabilities at FVTPL of $111,367 for the year ended October 31, 2021.

On January 31, 2022, the fair value of the convertible debenture liability component was adjusted to $870,897, plus accrued interest of $37,637 ($908,534 in aggregate), calculated as the higher of the discounted expected cash outflows required to settle the liability and the fair value of the Common Shares required to settle it upon conversion, resulting in a loss in fair value of financial liabilities at FVTPL of $20,791 for the three months ended January 31, 2022.

Also on January 31, 2022, the fair value of the warrants was adjusted to $197,581, using the Black-Scholes pricing model using the following assumptions: stock price of $0.075, weighted-average exercise price of $0.15, risk-free interest rate of 1.42%, expected life of warrants of 2.53 years, expected volatility of 100% and expected dividend rate of 0%, resulting in a loss in fair value of financial liabilities at FVTPL of $46,984 for the three months ended January 31, 2022.

(Expressed in Canadian dollars)

	Debentures	Warrants	Other Income (loss)	Total
	$	$	$	$
Balance, October 31, 2020	**-**	**-**	**-**	**-**
	-			
Proceeds from issuance of Convertible Debentures	867,000	261,964	(108,964)	1,020,000
less:				
Cash commissions	-	-	(35,600)	(35,600)
Broker warrants	-	-	(14,382)	(14,382)
Other issuance costs	-	-	-	-
Net proceeds from issuance of Convertible Debentures	867,000	261,964	(158,946)	970,018
Interest accretion on Debentures	17,885	-	(17,885)	-
Interest paid on Debentures	-	-	-	-
Change in financial liabilities at FVTPL	(16,894)	(111,367)	128,261	-
Balance, October 31, 2021	**867,991**	**150,597**	**(48,570)**	**970,018**
Interest accretion on Debentures	19,752	-	(19,752)	-
Interest paid on Debentures	-	-	-	-
Change in financial liabilities at FVTPL	20,791	46,984	(67,775)	-
Balance, January 31, 2022	**908,534**	**197,581**	**(136,097)**	**970,018**

10. SHARE CAPITAL

Authorized
An unlimited number of the following shares:

Common Shares – voting, no par value
Preferred Shares – issued in connection with the Transaction (Note 17)

Issued
9,313,447 Preferred Shares as at January 31, 2022 and October 31, 2021

(Expressed in Canadian dollars)

Common Shares issued are as follows:

	Number of shares	
	#	$
Balance, October 31, 2020	**86,235,740**	**7,333,619**
Shares issued for debt (1)	1,925,300	288,795
Shares issued for services (2)	978,023	120,850
Shares issued on vesting of restricted share units (Note 12)	6,240,263	817,529
Balance, October 31, 2021	**95,379,326**	**8,560,793**
Shares issued for services (3)	1,692,000	169,200
Balance, January 31, 2022	**97,071,326**	**8,729,993**

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

(2) During the year ended October 31, 2021, the Company issued 978,023 Common Shares valued at $120,850 to consultants for services rendered.

(3) On January 11, 2022, the Company issued 1,692,000 Common Shares valued at $169,200 to consultants for services rendered.

11. WARRANTS

Upon exercise, all Warrants that have been issued by the Company entitle the holders thereof to receive an equivalent number of Common Shares as the Warrants that were exercised.

The following table reflects the continuity of warrants:

	Number of warrants	Weighted average exercise price
	#	$
Balance, October 31, 2020	**1,718,250**	**0.53**
Issued as part of March 2021 convertible debenture financing (Note 10)	533,333	0.15
Issued as part of July 2021 convertible debenture financing (Note 10)	951,200	0.15
Issued as part of August 2021 convertible debenture financing (Note 10)	336,000	0.15
Balance October 31, 2021 and January 31, 2022	**3,538,783**	**0.34**

(Expressed in Canadian dollars)

As at October 31, 2021 and January 31, 2022, the following warrants were issued and outstanding:

Number of warrants	Issue date fair value	Exercise price	Expiry date
#	$	$	
499,750	3,739	0.70	February 6, 2022 (1)
603,500	4,919	0.70	February 21, 2022 (1)
410,000	37,477	0.20	September 16, 2023
205,000	16,035	0.30	September 16, 2023
533,333	34,605	0.15	March 18, 2024
951,200	37,357	0.15	July 30, 2024
336,000	14,382	0.15	August 13, 2024
3,538,783	**148,514**		

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

Refer to Note 11 for details on warrants measured at FVTPL.

12. STOCK OPTIONS

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

The following table reflects the continuity of stock options issued by the Company (the "Options"):

	Number of options	Weighted average exercise price
	#	$
Balance, October 31, 2020	**3,560,000**	**0.21**
Granted (1 and 2)	3,100,000	0.16
Expired (3)	(1,060,000)	0.46
Balance, October 31, 2021	**5,600,000**	**0.13**
Granted (4)	575,000	0.15
Expired (1)	(500,000)	0.20
Balance, January 31, 2022	**5,675,000**	**0.13**

(Expressed in Canadian dollars)

(1) On January 7, 2021, 500,000 Options were granted to a consultant of the Company at an exercise price of $0.20 per Common 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 January 7, 2022, these 500,000 Options expired.

(2) 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 months following the grant date and expire on February 8, 2026.

(3) On April 14, 2021, 80,000 Options with an exercise price of $0.50 per Common Share expired. On August 15, 2021, 230,000 Options with an exercise price of $1.30 per Common Share expired. On September 15, 2021, 750,000 Options with an exercise price of $0.20 per Common Share expired.

(4) On November 8, 2021, 575,000 Options were granted to certain consultants of the Company at an exercise price of $0.15 per share. The Options all vest on the four months following the grant date and expire on November 8, 2023.

As at January 31, 2022, the following Options were outstanding and exercisable:

		Outstanding			**Exercisable**
Exercise prices	**Number outstanding**	**Weighted average remaining contractual life**	**Weighted average outstanding exercise price**	**Number vested**	**Weighted average vested exercise price**
$	#	(in years)	$	#	$
$0.10	2,500,000	2.92	0.10	2,500,000	0.10
$0.15	3,175,000	3.62	0.15	2,600,000	0.15
	5,675,000	**3.31**	**0.13**	**5,100,000**	**0.13**

As at October 31, 2021, the following Options were outstanding and exercisable:

		Outstanding			**Exercisable**
Exercise prices	**Number outstanding**	**Weighted average remaining contractual life**	**Weighted average outstanding exercise price**	**Number vested**	**Weighted average vested exercise price**
$	#	(in years)	$	#	$
$0.10	2,500,000	3.17	0.10	2,500,000	0.10
$0.15	2,600,000	4.28	0.15	2,600,000	0.15
$0.20	500,000	0.19	0.20	500,000	0.20
	5,600,000	**3.42**	**0.13**	**5,600,000**	**0.13**

(Expressed in Canadian dollars)

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

	Three months ended January 31, 2022	Year ended October 31, 2021
Stock options granted	575,000	3,100,000
Weighted average fair value	0.01	0.09
Weighted-average exercise price	0.15	0.16
Weighted-average market price at date of grant	0.05	0.14
Expected life of stock options (years)	2.00	4.35
Expected stock price volatility	100%	100%
Risk-free interest rate	0.95%	1.40%
Expected dividend yield	0%	0%

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

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

In total, $5,422 of stock-based compensation expense relating to Options was included in the interim condensed consolidated statements of loss and comprehensive loss or capitalized in inventory for the three months ended January 31, 2022 (2021 – $8,600) and credited to contributed surplus.

13. RESTRICTED SHARE UNITS

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

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

The following table reflects the continuity of RSUs:

	Number of RSUs	**Weighted-average market price at date of grant**
	#	$
Balance, October 31, 2020	**1,717,500**	**0.16**
Granted (1)	4,522,763	0.12
Vested	(6,240,263)	0.13
Balance, October 31, 2021 and January 31, 2022	**-**	**n/a**

(Expressed in Canadian dollars)

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

In total $nil of stock-based compensation expense relating to RSUs was included in the interim condensed consolidated statements of loss and comprehensive loss or capitalized in inventory for the three months ended January 31, 2022 (2021 – $243,082) and credited to contributed surplus.

14. REVENUES FROM THE SALES OF GOODS

On January 26, 2021, the Company announced that it had signed a binding term sheet with Vortex Cannabis Inc. ("Vortex"), setting out the terms of a service agreement (the "Service Agreement") whereby Vortex will sell products produced by Molecule to the provincial retailers of cannabis products (the "Provincial Retailers"). The Service Agreement allows Molecule to begin selling its line of CIBs throughout Canada, starting initially with Ontario and Quebec. Under the terms of the Service Agreement, Molecule will pay a percentage of revenues to Vortex for its services. The initial term of the Service Agreement was six months. The term was subsequently extended for an additional six months and then indefinitely, while allowing the Company to end the Service Agreement with sixty days' notice.

The Company's Licence allows the Company to produce CIBs and sell them to other LPs. A Standard Processing Licence, such as the License, requires an amendment to allow the holder thereof to sell cannabis products directly to Provincial Retailers (a "Sales Amendment"). Rather than waiting until a Sales Amendment is issued to the Company, the Service Agreement allows the Company to bring CIBs to market through Vortex, while completing its own sales amendment application.

Total revenue from the sale of goods consists entirely of sales to Vortex for the three months ended January 31, 2022, and is presented net of provisions for sales returns and price concessions. During the three months ended January 31, 2022, the Company reserved or realized $8,039 (2021 – $nil) for sales provisions and price concessions. The Company has not yet incurred excise taxes in its net revenues as those taxes are incurred by the LP that sells to the Provincial Retailers.

15. SELECTED OPERATING EXPENSES BY NATURE

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

	Management and consulting fees	**Salaries and benefits**	**Office and facilities**	**Depreciation and amortization**	**Stock-based compensation**	**Total**
	$	$	$	$	$	$
Operating expenses	254,604	170,192	123,803	9,831	174,622	733,052
Capitalized to inventory	-	107,268	48,192	151,085	-	306,545
Total for the three months ended January 31, 2022	**254,604**	**277,460**	**171,995**	**160,916**	**174,622**	**1,039,597**

No such costs were capitalized to inventory in the three months ended January 31, 2021.

(Expressed in Canadian dollars)

16. 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 office and facilities lease amounts paid or payable to a company related to a Director of the Company (Note 10) was as follows:

For the three months ended January 31,	2022	2021
	$	$
Salaries	30,330	21,799
Consulting fees (1)	82,500	62,250
Stock-based compensation	-	140,597
Total remuneration	112,830	224,646
Office and facilities	24,750	15,000

(1) As at January 31, 2022, unpaid consulting fees and office and facilities lease payments in the aggregate amount of $60,150 are owed to management and a company related to a Director and have been included in accounts payable and accrued liabilities (October 31, 2021 – $74,950). The amounts owing are unsecured, non-interest bearing and due on demand.

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

17. CONTINGENCIES

Preferred Share Issuance

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

18. SUBSEQUENT EVENTS

On February 18, 2022, the Company issued 335,577 Common Shares to settle $33,900 of debt.

On February 6, 2022 and February 21, 2022, 499,750 and 603,500 Warrants, respectively, with an exercise price of $0.70 per Common Share were expired.