

MOLECULE HOLDINGS INC.

Interim Condensed Consolidated Financial Statements

For the three and six months ended April 30, 2022

(Expressed in Canadian Dollars)

(Unaudited)

Interim Condensed Consolidated Financial Statements

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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	April 30, 2022	October 31, 2021
		\$
ASSETS		
Current assets		
Cash and cash equivalents (Note 3)	292,251	1,203,327
Trade and other receivables (Note 4)	432,856	391,190
Inventory (Note 5)	836,514	640,360
Prepaid expenses and deposits	270,437	472,529
	1,832,058	2,707,406
Capital assets (Note 6)	2,959,770	3,248,329
Total assets	4,791,828	5,955,735
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	1,301,407	816,964
Current portion of lease liability (Note 8)	53,417	50,071
Promissory note payable (Note 9)	250,274	-
Convertible debt and warrant liabilities at fair value through profit or loss (Note 9)	3,690,614	3,487,856
	5,295,712	4,354,891
Lease liability (Note 8)	57,735	85,369
Convertible debt (Note 9)	878,649	817,087
Other long-term liabilities	60,000	60,000
Total liabilities	6,292,096	5,317,347
EQUITY		
Share capital (Note 10)	8,763,551	8,560,793
Warrants (Note 11)	147,328	147,328
Contributed surplus (Notes 12 and 13)	581,283	575,861
Deficit	(10,992,430)	(8,645,594)
Total equity	(1,500,268)	638,388
Total liabilities and equity	4,791,828	5,955,735

On behalf of the Board

(signed) "Andre Audet"
Andre Audet, Director

(signed) "David Reingold"
David Reingold, Director

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

Molecule Holdings Inc.

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

(Expressed in Canadian dollars)

	Three months ended		Six months ended	
	April 30, 2022	2021	April 30, 2022	2021
	\$	\$	\$	\$
Net revenue from sale of goods (Note 14)	443,824	68,539	703,748	68,539
Cost of goods sold (Notes 5 and 15)	631,964	127,823	1,036,698	127,823
Gross profit (loss) before inventory write-down	(188,140)	(59,284)	(332,950)	(59,284)
Write-down of inventory to net realizable value (Note 5)	(44,259)	(6,338)	(84,765)	(6,338)
Gross profit (loss)	(232,399)	(65,622)	(417,715)	(65,622)
Operating expenses				
Management and consulting fees (Note 15)	119,348	78,105	373,952	178,460
Salaries and benefits (Note 15)	177,358	59,262	347,550	196,284
Office and facilities (Note 15)	131,377	93,409	255,180	189,238
Professional fees	90,496	58,465	217,807	133,938
Supplies and testing	30,704	102,624	68,789	140,355
Travel and promotion	9,674	11,097	14,911	26,241
Interest on lease liability (Note 8)	616	3,399	995	8,510
Depreciation of capital assets (Notes 6 and 15)	9,831	116,057	19,662	180,330
Stock-based compensation (Notes 10, 12, 13 and 15)	33,558	567,226	208,180	825,894
Government assistance	-	-	-	(515)
	602,962	1,089,644	1,507,026	1,878,735
Loss before other items	(835,361)	(1,155,266)	(1,924,741)	(1,944,357)
Other income (loss)				
Interest income	51	-	3,091	57
Interest and financing fees on convertible debt and promissory note payable (Note 9)	(119,792)	(213,709)	(233,570)	(257,798)
Change in fair value of financial assets at fair value through profit or loss	-	(32,940)	-	(62,928)
Change in fair value of financial liabilities at fair value through profit or loss (Note 9)	35,897	(79,049)	(189,952)	(79,049)
Foreign exchange gain (loss)	183	11,748	(1,664)	11,939
Net loss and total comprehensive loss	(919,022)	(1,469,216)	(2,346,836)	(2,332,136)
Basic and diluted net loss per common share	(0.009)	(0.016)	(0.024)	(0.026)
Basic and diluted weighted average number of common shares outstanding	97,342,804	91,600,065	97,214,163	89,129,531

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)	635,600	86,950	-	-	-	86,950
Shares issued on vesting of restricted share units (Note 13)	4,117,450	539,892	-	(539,892)	-	-
Broker warrants issued as part of convertible debenture financing	-	-	34,605	-	-	34,605
Stock-based compensation	-	-	6,986	757,976	-	764,962
Net loss and total comprehensive loss	-	-	-	-	(2,332,136)	(2,332,136)
Balance, April 30, 2021	92,914,090	8,249,256	96,775	684,096	(6,750,377)	2,279,750
Shares issued for services (Note 12)	342,423	33,900	-	-	-	33,900
Shares issued on vesting of restricted share units (Note 15)	2,122,813	277,637	-	(277,637)	-	-
Broker warrants issued as part of convertible debenture financing (Note 1)	-	-	50,553	-	-	50,553
Stock-based compensation	-	-	-	169,402	-	169,402
Net loss and total comprehensive loss	-	-	-	-	(1,895,217)	(1,895,217)
Balance, October 31, 2021	95,379,326	8,560,793	147,328	575,861	(8,645,594)	638,388
Shares issued for debt (Note 10)	1,692,000	169,200	-	-	-	169,200
Shares issued for services (Note 10)	335,577	33,558	-	-	-	33,558
Stock-based compensation	-	-	-	5,422	-	5,422
Net loss and total comprehensive loss	-	-	-	-	(2,346,836)	(2,346,836)
Balance, April 30, 2022	97,406,903	8,763,551	147,328	581,283	(10,992,430)	(1,500,268)

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 six months ended April 30,	2022	2021
	\$	\$
OPERATING ACTIVITIES		
Net loss for the period	(2,346,836)	(2,332,136)
Adjustments for:		
Stock-based compensation (Notes 10, 12, 13 and 15)	208,180	851,912
Depreciation of capital assets (Notes 6 and 15)	324,224	233,545
Interest on lease liability (Note 8)	7,212	9,921
Interest on convertible debt and promissory note payable (Note 9)	233,570	99,303
Convertible debt financing fees (Note 11)	-	158,495
Interest income	(3,091)	(57)
Write-down of inventory to net realizable value (Note 5)	(72,956)	6,338
Change in fair value of financial assets at fair value through profit or loss	-	62,928
Change in fair value of financial liabilities at fair value through profit or loss (Note 9)	189,952	79,049
Changes in non-cash working capital items	521,943	(640,244)
Net cash flows from operating activities	(937,802)	(1,470,946)
INVESTING ACTIVITIES		
Interest received	3,091	57
Proceeds from sale of marketable securities (Note 6)	-	97,040
Investment in capital assets (Note 6)	(35,665)	(78,869)
Net cash flows from investing activities	(32,574)	18,228
FINANCING ACTIVITIES		
Proceeds from issuance of convertible debt (Note 11)	-	1,000,000
Convertible debt issuance costs (Note 11)	-	(158,495)
Proceeds from issuance of promissory note payable (Note 9)	250,000	-
Interest paid on convertible debentures (Note 9)	(159,200)	(24,976)
Lease payments (Note 8)	(31,500)	(30,000)
Proceeds from other long-term obligations	-	20,000
Net cash flows from financing activities	59,300	806,529
Decrease in cash and cash equivalents	(911,076)	(646,189)
Cash and cash equivalents, beginning of the period	1,203,327	902,519
Cash and cash equivalents, end of the period	292,251	256,330
Changes in non-cash working capital items consists of the following:		
Trade and other receivables	(41,666)	(82,662)
Inventory	(123,200)	(246,599)
Prepaid expenses and deposits	202,092	(99,876)
Accounts payable and accrued liabilities	484,717	(211,107)
	521,943	(640,244)
Supplemental information:		
Shares issued for debt and services (Note 10)	202,758	375,745

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

Molecule Holdings Inc.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)

For the six months ended April 30, 2022

(Expressed in Canadian dollars)

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 “Processing Licence”) under the Cannabis Act and Cannabis Regulations. The Processing 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 Processing Licence.

On April 26, 2022, OpCo was issued a sales amendment to its Processing License (the “Sales Amendment”) under the Cannabis Act and Cannabis Regulations. The Sales Amendment authorizes the Company, through OpCo, to directly sell cannabis extracts, beverages, edibles and topical products to Provincial Retailers. Please refer to Note 14 for additional information.

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”.

Going Concern

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 April 30, 2022, the Company had been generating revenue for just over one year, has no positive income or cash inflow from operations, has incurred losses since its inception and as at April 30, 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 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.

Molecule Holdings Inc.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)

For the six months ended April 30, 2022

(Expressed in Canadian dollars)

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 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.

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 June 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.

Molecule Holdings Inc.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)

For the six months ended April 30, 2022

(Expressed in Canadian dollars)

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	April 30, 2022	October 31, 2021
	\$	\$
Cash at banks	292,251	178,327
Short-term deposits	-	1,025,000
Total cash and cash equivalents	292,251	1,203,327

Short-term deposits consist of cashable Guaranteed Investment Certificates 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:

	April 30, 2022	October 31, 2021
	\$	\$
Trade accounts receivable	401,138	289,903
Sales taxes receivable	31,718	101,287
Total trade and other receivables	432,856	391,190

5. INVENTORY

Inventory consists of the following:

	April 30, 2022	October 31, 2021
	\$	\$
Raw materials	474,905	416,160
Finished goods	361,609	224,200
Total inventory	836,514	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 were \$631,964 and \$1,036,698 for the three and six months ended April 30, 2022, respectively (2021 – \$127,823 and \$127,823, respectively). The write-down of inventories to net realizable value on the interim condensed consolidated statements of loss and comprehensive loss for the three and six months ended April 30, 2022 was \$44,259 and \$84,765, respectively (2021 – \$6,338 and \$6,338). As at April 30, 2022 and October 31, 2021, raw materials are carried at cost and finished goods are carried at net realizable value.

Molecule Holdings Inc.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)

For the six months ended April 30, 2022

(Expressed in Canadian dollars)

Total share-based compensation capitalized to inventory for three and six months ended April 30, 2022 was \$nil and \$nil, respectively (2021 – \$26,018 and \$26,018, respectively). Total depreciation capitalized to inventory for the three and six months ended April 30, 2022 was \$153,477 and \$304,562, respectively (2021 – \$53,215 and \$53,215, respectively). Total interest on lease liability capitalized to inventory for the three and six months ended April 30, 2022 was \$3,082 and \$6,490, respectively (April 30, 2021 – \$1,411 and \$1,411, respectively).

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	-		35,665	35,665
Cost, April 30, 2022	239,865	1,444,723	2,225,891	3,910,479
Accumulated depreciation				
Balance, October 31, 2021	123,938	240,610	261,937	626,485
Depreciation (2)	23,988	144,472	155,764	324,224
Accumulated depreciation, April 30, 2022	147,926	385,082	417,701	950,709
Net book value, April 30, 2022	91,939	1,059,641	1,808,190	2,959,770

- (1) During the six months ended April 30, 2022, the Company purchased equipment in the amount of \$35,665, to be used in the production of CIBs.
- (2) During the six months ended April 30, 2022, the Company capitalized \$304,562 (2021 – \$53,215) of depreciation to inventory and expensed \$19,590 (2021 – \$180,330) 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

Molecule Holdings Inc.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)

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(Expressed in Canadian dollars)

- (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).
- (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 and other receivables, accounts payable and accrued liabilities, promissory note payable, 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:

	April 30, 2022	October 31, 2021
	\$	\$
Financial assets		
Amortized cost		
Cash	292,251	178,327
Trade accounts receivable	401,138	289,903
Fair value through profit or loss		
Cash equivalents	-	1,025,000
Total financial assets	693,389	1,493,230
Financial liabilities		
Amortized cost		
Accounts payable and accrued liabilities	(1,301,407)	(816,964)
Convertible debt	(878,649)	(817,087)
Other long-term liabilities	(60,000)	(60,000)
Promissory note payable	(250,274)	-
Fair value through profit or loss		
Convertible debt	(3,162,388)	(3,001,008)
Warrant liability	(528,226)	(486,848)
Total financial liabilities	(6,180,944)	(5,181,907)

Molecule Holdings Inc.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)

For the six months ended April 30, 2022

(Expressed in Canadian dollars)

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 the provincial retailers of cannabis products (the "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, the promissory note payable 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

Molecule Holdings Inc.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)

For the six months ended April 30, 2022

(Expressed in Canadian dollars)

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 six months ended April 30, 2022.

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	7,212
Lease payments	(31,500)
Balance, April 30, 2022	111,152
Current	53,417
Long-term	57,735
	111,152

Effective April 1, 2019, OpCo entered into a lease with Thousand Island Farms Inc., a company owned by a Director of the Company, for a parcel of land and a building, which includes 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, which is the current term, 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, the Company 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. The purchase price payable for the premises and the land increases each year of the lease based on the annual Consumer Price Index percentage.

During the three and six months ended April 30, 2022, the Company capitalized \$3,082 and \$6,490, respectively (2021 – \$1,411 and \$1,411, respectively), of interest on lease liability to inventory. During the three and six months ended April 30, 2022, interest on lease liability expensed to the interim condensed consolidated statements of loss and comprehensive loss was \$342 and \$721, respectively (2021 – \$8,510 and \$8,510, respectively).

Molecule Holdings Inc.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)

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9. CONVERTIBLE DEBT AND PROMISSORY NOTE PAYABLE

Convertible debt

Convertible debt consists of the following:

	April 30, 2022	October 31, 2021
	\$	\$
Convertible debentures and warrants measured at FVTPL		
Convertible debentures and warrants issued March 18, 2021	1,103,851	1,050,866
Convertible debentures and warrants issued July 30, 2021	1,503,976	1,418,402
Convertible debentures and warrants issued August 13, 2021	1,082,787	1,018,588
Total convertible debt and warrant liabilities measured at FVTPL	3,690,614	3,487,856
Convertible debentures measured at amortized cost		
Convertible debentures issued September 16, 2020	878,649	817,087
Total long-term portion of convertible debt	878,649	817,087
Total convertible debt	4,569,263	4,304,943

Convertible Debenture issued September 16, 2020

On September 16, 2020, and in connection with the completion of the Transaction (Note 1), the Company satisfied the escrow release conditions of the brokered private placement offering of subscription receipts led by Gravititas Securities Inc. (the "Agent"), pursuant to the terms of an agency agreement dated July 29, 2020 (the "Agency Agreement") and the concurrent non-brokered private placement offering of subscription receipts (collectively, the "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

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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 which were issued in exchange for the subscription receipts.

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.

	Debtentures	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	104,162	-	104,162
Interest paid on Debentures	(42,600)	-	(42,600)
Balance, April 30, 2022	878,649	73,768	952,417

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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, with 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 four months and one day have elapsed since the closing of the March 2021 Offering, the Company has 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. OpCo acted as guarantor for the obligations under the debentures, including providing a pledge of its common shares.

The debentures and the warrants provide for both change of control as well as anti-dilution adjustments. The anti-dilution adjustments restrict certain corporate actions of the Company as well as future equity issuances below the conversion price of the debentures or exercise price of the warrants issued under the March 2021 Offering.

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.

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On July 30, 2021, as a result of the anti-dilution provisions of the March 2021 Offering and the completion of the July 2021 Offering on more favourable terms to investors (as defined and 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 6,000 per \$1,000 in principal amount (or 6,000,000 warrants in aggregate) from 3,333,333 warrants originally issued on March 18, 2021; and
- The conversion price of the debentures issued pursuant to the March 2021 Offering was reduced from \$0.15 to \$0.10.

All other terms of the March 2021 Offering remain unmodified by the July 2021 Offering or August 2021 Offering (each as defined below).

On April 30, 2022, the fair value of the convertible debenture liability component was adjusted to \$959,195, plus accrued interest of \$6,790 (\$965,985 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 \$24,315 and \$48,339 for the three and six months ended April 30, 2022 respectively (2021 – \$10,232 and \$10,232).

Also on April 30, 2022, the fair value of the warrants was adjusted to \$137,886, using the Black-Scholes pricing model using the following assumptions: stock price of \$0.07, weighted-average exercise price of \$0.15, risk-free interest rate of 1.31%, expected life of warrants of 1.88 years, expected volatility of 100% and expected dividend rate of 0%, resulting in a gain (loss) in fair value of financial liabilities at FVTPL of \$32,443 and (\$8,103) for the three and six months ended April 30, 2022 respectively (2021 – (\$29,494) and (\$29,494)).

	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	33,584	-	(33,584)	-
Interest paid on Debentures	(37,041)	-	-	(37,041)
Change in financial liabilities at FVTPL	48,339	8,103	(56,442)	-
Balance, April 30, 2022	965,985	137,866	(345,415)	758,436

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Convertible Debenture issued July 30, 2021

On July 30, 2021, the Company completed the first tranche 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 four months and one day have elapsed since the closing of the July 2021 Offering, the Company has 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 both change of control as well as anti-dilution adjustments. The anti-dilution adjustments restrict certain corporate actions of the Company as well as future equity issuances below the conversion price of the debentures or exercise price of the warrants issued under the July 2021 Offering.

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 April 30, 2022, the fair value of the convertible debenture liability component was adjusted to \$1,241,182, plus accrued interest of \$37,269 (\$1,278,451 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 \$29,375 and \$58,400 for the three and six months ended April 30, 2022 respectively (2021 – \$nil and \$nil).

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Also on April 30, 2022, the fair value of the warrants was adjusted to \$225,525, using the Black-Scholes pricing model using the following assumptions: stock price of \$0.07, weighted-average exercise price of \$0.15, risk-free interest rate of 1.42%, expected life of warrants of 2.25 years, expected volatility of 100% and expected dividend rate of 0%, resulting in a gain (loss) in fair value of financial liabilities at FVTPL of \$45,442 and (\$19,037) for the three and six months respectively ended April 30, 2022 (2021 – \$nil and \$nil).

	Debtures	Warrants	Other Income (loss)	Total
	\$	\$	\$	\$
Balance, October 31, 2020	-	-	-	-
Proceeds from issuance of Convertible Debtures	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 Debtures	1,154,767	333,192	(227,250)	1,260,709
Interest accretion on Debtures	29,132	-	(29,132)	-
Interest paid on Debtures	-	-	-	-
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 Debtures	56,175	-	-	56,175
Interest paid on Debtures	(48,037)	-	-	(48,037)
Change in financial liabilities at FVTPL	58,400	19,037	(77,437)	-
Balance, April 30, 2022	1,278,451	225,525	(235,130)	1,268,846

Convertible Debtures Issued August 13, 2021

On August 13, 2021, the Company completed the second tranche of a non-brokered private placement offering (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 four months and one day have elapsed since the closing of the August 2021 Offering, the Company has 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 both change of control as well as anti-dilution adjustments. The anti-dilution adjustments restrict certain corporate actions of the Company as well as future equity issuances below the conversion price of the debentures or exercise price of the warrants issued under the August 2021 Offering.

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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 April 30, 2022, the fair value of the convertible debenture liability component was adjusted to \$891,940, plus accrued interest of \$26,012 (\$917,952 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 \$21,043 and \$41,834 for the three and six months ended April 30, 2022 respectively (2021 – \$nil and \$nil).

Also on April 30, 2022, the fair value of the warrants was adjusted to \$164,835, using the Black-Scholes pricing model using the following assumptions: stock price of \$0.07, weighted-average exercise price of \$0.15, risk-free interest rate of 1.42%, expected life of warrants of 2.29 years, expected volatility of 100% and expected dividend rate of 0%, resulting in a gain (loss) in fair value of financial liabilities at FVTPL of \$32,746 and (\$14,238) for the three and six months ended April 30, 2022 respectively (2021 – \$nil and \$nil).

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	Debtentures	Warrants	Other Income (loss)	Total
	\$	\$	\$	\$
Balance, October 31, 2020	-	-	-	-
Proceeds from issuance of Convertible Debtentures	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 Debtentures	867,000	261,964	(158,946)	970,018
Interest accretion on Debtentures	17,885	-	(17,885)	-
Interest paid on Debtentures	-	-	-	-
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 Debtentures	39,649	-	(39,649)	-
Interest paid on Debtentures	(31,522)	-	-	(31,522)
Change in financial liabilities at FVTPL	41,834	14,238	(56,072)	-
Balance, April 30, 2022	917,952	164,835	(144,291)	938,496

Promissory note payable

Promissory note payable consists of the following:

	April 30, 2022	October 31, 2021
	\$	\$
Promissory note payable issued April 28, 2022	250,000	-
Interest accretion on promissory note payable	247	-
Interest paid on promissory note payable	-	-
Total promissory note payable	250,247	-

On April 28, 2022, the Company issued an unsecured promissory note (the "Note") to an arms-length lender, pursuant to which the Company agreed to borrow and re-pay a loan in the principal amount of \$250,000 (the "Loan").

The Note bears interest at a simple rate of 10.00% per annum and is payable semi-annually in cash beginning on October 28, 2022. The unpaid principal amount of the Loan, together with all accrued and unpaid interest, is due and payable, in cash, upon demand by the lender. The Company can repay the principal in whole or in part at any time without notice, penalty or bonus. The Loan is not secured against any assets of the Company or convertible into securities of the Company.

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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 1 and 17)

Issued

9,313,447 Preferred Shares as at April 30, 2022 and October 31, 2021

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 13)	6,240,263	817,529
Balance, October 31, 2021	95,379,326	8,560,793
Shares issued for debt (3)	1,692,000	169,200
Shares issued for services (4)	335,577	33,558
Balance, April 30, 2022	97,406,903	8,763,551

- (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 at a deemed price of \$0.10 per Common Share to three arms-length creditors in full and final satisfaction of outstanding debt for past consulting services in the aggregate amount of \$169,200
- (4) On February 18, 2022, the Company issued 335,577 Common Shares at a deemed price of \$0.10 per Common Share to satisfy its final payment of \$33,900 owed to a consultant pursuant to the terms of an online marketing agreement dated as of January 11, 2021, as amended on February 17, 2022. Due to the issuance by the Company of excess 3,423 Common Shares in prior payments to the Consultant, the Company reduced the number of Common Shares issued to the consultant for the final payment by 3,423 Common Shares.

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.

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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)	3,866,666	0.15
Issued as part of July 2021 convertible debenture financing (Note 10)	9,435,200	0.15
Issued as part of August 2021 convertible debenture financing (Note 10)	6,456,000	0.15
Balance October 31, 2021	21,476,116	0.18
Expired	(1,103,250)	0.70
Balance April 30, 2022	20,372,866	0.15

As at April 30, 2022, the following warrants were issued and outstanding:

Number of warrants	Issue date fair value	Exercise price	Expiry date
#	\$	\$	
410,000	37,477	0.20	September 16, 2023
205,000	16,035	0.30	September 16, 2023
3,866,666	217,493	0.15	March 18, 2024
9,435,200	370,549	0.15	July 30, 2024
6,456,000	276,346	0.15	August 13, 2024
20,372,866	917,900		

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

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.

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

	Number of options #	Weighted average exercise price \$
Balance, October 31, 2019	2,500,000	0.10
Issued pursuant to RTO	1,060,000	0.46
Balance, October 31, 2020	3,560,000	0.21
Granted (1 and 2)	3,100,000	0.16
Expired (3)	(1,060,000)	0.46
Balance, October 31, 2021	5,600,000	0.13
Granted (4)	575,000	0.15
Expired (5)	(500,000)	0.20
Balance, April 30, 2022	5,675,000	0.13

- (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. All Options vested four months and one day following the grant date and expire on November 8, 2023.
- (5) On January 7, 2022, 500,000 Options with an exercise price of \$0.15 expired.

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As at April 30, 2022, the following Options were outstanding and exercisable:

Exercise prices	Number outstanding	Outstanding		Weighted average exercise price	Exercisable	
		Weighted average remaining contractual life	Weighted average remaining contractual life		Number vested	Weighted average vested exercise price
\$	#	(in years)		\$	#	\$
\$0.10	2,500,000	2.68		0.10	2,500,000	0.10
\$0.15	3,175,000	3.37		0.15	3,175,000	0.15
	5,675,000	3.07		0.13	5,675,000	0.13

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

Exercise prices	Number outstanding	Outstanding		Weighted average exercise price	Exercisable	
		Weighted average remaining contractual life	Weighted average remaining contractual life		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

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

	Six months ended April 30, 2022	Year ended October 31, 2020
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.

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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 six months ended April 30, 2022 (2021 – \$189,358) 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 (3)	4,522,763	0.12
Vested	(6,240,263)	0.13
Balance, October 31, 2021 and April 30, 2022	-	n/a

(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. All RSUs have vested and each prior holder thereof received a settlement payment for such vested RSUs in Common Shares.

In total \$nil and \$nil, respectively 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 and six months ended April 30, 2022 (2021 – \$325,536 and \$568,618, respectively) 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”) pursuant to which Vortex sold products produced by the Company to the Provincial Retailers. The Service Agreement allowed the Company to begin selling its line of CIBs throughout Canada, starting initially with Ontario and Quebec. Under the terms of the Service Agreement, the Company pays 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.

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The Processing Licence allows the Company, through OpCo, to produce CIBs and sell them to other LPs. The Processing Licence requires an amendment to allow the holder thereof to sell cannabis products directly to Provincial Retailers, known as a “sales amendment”. Rather than waiting until the Sales Amendment (as defined in Note 1) was issued to the Company, the Service Agreement allowed the Company to bring CIBs to market through Vortex, while completing its own sales amendment application.

On April 26, 2022, the Company announced that OpCo received the Sales Amendment, allowing the Company to now sell cannabis extracts, beverages, edibles, and topical products directly to Provincial Retailers.

Total revenue from the sale of goods consists entirely of sales to Vortex for the six months ended April 30, 2022, and is presented net of provisions for sales returns and price concessions. During the six months ended April 30, 2022, the Company reserved or realized \$24,702 (2021 – \$4,374) 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	119,348	177,358	131,377	9,831	33,558	471,472
Capitalized to inventory	-	122,538	151,031	153,477	-	427,046
Total for the three months ended April 30, 2022	119,348	299,896	282,408	163,308	33,558	898,518
Operating expenses	373,952	347,550	255,180	19,662	208,180	1,204,524
Capitalized to inventory	-	229,806	199,223	304,563	-	733,592
Total for the six months ended April 30, 2022	373,952	577,356	454,403	324,225	208,180	1,938,116

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The comparable analysis for the six months ended April 30, 2021 is as follows:

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

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:

	Three months ended April 30,		Six months ended April 30,	
	2022	2021	2022	2021
	\$	\$	\$	\$
Salaries	29,341	30,000	59,670	51,799
Consulting fees (1)	82,500	22,821	165,000	85,071
Stock-based compensation	-	177,405	-	318,002
Total remuneration	111,841	230,226	224,670	454,872
Office and facilities	24,750	15,000	49,500	30,000

(1) As at April 30, 2022, unpaid consulting fees and office and facilities lease payments in the aggregate amount of \$140,750 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.

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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

Non-Brokered Private Placement Offering

On May 30, 2022, the Company completed a non-brokered private placement offering of 600 senior secured convertible debenture units to an arm's length party for gross proceeds of \$600,000. Each unit is comprised of \$1,000 principal amount of senior secured convertible debentures and 6,000 common share purchase warrants, with each warrant entitling the holder thereof to acquire one Common Share for a period of 36 months from the date of closing at an exercise price of \$0.15 per Common Share, subject to adjustment pursuant to certain anti-dilution provisions.

The convertible debentures bear interest at a rate of 8.00% per annum, which interest is payable in quarterly installments beginning June 30, 2022, and will mature on September 18, 2024. The holder of the convertible debentures is entitled to convert the indebtedness under the debenture, at any time prior to maturity, into Common Shares at a conversion price of \$0.10, subject to adjustment pursuant to certain anti-dilution provision. Commencing four months and a day from the date of issuance, the Company shall have the right to prepay or redeem the indebtedness under the Debenture, in whole or in part, at any time by providing a minimum of 30 days' and a maximum of 60 days' notice. The obligations under the convertible debentures are secured against the assets of the Company and OpCo, which acted as guarantor.

A portion of the net proceeds of the offering were used to repay \$250,000 of the Company's existing secured convertible debentures issued under the March 2021 Offering, with the balance expected to be used for working capital and general corporate purposes.

Stock Options

On June 2, 2022, the Company granted 150,000 Options to a consultant of the Company pursuant to the Company's stock option plan. Each Option is exercisable into one Common Shares at a price of \$0.15 per Common Share. The options are exercisable until June 2, 2024 and vested on the date of grant.

Brokered Private Placement Offering

On June 15, 2022, the Company entered into an engagement letter with Canaccord Genuity Corp. ("Canaccord") to complete a brokered private placement (the "Offering") of debenture units of the Company a price of \$1,000 per debenture unit for gross proceeds of up to \$3,000,000 on a "commercially reasonable efforts" agency basis. Each unit will be comprised of \$1,000 principal amount of 8.00% unsecured convertible debentures maturing 36 months from the closing date and 6,000 common share purchase warrants of the Company, with each warrant entitling the holder thereof to acquire one Common Share at an exercise price of \$0.15 per Common Share for a period of 36 months from the date of closing, subject to an accelerated expiry

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date at the option of the Company in the event that the 10-day volume weight average price of the Common Shares, as traded on the facilities of the CSE is greater than \$0.30 prior to expiry of the warrants. There is no assurance that the Offering will be completed on the terms contemplated or at all.

Debt Settlement Transaction

On June 22, 2022, the Company issued 375,000 Common Shares at a deemed price of \$0.10 per Common Share to a consultant in settlement of \$37,500 of debt for past services.