MOLECULE HOLDINGS INC.

Consolidated Financial Statements

October 31, 2022 and 2021

(Expressed in Canadian Dollars)

Independent Auditor's Report

To the Shareholders of Molecule Holdings Inc.

Opinion

We have audited the consolidated financial statements of Molecule Holdings Inc. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at October 31, 2022 and 2021, and the consolidated statements of loss and comprehensive loss, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at October 31, 2022 and 2021 and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company incurred a net loss during the year ended October 31, 2022 and, as of that date, the Company has a working capital deficiency and has defaulted on certain convertible debentures. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that material uncertainties exist that cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis and the information, other than the consolidated financial statements and our auditor's report thereon, included in the Annual Report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management’s Discussion and Analysis prior to the date of this auditor’s report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company’s financial reporting process.

Auditor’s responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risks of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner of the audit resulting in this independent auditor's report is Chris Milios.

McGovern Hurley LLP

McGovern Hurley LLP

Chartered Professional Accountants
Licensed Public Accountants
Toronto, Ontario
May 15, 2023

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

As at	**October 31, 2022**	October 31, 2021
	$	$
ASSETS		
Current assets		
Cash and cash equivalents (Note 3)	**83,619**	1,203,327
Trade and other receivables (Note 4)	**283,176**	391,190
Inventory (Note 5)	**607,566**	640,360
Prepaid expenses and deposits	**308,205**	472,529
	1,282,566	2,707,406
Capital assets (Note 6)	**2,629,562**	3,248,329
Total assets	**3,912,128**	5,955,735
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	**2,161,240**	816,964
Government remittances payable	**189,614**	-
Current portion of lease liability (Note 8)	**58,337**	50,071
Promissory note payable (Note 9)	**250,274**	-
Current portion of convertible debt (Note 10)	**952,736**	-
Convertible debt and warrant liabilities at fair value through profit or loss (Note 10)	**3,907,667**	3,487,856
	7,519,868	4,354,891
Lease liability (Note 8)	**27,032**	85,369
Convertible debt (Note 10)	**-**	817,087
Other long-term liabilities	**60,000**	60,000
Total liabilities	**7,606,900**	5,317,347
EQUITY		
Share capital (Note 11)	**8,733,371**	8,560,793
Warrants (Note 12)	**147,328**	147,328
Contributed surplus (Notes 13 and 14)	**614,044**	575,861
Deficit	**(13,189,515)**	(8,645,594)
Total equity (deficiency)	**(3,694,772)**	638,388
Total liabilities and equity (deficiency)	**3,912,128**	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 consolidated financial statements.

Molecule Holdings Inc.
Consolidated Statements of Loss and Comprehensive Loss
(Expressed in Canadian dollars)

For the year ended October 31,	**2022**	2021
	$	$
Revenue from sale of goods (Note 15)	**1,975,379**	455,257
Excise taxes	**(6,981)**	-
Net revenue from sale of goods	**1,968,398**	455,257
Cost of goods sold (Notes 5 and 16)	**2,715,061**	881,143
Gross profit (loss) before inventory write-down	**(746,663)**	(425,886)
Write-down of inventory to net realizable value (Note 5)	**(327,309)**	(73,857)
Gross profit (loss)	**(1,073,972)**	(499,743)
Operating expenses		
Management and consulting fees (Note 16)	**962,887**	437,061
Salaries and benefits (Note 16)	**643,710**	402,904
Office and facilities (Note 16)	**486,191**	425,493
Professional fees	**423,591**	171,199
Supplies and testing	**144,154**	238,031
Travel and promotion	**68,345**	27,896
Interest on lease liability (Note 9)	**14,067**	9,372
Depreciation of capital assets (Notes 7 and 16)	**39,765**	202,517
Stock-based compensation (Notes 11, 13, 14 and 16)	**71,742**	989,526
Government assistance	**-**	(515)
	2,854,452	2,903,484
Loss before other items	**(3,928,424)**	(3,403,227)
Other income (loss)		
Interest income	**3,144**	365
Interest and financing fees on convertible debt (Note 10)	**(620,859)**	(651,229)
Change in fair value of financial assets at fair value through profit or loss	**-**	(73,153)
Change in fair value of financial liabilities at fair value through profit or loss (Note 10)	**(69,741)**	3,409
Gain on settlement of debt (Note 11)	**67,680**	-
Loss on disposal of capital assets (Note 7)	**-**	(104,877)
Foreign exchange gain	**4,279**	1,359
Net loss and total comprehensive loss	**(4,543,921)**	(4,227,353)
Basic and diluted net loss per common share	**(0.047)**	(0.046)
Basic and diluted weighted average number of common shares outstanding	**97,113,177**	91,855,662

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

Molecule Holdings Inc.
Consolidated Statements of Changes in Equity (Deficiency)
(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 11)	1,925,300	288,795	-	-	-	288,795
Shares issued for services (Note 11)	978,023	120,850	-	-	-	120,850
Shares issued on vesting of restricted share units (Note 14)	6,240,263	817,529	-	(817,529)	-	-
Broker warrants issued as part of convertible debenture financing (Note 10)	-	-	85,158	-	-	85,158
Stock-based compensation	-	-	6,986	927,378	-	934,364
Net loss and total comprehensive loss	-	-	-	-	(4,227,353)	(4,227,353)
Balance, October 31, 2021	**95,379,326**	**8,560,793**	**147,328**	**575,861**	**(8,645,594)**	**638,388**
Shares issued for debt (Note 11)	2,067,000	139,020	-	-	-	139,020
Shares issued for services (Note 11)	335,577	33,558	-	-	-	33,558
Stock-based compensation	-	-	-	38,183	-	38,183
Net loss and total comprehensive loss	-	-	-	-	(4,543,921)	(4,543,921)
Balance, October 31, 2022	**97,781,903**	**8,733,371**	**147,328**	**614,044**	**(13,189,515)**	**(3,694,772)**

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

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

For the year ended October 31,	2022	2021
	$	$
OPERATING ACTIVITIES		
Net loss	(4,543,921)	(4,227,353)
Adjustments for:		
Stock-based compensation (Notes 11, 13, 14 and 16)	71,742	1,055,214
Depreciation of capital assets (Notes 6 and 16)	651,874	567,061
Interest on lease liability (Note 8)	12,929	18,541
Interest on promissory note payable (Note 9)	12,774	-
Interest on convertible debt (Note 10)	495,664	290,682
Gain on settlement of debt (Note 11)	(67,680)	-
Convertible debt financing fees (Note 10)	125,195	360,582
Interest income	(3,144)	(365)
Write-down of inventory to net realizable value (Note 5)	327,309	73,857
Loss on disposal of capital assets (Note 6)	-	104,877
Change in fair value of financial assets at fair value through profit or loss	-	73,153
Change in fair value of financial liabilities at fair value through profit or loss (Note 10)	69,741	(3,409)
Changes in non-cash working capital items	1,718,142	(1,181,888)
Net cash flows from operating activities	(1,129,375)	(2,869,048)
INVESTING ACTIVITIES		
Interest received	3,411	98
Proceeds from sale of marketable securities	-	166,751
Investment in capital assets (Note 6)	(33,107)	(76,864)
Proceeds from disposal of capital assets (Note 6)	-	77,000
Net cash flows from investing activities	(29,696)	166,985
FINANCING ACTIVITIES		
Proceeds from promissory note payable (Note 9)	250,000	-
Proceeds from issuance of convertible debt (Note 10)	600,000	3,434,000
Repayment of convertible debt (Note 10)	(250,000)	-
Convertible debt issuance costs (Note 10)	(125,195)	(275,428)
Interest paid on promissory note payable (Note 9)	(12,500)	-
Interest paid on convertible debentures (Note 10)	(359,942)	(113,951)
Lease payments (Note 8)	(63,000)	(61,750)
Proceeds from other long-term obligations	-	20,000
Net cash flows from financing activities	39,363	3,002,871
Increase (decrease) in cash and cash equivalents	(1,119,708)	300,808
Cash and cash equivalents, beginning of the year	1,203,327	902,519
Cash and cash equivalents, end of the year	83,619	1,203,327
Changes in non-cash working capital items consists of the following:		
Trade and other receivables	107,745	(288,109)
Inventory	(294,515)	(568,865)
Prepaid expenses and deposits	164,324	(336,540)
Accounts payable and accrued liabilities	1,550,974	11,626
Government remittances payable	189,614	-
	1,718,142	(1,181,888)
Supplemental information:		
Shares issued for debt and services (Note 11)	172,578	409,645

The accompanying notes are an integral part of these 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. The Company 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").

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 Licence (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 of cannabis products (the "Provincial Retailers"). Please refer to Note 15 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 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 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 October 31, 2022, the Company had been generating revenue for less than two years, had no positive income, had incurred losses since its inception and as at October 31, 2022, had a working capital deficiency and the outstanding convertible debentures issued in the March 2021 Offering had not been paid or settled on their maturity date of September 18, 2022. Subsequent to October 31, 2022, the maturity date was extended, see "*Subsequent Events*" for additional information.

Continued operation of the Company is dependent on achieving profitable commercial operations, which requires continued financial support through equity and/or debt financings until profitable commercial operations are achieved. Management is evaluating alternatives to secure additional financing and to restructure existing convertible debt 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.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation and compliance with IFRS

These 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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements were authorized for issue by the Board of Directors (the "Board") on May 15, 2023.

(b) Basis of consolidation

These consolidated financial statements consolidate those of the parent company and its subsidiaries as at and for the year ended October 31, 2022 and 2021. The parent controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. All subsidiaries have a reporting date of October 31.

All intercompany transactions and balances between the companies are eliminated on consolidation, including unrealized gains and losses on transactions. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Company.

Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognized from the effective date of acquisition, or up to the effective date of disposal, as applicable.

<u>Composition of the Company</u>:

The subsidiaries of the Company and their principal activities as at October 31, 2022 and 2021 were as follows:

Name of subsidiary	Place of incorporation	Ownership interest as at October 31, 2022 and 2021	Principal activity
Molecule Inc.	Canada	100%	Cannabis-Infused Beverages
Burrard Bay Capital Corp.	Canada	100%	Holding Company (Inactive)
Everton Minera Dominicana S.A.	Dominican Republic	100%	Exploration Company (Inactive)
Pan Caribbean Metals Inc.	British Virgin Islands	100%	Holding Company (Inactive)
Dominican Metals Inc.	British Virgin Islands	100%	Holding Company (Inactive)
Everton Dominicana (2014) Inc.	Canada	100%	Exploration Company (Inactive)
Linear Gold Caribe S.A.	Dominican Republic	100%	Exploration Company (Inactive)
Hays Lake Gold Inc.	Canada	100%	Exploration Company (Inactive)

(c) Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred.

A financial liability is derecognized when it is extinguished, discharged, cancelled or when it expires.

Financial assets and financial liabilities are measured initially at fair value plus transactions costs.

Financial assets and financial liabilities are measured subsequently as described below.

Financial assets at amortized costs

Financial assets at amortized cost are non-derivative financial assets which are held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. A financial asset is initially measured at fair value, including transaction costs and subsequently at amortized cost. The Company's cash and other receivables fall into this category of financial instruments.

Financial assets at fair value through profit or loss ("FVTPL")

Financial assets are classified as FVTPL when the financial asset is held for trading or it is designated as FVTPL. Financial assets classified as FVTPL are stated at fair value with any resulting gain or loss recognized in profit or loss. Transaction costs are expensed as incurred. The Company's cash equivalents fall into this category of financial instruments.

Impairment of financial assets

All financial assets not classified as FVTPL, including an interest in an equity-accounted investee, are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty;
- default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter bankruptcy or financial reorganization;
- the disappearance of an active market for a security; or
- observable data indicating that there is a measurable decrease in the expected cash flows from a group of financial assets.

For an investment in an equity security, objective evidence of impairment includes a significant or prolonged decline in its fair value below its cost. The Company generally considers a decline of 20% to be significant and a period of nine months to be prolonged.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Impairment of receivables is presented in profit or loss, if applicable.

Financial liabilities

Financial liabilities are classified as either financial liabilities at FVTPL or at amortized cost. Financial liabilities at FVTPL are stated at fair value, with changes being recognized through profit or loss. Other financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis. The Company's financial liabilities include accounts payable and accrued liabilities, promissory note payable, convertible debt and warrant liabilities and other long-term liabilities.

Fair value hierarchy

Financial instruments measured at fair value on the statements of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels: Level 1 – valuation based on quoted prices unadjusted in active markets for identical assets or liabilities; Level 2 – valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); Level 3 – valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs). As at October 31, 2022 and 2021, the Company's cash equivalents and convertible debt and warrant liabilities which are measured at fair value were classified as Level 2 within the fair value hierarchy.

(d) Trade receivables

Trade receivables are recognized initially at the amount of consideration that is unconditional, unless they contain significant financing components when they are recognized at fair value. Trade receivables are subsequently measured at amortized cost using the effective interest method, less an allowance for any rights of return on sales, price concessions and discounts.

(e) Inventory

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

(f) Capital assets

Capital assets are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any.

Depreciation is calculated using the following methods and terms:

Asset type	Depreciation method	Depreciation term
Right-of-use asset	Straight line	5 years
Leasehold improvements	Straight line	5 years
Equipment	Straight line	5-10 years

A capital asset is derecognized upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset, calculated as the difference between the net disposal proceeds and the carrying value of the asset, is included in profit or loss in the period the asset is derecognized.

The assets' residual values, useful lives and methods of depreciation are reviewed on an annual basis, and adjusted prospectively, if appropriate.

There have been no impairment losses with respect to capital assets recognized in any of the periods presented in these consolidated financial statements.

(g) Leases and right-of-use assets

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. Contracts that convey the right to control the use of an identified asset for a period of time in exchange for consideration are accounted for as leases giving rise to right-of-use assets.

At the commencement date, a right-of-use asset is measured at cost, where cost comprises: (a) the amount of the initial measurement of the lease liability; (b) any lease payments made at or before the commencement date, less any lease incentives received; (c) any initial direct costs incurred by the Company; and (d) an estimate of costs to be incurred by the Company in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

A lease liability is initially measured at the present value of the unpaid lease payments discounted using the interest rate implicit in in the lease or if that rate cannot be reliably determined, the Company's incremental borrowing rate. Subsequently, the Company measures a lease liability at amortized cost using the effective interest method. It is then remeasured to reflect revised in-substance fixed lease payments. Except where the costs are included in the carrying amount of another asset, the Company recognizes in profit or loss (a) the interest on a lease liability and (b) variable lease payments not included in the measurement of a lease liability in the period in which the event or condition that triggers those payments occurs. The Company subsequently measures a right-of-use asset at cost less any accumulated depreciation and any accumulated impairment losses; and adjusted for any re-measurement of the lease liability. Right-of-use assets are depreciated over the shorter of the asset’s useful life and the lease term.

(h) Impairment of non-financial assets

The Company assesses non-financial assets for impairment when facts and circumstances suggest that the carrying amount of the assets are impaired. An impairment review is undertaken when indicators of impairment arise.

Where such an indication exists, the recoverable amount of the asset is estimated. For the purpose of assessing impairment, assets are grouped at the lowest level for which there are largely independent cash inflows (cash-generating units or “CGU”). The recoverable amount is the higher of an asset’s fair value less costs to sell and value in use, being the present value of the expected future cash flows of the relevant asset or CGU. An impairment loss is recognized in profit or loss for the amount by which the asset’s carrying amount exceeds its recoverable amount.

Where an impairment subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, subject to the amount not exceeding the carrying amount that would have been determined had impairment not been recognized for the asset in prior periods. Any reversal of impairment is recognized immediately in profit or loss.

(i) Accounts payable and accrued liabilities

Accounts payable and accrued liabilities represent liabilities for goods and services provided to the Company prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually due within 30-60 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. Accounts payable and accrued liabilities are recognized initially at their fair value and subsequently measured at amortized cost using the effective interest method.

(j) Provisions and contingent liabilities

A provision is recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic resources will be required to settle the obligation, and the amount of the obligation can be reliably estimated. Timing or amount of the outflow may still be uncertain. If the effect is material, provisions are measured by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. The Company had no material provisions as at October 31, 2022 and 2021.

(k) Compound financial instruments

Compound financial instruments issued by the Company include loans that can be converted into ordinary shares at the decision of the holder, when the number of shares to be issued is fixed and does not vary with changes in fair value.

The liability component of compound financial instruments is initially recognized based on the fair value of a similar liability that does not have an equity conversion option. The equity component is initially recognized at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component and is included within contributed surplus.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not remeasured.

Transaction costs related to the issue of compound financial instruments are capitalized and applied proportionately against the value of the equity and liability components such that the value assigned to equity and debt is stated net of the transaction costs.

Interest expense accruing to the financial liability is recognized in profit or loss. On conversion, the financial liability is reclassified to equity and no gain or loss is recognized.

(l) Revenue recognition

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

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

(m) Cost of goods sold

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

(n) Share-based compensation

The Company operates an equity-settled stock-based remuneration plan (stock option plan) for directors, officers, employees and consultants. The Company's plan does not feature any options for a cash settlement.

All goods and services received in exchange for the grant of any stock-based payments are measured at their fair values, unless that fair value cannot be estimated reliably. If the Company cannot estimate reliably the fair value of the goods or services received, the Company shall measure their value indirectly by reference to the fair value of the equity instruments granted. Where employees, or consultants providing similar services, are rewarded using stock-based payments, the fair values of the services rendered are determined indirectly by reference to the fair value of the equity instruments granted. The fair value is measured at the grant date and if applicable, recognized over the vesting period. The fair value of the options granted is measured using the Black-Scholes option-pricing model, taking into account the terms and conditions upon which the options were granted. Estimates are subsequently revised if there is any indication that the number of stock options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognized in the current period. No adjustment is made to any expense recognized in prior periods if stock options ultimately exercised are different to that estimated on vesting. Stock-based compensation expense incorporates an expected forfeiture rate.

(o) Restricted share units ("RSU")

Under the Company's RSU plan, employees and consultants are eligible to be granted RSUs where each RSU has a value equal to one Common Share. RSUs are measured at fair value on the grant date. The fair value of RSUs are recognized as a charge to stock-based compensation over the vesting period with a corresponding increase in equity.

(p) Basic and diluted earnings (loss) per share

Basic earnings (loss) per share is computed by dividing the net income (loss) for the period by the weighted average number of Common Shares outstanding during the period. The computation of diluted earnings (loss) per share assumes the conversion or exercise of securities only when such conversion or exercise would have a dilutive effect on earnings (loss) per share. The diluted loss per share is equal to the basic loss per share where the effect of convertible securities is antidilutive, as it would decrease the loss per share.

(q) Income taxes

Tax expense recognized in profit or loss comprises the sum of deferred and current tax not recognized in other comprehensive income or directly in equity.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting periods, that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the financial statements. Calculation of current tax is based on tax rates and laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred income taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Deferred tax on temporary differences associated with shares in subsidiaries and associates is not provided if reversal of these temporary differences can be controlled by the Company and it is probable that the reversal will occur in the foreseeable future.

Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realization, provided they are enacted or substantively enacted by the end of the reporting period. Deferred tax liabilities are always provided for in full. Deferred tax assets are recognized to the extent that it is probable that they will be able to be utilized against future taxable income.

Deferred tax assets and liabilities are offset only when the Company has a right and intention to set off current tax assets and liabilities from the same taxation authority.

Changes in deferred tax assets or liabilities are recognized as deferred income tax expense in profit or loss, except where they relate to items that are recognized in other comprehensive income or directly in equity, in which case the related deferred tax is also recognized in other comprehensive income or equity, respectively.

(r) Segmented reporting

The Company presents and discloses segmented information based on information that is regularly reviewed by the Company's CEO, who is the chief operating decision maker. The CEO has primary responsibility for allocating resources to the Company's operating segments and assessing their performance. The Company has determined that there is only one operating segment being the production and co-packing of CIBs.

(s) Exploration and evaluation expenditures

The Company's policy for accounting for exploration and evaluation expenditures is to expense all exploration and evaluation costs.

(t) Significant management judgements

The following are significant management judgments in applying the accounting policies of the Company and have the most significant effect on the financial statements.

Going concern

The assessment of the Company's ability to continue as a going concern, to raise sufficient funds to pay for its ongoing operating expenditures, meet its liabilities for the ensuing year, and to fund planned and contractual obligations involves significant judgments based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

Valuation of Inventory

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

Estimated useful lives, impairment considerations and depreciation of capital assets

Depreciation of capital assets is dependent upon estimates of useful lives based on management's judgment.

Impairment of definite long-lived assets is influenced by judgment in defining a CGU and determining the indicators of impairment, and estimates used to measure impairment losses.

The recoverable value of long-lived assets is determined using discounted future cash flow models, which incorporate assumptions regarding future events, specifically future cash flows, growth rates and discount rates.

Measurement of right-of-use asset and lease liability on initial recognition

The right-of-use asset is initially measured at the amount of the lease liability plus any initial direct costs incurred by the lessee. The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the lessee shall use their incremental borrowing rate, which is the rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. Significant judgment is required to estimate an incremental borrowing rate in the context of a right-of-use asset.

Convertible debt

The classification of the Company's convertible debentures required management to analyze the terms and conditions of the debentures and use judgment to assess whether these debentures are liability, equity, or a combination of the two. IAS 32 – *Financial Instruments – Presentation* ("IAS 32"), provides the criteria for management to assess these complicated financial instruments to determine their appropriate classification(s). Factors considered are, but not limited to, whether the Company has a future obligation to settle the instrument in cash or exchange other assets or liabilities, the currency of settlement and if the settlement is already known to be equity, the amount will not vary based on the Company's future share price.

Revenue – Principal versus Agent

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

Income, value added, withholding and other taxes

The Company is subject to income, value added, withholding and other taxes. Significant judgment is required in determining the Company's provisions for taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. The determination of the Company's income, value added, withholding and other tax liabilities requires interpretation of complex laws and regulations. The Company's interpretation of taxation law as applied to transactions and activities may not coincide with the interpretation of the tax authorities. All tax related filings are subject to government audit and potential reassessment subsequent to the financial statement reporting period. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the tax related accruals and deferred income tax provisions in the period in which such determination is made.

Share-based compensation

The fair value of share-based compensation expenses is estimated using the Black-Scholes option pricing model and relies on a number of estimates, such as the expected life of the option, the volatility of the underlying share price, the risk free rate of return, and the estimated rate of forfeiture of options granted.

(u) Standards, amendments and interpretations not yet effective

Certain pronouncements were issued by the IASB or the IFRS Interpretations Committee ("IFRIC") that are mandatory for accounting periods commencing on or after January 1, 2022. Many are not applicable or do not have a significant impact to the Company and have been excluded. Adoption of these pronouncements is mandatory for entities with year ends beginning on or after January 1, 2022.

IFRS 10, Consolidated Financial Statements and IAS 28, Investments in Associates and Joint Ventures

IFRS 10 – *Consolidated Financial Statements* ("IFRS 10") and IAS 28 – *Investments in Associates and Joint Ventures* ("IAS 28") were amended in September 2014 to address a conflict between the requirements of IAS 28 and IFRS 10 and clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business. The effective date of these amendments is yet to be determined, however early adoption is permitted.

IFRS 16 – Leases

IFRS 16 – *Leases* was amended. The IASB has extended the rent concessions amendment issued May 2020 by one year. This amendment provides lessees with an exemption from assessing whether a COVID-19 related rent concession is a lease modification. The practical expedient was originally available only for payments due on or before June 30, 2021, however, since the effects of COVID-19 are ongoing and significant, the IASB decided to extend the time period over which the practical expedient is available for use. The amendment is effective for year ends beginning on or after April 1, 2022.

IAS 1, Presentation of Financial Statements

IAS 1 – *Presentation of Financial Statements* ("IAS 1") was amended in January 2020 to provide a more general approach to the classification of liabilities under IAS 1 based on the contractual arrangements in place at the reporting date. The amendments clarify that the classification of liabilities as current or noncurrent is based solely on a company's right to defer settlement at the reporting date. The right needs to be unconditional and must have substance. The amendments also clarify that the transfer of a company's own equity instruments is regarded as settlement of a liability, unless it results from the exercise of a conversion option meeting the definition of an equity instrument. The amendments are effective for annual periods beginning on January 1, 2023.

In February 2021, the IASB issued 'Disclosure of Accounting Policies' with amendments that are intended to help preparers in deciding which accounting policies to disclose in their financial statements. The amendments are effective for year ends beginning on or after January 1, 2023.

IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors

IAS 8 – *Accounting Policies, Changes in Accounting Estimates and Errors* was amended. In February 2021, the IASB issued 'Definition of Accounting Estimates' to help entities distinguish between accounting policies and accounting estimates. The amendments are effective for year ends beginning on or after January 1, 2023.

IAS 16, Property, Plant and Equipment

IAS 16 – *Property, Plant and Equipment* ("IAS 16") was amended. The amendments introduce new guidance, such that the proceeds from selling items before the related property, plant and equipment is available for its intended use can no longer be deducted from the cost. Instead, such proceeds are to be recognized in profit or loss, together with the costs of producing those items. The amendments are effective for annual periods beginning on January 1, 2022.

The Company is currently assessing the impact of adopting these pronouncements.

IAS 37, Provisions, Contingent Liabilities, and Contingent Assets

IAS 37 – *Provisions, Contingent Liabilities, and Contingent Assets* ("IAS 37") was amended. The amendments clarify that when assessing if a contract is onerous, the cost of fulfilling the contract includes all costs that relate directly to the contract – i.e. a full-cost approach. Such costs include both the incremental costs of the contract (i.e. costs a company would avoid if it did not have the contract) and an allocation of other direct costs incurred on activities required to fulfill the contract – e.g. contract management and supervision, or depreciation of equipment used in fulfilling the contract. The amendments are effective for annual periods beginning on January 1, 2022.

(Expressed in Canadian dollars)

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	October 31, 2022	October 31, 2021
	$	$
Cash at banks	**83,619**	178,327
Short-term deposits	**-**	1,025,000
Total cash and cash equivalents	**83,619**	1,203,327

4. TRADE AND OTHER RECEIVABLES

Trade and other receivables consist of the following:

	October 31, 2022	October 31, 2021
	$	$
Trade accounts receivable	**268,286**	289,903
Sales taxes receivable	**14,890**	101,287
Total trade and other receivables	**283,176**	391,190

5. INVENTORY

Inventory consists of the following:

	October 31, 2022	October 31, 2021
	$	$
Raw materials	**242,546**	416,160
Finished goods	**365,020**	224,200
Total inventory	**607,566**	640,360

The Company recognizes the costs of inventory expensed in two separate lines on the consolidated statements of loss and comprehensive loss. Amounts expensed and included in cost of goods sold was $2,715,061 for the year ended October 31, 2022 (2021 – $881,143). The write-down of inventories to net realizable value on the consolidated statements of loss and comprehensive loss for the year ended October 31, 2022 was $327,309 (2021 – $73,857). As at October 31, 2022 and 2021, raw materials are carried at cost. As at October 31, 2022 and 2021, finished goods are carried at net realizable value.

See note 16 for a breakdown of costs capitalized to inventory during the years ended October 31, 2022 and 2021.

(Expressed in Canadian dollars)

6. CAPITAL ASSETS

	Right-of-use asset	Leasehold improvements	Equipment	Total
	$	$	$	$
Cost				
Balance, October 31, 2021	239,865	1,444,723	2,190,226	3,874,814
Additions	-	-	33,107	33,107
Cost, October 31, 2022	**239,865**	**1,444,723**	**2,223,333**	**3,907,921**
Accumulated depreciation				
Balance, October 31, 2021	123,938	240,610	261,937	626,485
Depreciation (1)	47,976	288,945	314,953	651,874
Accumulated depreciation, October 31, 2022	**171,914**	**529,555**	**576,890**	**1,278,359**
Net book value, October 31, 2022	**67,951**	**915,168**	**1,646,443**	**2,629,562**

(1) During the year ended October 31, 2022, the Company capitalized $612,109 (October 31, 2021 – $364,544) of depreciation to inventory. During the year ended October 31, 2022, depreciation expensed to the consolidated statements of loss and comprehensive loss was $39,765 (2021 – $202,517).

	Right-of-use asset (2)	Leasehold improvements (3)	Equipment (4,5)	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 (6)	-	-	(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 (5)	47,976	240,610	278,475	567,061
Disposals (6)	-	-	(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**

(2) 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).

(3) 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.

(4) 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 while the completion of its first production-scale CIB run.

(Expressed in Canadian dollars)

(5) 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.

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

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:

	October 31, 2022	October 31, 2021
		$
Financial assets		
Amortized cost		
Cash	**83,619**	178,327
Trade accounts receivable	**268,286**	289,903
Fair value through profit or loss		
Marketable securities	**-**	1,025,000
Total financial assets	**351,905**	1,493,230
Financial liabilities		
Amortized cost		
Accounts payable and accrued liabilities	**(2,161,240)**	(816,964)
Promissory note payable	**(250,274)**	-
Convertible debt	**(952,736)**	(817,087)
Other-long term liabilities	**(60,000)**	(60,000)
Fair value through profit or loss		
Convertible debt	**(3,622,679)**	(3,001,008)
Warrant liability	**(284,988)**	(486,848)
Total financial liabilities	**(7,331,917)**	(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.

(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 customers in the normal course of business and has established credit evaluation and monitoring processes to mitigate credit risk. Since its customers are Provincial Retailers or distributors that sell 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, 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 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 years ended October 31, 2022 and 2021.

(Expressed in Canadian dollars)

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	12,929
Lease payments	(63,000)
Balance, October 31, 2022	**85,369**
Current	58,337
Long-term	27,032
	85,369

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 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 the third and fourth years of the lease, the base rent is $63,000 per annum, payable in equal monthly instalments of $5,250. For 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 year ended October 31, 2022, the Company capitalized $11,636 (October 31, 2021 – $9,169) of interest on lease liability to inventory. During the year ended October 31, 2022, interest on lease liability expensed to the consolidated statements of loss and comprehensive loss was $1,293 (October 31, 2021 – $9,372).

(Expressed in Canadian dollars)

9. PROMISSORY NOTE PAYABLE

Promissory note payable consists of the following:

	October 31, 2022	October 31, 2021
	$	$
Promissory note payable issued April 28, 2022	**250,000**	-
Interest accretion on promissory note payable	**12,774**	-
Interest paid on promissory note payable	**(12,500)**	-
Total promissory note payable	**250,274**	**-**

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.

See "*Subsequent Events*" for additional information.

10. CONVERTIBLE DEBT

Convertible debt consists of the following:

	October 31, 2022	October 31, 2021
	$	$
Convertible debentures and warrants measured at FVTPL		
Convertible Debenture issued March 18, 2021	**810,989**	1,050,866
Convertible Debenture issued July 30, 2021	**1,469,089**	1,418,402
Convertible Debenture issued August 13, 2021	**1,057,123**	1,018,588
Convertible Debenture issued May 30, 2022	**570,466**	-
Total convertible debt and warrant liabilities measured at FVTPL	**3,907,667**	3,487,856
Convertible debentures measured at amortized cost		
Convertible Debenture issued September 16, 2020	**952,736**	817,087
Total convertible debt	**4,860,403**	4,304,943

(Expressed in Canadian dollars)

The principal balances of the convertible debentures are due at the following maturity dates:

	$
Due on demand (in default on September 18, 2022)	750,000
Due on July 30, 2023	1,414,000
Due on August 11, 2023	1,020,000
Due on September 16, 2023	1,065,000
Due on September 18, 2024	600,000
Total convertible debt	**4,849,000**

See "*Subsequent Events*" for additional information.

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

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

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

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

In accordance with IAS 32, on the date of issuance the Company allocated the proceeds from the convertible debentures, net of transaction costs, between a liability component and an equity component, representing the conversion feature. Similarly, the Company allocated the value of the Compensation Debentures between a liability component and an equity component.

(Expressed in Canadian dollars)

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, 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	216,449	-	216,449
Interest paid on Debentures	(80,800)	-	(80,800)
Balance, October 31, 2022	**952,736**	**73,768**	**1,026,504**

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, prior to any amendments, matured 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. The maturity date for the debentures elapsed subsequent to year-end and the Company was deemed to be in default on October 4, 2022. Following year-end, the Company amended the debentures issued under the March 2021 Offering to, among other things, extend the maturity date. See “*Subsequent Events*” for additional information.

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 the OpCo shares.

The debentures and the warrants provide for both change of control and anti-dilution adjustments, with the anti-dilution adjustments restricting certain corporate actions of the Company as well as future equity issuances below the conversion price of the debentures or the exercise price of the warrants, 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 completion of the July 2021 Offering (as defined and described below) on more favourable terms to investors, 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 an aggregate of 3,333,333 warrants originally issued on March 18, 2021; and
- The conversion price of the debentures issued in 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 (as defined below).

On May 30, 2022, the Company repaid $250,000 of the outstanding principal amount of the debentures from the March 2021 Offering. The debentures had a face value of $250,000 and were repaid using aggregate gross proceeds of $275,000, whereby $25,000 was included as a transaction cost associated with the May 2022 Offering (as defined below).

On September 18, 2022, the debentures matured without repayment. See "Subsequent Events" for additional information regarding the extension of the maturity date following year-end.

(Expressed in Canadian dollars)

Subsequent to October 31, 2022, the Company and the debt holders agreed to the following amendments to the remaining outstanding debentures:

- The maturity date of the debentures was extended to September 18, 2023 (the "New Maturity Date");
- The interest rate was increased to 12.00% per annum from September 18, 2022 up until the earlier of (a) the New Maturity Date; and (b) the date on which all of the debenture indebtedness is converted into common shares of the Company;
- A one-time penalty equal to 15% of the principal balance, payable in cash on the New Maturity Date, was applied; and
- All interest and penalties owing prior to the amendments and up the New Maturity Date has accrued, and will accrue, as applicable, to the face value of the debentures, such that none of the aforementioned interest and penalties need to be settled in cash prior to the New Maturity Date.

On October 31, 2022, the fair value of the convertible debenture liability component was adjusted to $750,000 (2021 – $910,856), less an accrued interest overpayment of $7,414 (2021 – plus accrued interest of $10,247), or $742,586 in aggregate (2021 – $921,103), 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 $89,145 for the year ended October 31, 2022 (2021 – $54,421).

Also on October 31, 2022, the fair value of the warrants was adjusted to $68,403 (2021 – $129,763), using the Black-Scholes pricing model using the following assumptions: stock price of $0.045 (2021 – $0.06), weighted-average exercise price of $0.15 (2021 – $0.15), risk-free interest rate of 3.92% (2021 – 1.00%), expected life of warrants of 1.38 years (2021 – 2.38), expected volatility of 120% (2021 – 100%) and expected dividend rate of 0% (2021 – 0%), resulting in a gain in fair value of financial liabilities at FVTPL of $61,360 for the year ended October 31, 2022 (2021 – $53,125).

	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**
Repayment of Debentures	(250,000)	-	-	(250,000)
Interest accretion on Debentures	69,056	-	(69,056)	-
Interest paid on Debentures	(86,717)	-	-	(86,717)
Change in financial liabilities at FVTPL	89,144	(61,360)	(27,784)	-
Balance, October 31, 2022	**742,586**	**68,403**	**(352,229)**	**458,760**

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 now has the 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, with the anti-dilution adjustments restricting certain corporate actions of the Company as well as future equity issuances below the conversion price of the debentures or the exercise price of the warrants, 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.

Subsequent to October 31, 2022, the Company and holders of $359,000 of the unsecured convertible debentures issued in the July 2021 Offering agreed to the following amendments to their debentures:

- The maturity date of the debentures was extended to March 31, 2024 (the "New Maturity Date");
- A one-time penalty equal to 5% of the principal balance, payable in cash on the New Maturity Date, was applied;

(Expressed in Canadian dollars)

- All interest and penalties owing prior to the amendments and up the New Maturity Date accrued, and will accrue, as applicable, to the face value of the debentures, such that none of the aforementioned interest and penalties need to be settled in cash prior to the New Maturity Date; and
- The indebtedness was secured on all present and after-acquired property of the Company behind the senior secured debt of the Company, and ranks *pari passu* with the security granted with respect to the Note.

See "*Subsequent Events*" for additional information.

On October 31, 2022, the fair value of the convertible debenture liability component was adjusted to $1,306,218 (2021 – $1,182,782), plus accrued interest of $38,199 (2021 – $29,132), or $1,344,417 in aggregate (2021 – $1,211,914), 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 $123,436 for the year ended October 31, 2022 (2021 – $28,015).

Also on October 31, 2022, the fair value of the warrants was adjusted to $124,672 (2021 – $206,488), using the Black-Scholes pricing model using the following assumptions: stock price of $0.045 (2021 – $0.06), weighted-average exercise price of $0.15 (2021 – $0.15), risk-free interest rate of 3.92% (2021 – 1.00%), expected life of warrants of 1.75 years (2021 – 2.75), expected volatility of 120% (2021 – 100%) and expected dividend rate of 0% (2021 – 0%), resulting in a gain in fair value of financial liabilities at FVTPL of $81,816 for the year ended October 31, 2022 (2021 – $126,704).

	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	113,199	-	(113,199)	-
Interest paid on Debentures	(104,132)	-	-	(104,132)
Change in financial liabilities at FVTPL	123,436	(81,816)	(41,620)	-
Balance, October 31, 2022	**1,344,417**	**124,672**	**(312,512)**	**1,156,577**

Convertible Debentures Issued August 11, 2021

On August 13, 2021, the Company completed the second and final tranche of the 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 11, 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 now has the 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, with the anti-dilution adjustments restricting certain corporate actions of the Company as well as future equity issuances below the conversion price of the debentures or the exercise price of the warrants, 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, 2022, the fair value of the convertible debenture liability component was adjusted to $938,527 (2021 – $850,106), plus accrued interest of $26,683 (2021 – $17,885), or $965,210 in aggregate (2021 – $867,991), 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 $88,421 for the year ended October 31, 2022 (2021 – gain of $16,894).

(Expressed in Canadian dollars)

Also on October 31, 2022, the fair value of the warrants was adjusted to $91,913 (2021 – $150,597), using the Black-Scholes pricing model using the following assumptions: stock price of $0.045 (2021 – $0.06), weighted-average exercise price of $0.15 (2021 – $0.15), risk-free interest rate of 3.92% (2021 – 1.00%), expected life of warrants of 1.79 years (2021 – 2.79), expected volatility of 120% (2021 – 100%) and expected dividend rate of 0% (2021 – 0%), resulting in a gain in fair value of financial liabilities at FVTPL of $58,684 for the year ended October 31, 2022 (2021 – $111,367).

	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	80,784	-	(80,784)	-
Interest paid on Debentures	(71,987)	-	-	(71,987)
Change in financial liabilities at FVTPL	88,421	(58,684)	(29,737)	-
Balance, October 31, 2022	**965,209**	**91,913**	**(159,091)**	**898,031**

<u>Convertible Debenture issued May 30, 2022</u>

On May 30, 2022, the Company completed a non-brokered private placement offering (the “May 2022 Offering”) of 600 senior secured convertible debenture units for gross proceeds of $600,000. Each unit is comprised of $1,000 principal amount of senior secured convertible debentures 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 May 2022 Offering, expiring on May 30, 2025.

The debentures bear interest at a simple rate of 8.00% per annum, payable quarterly in cash beginning on June 30, 2022, and maturing on September 18, 2024 (the “Maturity Date”). The holder of the debenture is entitled to convert the principal amount of the debenture at any time prior to the maturity date into Common Shares at a conversion price of $0.10, subject to adjustment. Commencing four months and a day from the date of issuance, the Company shall have the 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 convertible debentures are secured against the assets of the Company and OpCo, which acted as guarantor.

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 May 2022 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 $476,398 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 $96,006, 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 2.61%, 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 $27,596 was recorded as a loss in fair value of financial liabilities at FVTPL.

The Company incurred total transaction costs in the amount of $125,195. The issuance costs have been immediately expensed in financing fees in the consolidated statements of loss and comprehensive loss.

Due to the event of default provisions contained in the debentures issued in the May 2022 Offering, the debentures were considered to be in default on the Default Date, following receipt of a notice of default from the holder of the debentures. Subsequent to October 31, 2022, the Company and the holder of the debentures issued in the May 2022 Offering agreed to the following amendments to the debentures:

- The interest rate was increased to 12.00% per annum from the amendment date up until the earlier of (a) the Maturity Date; and (b) the date on which all of the debenture indebtedness is converted into common shares of the Company;
- A one-time penalty equal to 15% of the principal balance, payable in cash on the Maturity Date, was applied; and
- All interest and penalties owing prior to the amendments and up the Maturity Date accrued, and will accrue, as applicable, to the face value of the debentures, such that none of the aforementioned interest and penalties need to be settled in cash prior to the Maturity Date.

See "*Subsequent Events*" for additional information.

On October 31, 2022, the fair value of the convertible debenture liability component was adjusted to $495,301, less an accrued interest overpayment of $131, or $495,170 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 $62,004 for the year ended October 31, 2022.

Also on October 31, 2022, the fair value of the warrants was adjusted to $75,297, using the Black-Scholes pricing model using the following assumptions: stock price of $0.045, weighted-average exercise price of $0.15, risk-free interest rate of 3.92%, expected life of warrants of 2.58 years, expected volatility of 120% and expected dividend rate of 0%, resulting in a gain in fair value of financial liabilities at FVTPL of $20,708 for the year ended October 31, 2022.
A portion of the net proceeds of the May 2022 Offering was 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.

(Expressed in Canadian dollars)

	Debentures	Warrants	Other income (loss)	Total
	$		$	$
Balance, October 31, 2021	**-**	**-**	**-**	**-**
Proceeds from issuance of Convertible Debentures	476,398	96,006	27,596	600,000
less:				
Other issuance costs	-	-	(125,195)	(125,195)
Net proceeds from issuance of Convertible Debentures	476,398	96,006	(97,599)	474,805
Interest accretion on Debentures	20,384	-	(20,384)	-
Interest paid on Debentures	(20,515)	-	-	(20,515)
Change in financial liabilities at FVTPL	18,903	(20,710)	1,807	-
Balance, October 31, 2022	**495,170**	**75,296**	**(116,176)**	**454,290**

11. SHARE CAPITAL

Authorized
An unlimited number of the following shares:

Common Shares – voting, no par value
Preferred Shares – issued in connection with the Transaction (Note 1)

Issued
9,313,447 Preferred Shares as at October 31, 2022 and 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 14)	6,240,263	817,529
Balance, October 31, 2021	**95,379,326**	**8,560,793**
Shares issued for debt (3 and 5)	2,067,000	139,020
Shares issued for services (4)	335,577	33,558
Balance, October 31, 2022	**97,781,903**	**8,733,371**

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

(Expressed in Canadian dollars)

(2) During the year ended October 31, 2021, the Company issued 978,023 Common Shares valued at the value of services provided.

(3) On January 11, 2022, the Company issued 1,692,000 Common Shares with a fair value of $0.06 per Common Share, or $101,520, 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, resulting in a gain on settlement of debt of $67,680 recognized in profit or loss.

(4) On February 18, 2022, the Company issued 335,577 Common Shares with an estimate share value 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.

(5) On June 22, 2022, the Company issued 375,000 Common Shares at a deemed price of $0.10 per Common Share to a creditor in full and final satisfaction of outstanding debt for past consulting services in the aggregate amount of $37,500.

12. 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)	6,533,333	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	**24,142,783**	**0.18**
Issued as part of May 2022 convertible debenture financing (Note 10)	3,600,000	0.15
Expired (1)	(1,103,250)	0.70
Balance October 31, 2022	**26,639,533**	**0.15**

(1) 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.

(Expressed in Canadian dollars)

As at October 31, 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
6,533,333	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
3,600,000	96,006	0.15	September 18, 2024
26,639,533	**1,013,906**	**0.15**	

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 10 for details on warrants measured at FVTPL. As at October 31, 2022 there were 24,204,000 warrants outstanding measured at FVTPL as financial liability instruments (2021 – 20,604,000).

13. STOCK OPTIONS

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

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

	Number of options	Weighted average exercise price
	#	$
Balance, October 31, 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 and 6)	725,000	0.15
Expired (5)	(500,000)	0.20
Balance, October 31, 2022	**5,825,000**	**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 33% vesting on the grant date, and 33% and 34% vesting three and six months following the grant date respectively, which expire one year following the grant date.

(2) On February 8, 2021, 2,600,000 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 vested on the four months 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 without exercise.

(6) On June 2, 2022, the Company granted 150,000 Options to a consultant of the Company at an exercise price of $0.15 per Common Share. The Options all vest on October 3, 2022 and expire on June 2, 2024.

As at October 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	2.17	0.10	2,500,000	0.10
$0.15	3,325,000	2.81	0.15	3,325,000	0.15
	5,825,000	**2.54**	**0.13**	**5,825,000**	**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:

	Year ended October 31, 2022	Year ended October 31, 2021
Stock options granted	725,000	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	1.33%	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, $9,825 of stock-based compensation expense relating to Options was included in the consolidated statements of loss and comprehensive loss or capitalized in inventory for the year ended October 31, 2022 (2021 – $275,078) and credited to contributed surplus.

14. RESTRICTED SHARE UNITS

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

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

(Expressed in Canadian dollars)

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	**-**	**-**
Granted (2)	3,000,000	0.04
Balance, October 31, 2022	**3,000,000**	**0.04**

(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.

(2) On September 22, 2022, 3,000,000 RSUs were awarded to a director and officer of the Company (the “Holder”) in accordance with the RSU Plan. Upon settlement of the RSUs, the Holder shall have the ability to acquire one Common Share underlying each such RSU, a cash payment in lieu thereof, or a combination of both, at the sole discretion of the Board. 50% of the RSUs vest on January 31, 2023, with the remainder vesting on January 31, 2024.

Pursuant to a negotiated agreement with the Holder on September 22, 2022, the Company has committed to a future award of 2,000,000 RSUs with the Holder, or a cash payment in lieu thereof calculated based on an agreed-upon formula, which remains subject to further Board approval, availability under the RSU Plan, and the policies of the CSE. The vesting criteria will be determined at the reasonable discretion of the Board at the time of the award.In addition, $80,000 of management and consulting fees related to the fair value of the cash payment in lieu of the future award of 2,000,000 RSUs was included in the consolidated statements of loss and comprehensive loss for the year ended October 31, 2022 (2021 – $nil) and credited to accrued liabilities.

In total $28,358 of stock-based compensation expense relating to RSUs was included in the consolidated statements of loss and comprehensive loss or capitalized in inventory for the year ended October 31, 2022 (2021 – $652,300) and credited to contributed surplus.

15. REVENUES FROM THE SALES OF GOODS

On January 26, 2021, the Company announced that it had signed a binding term sheet with Vortex Cannabis Inc. (“Vortex”), 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.

(Expressed in Canadian dollars)

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 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 received the Sales Amendment, allowing the Company to sell cannabis extracts, beverages, edibles, and topical products directly to Provincial Retailers as of that date.

For the year ended October 31, 2022, total revenue from the sale of goods consisted of sales of 5% from Provincial Retailers (2021 – 0%) and 95% to Vortex (2021 – 100%), and is presented net of provisions for sales returns and price concessions. During the year ended October 31, 2022, the Company reserved $92,005 (2021 – $15,511) for sales provisions and price concessions. The Company commenced incurring excise taxes late in the year ended October 31, 2022 as it commenced direct selling to Provincial Retailers, whereas previously its sales consisted entirely of sales through Vortex that incurred the excise taxes on sales to the Provincial Retailers.

16. SELECTED OPERATING EXPENSES BY NATURE

The following table disaggregates the following operating expenses as presented on the 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	962,887	643,710	486,191	39,765	71,742	2,204,295
Capitalized to inventory	-	498,035	429,579	612,109	-	1,539,723
Total for the year ended October 31, 2022	**962,887**	**1,141,745**	**915,770**	**651,874**	**71,742**	**3,744,018**

	Management and consulting fees	Salaries and benefits	Office and facilities	Depreciation and amortization	Stock-based compensation	Total
	$	$	$	$	$	$
Operating expenses	437,061	402,904	425,493	202,517	989,526	2,457,501
Capitalized to inventory	759	217,532	98,243	364,544	65,689	746,767
Total for the year ended October 31, 2021	**437,820**	**620,436**	**523,736**	**567,061**	**1,055,215**	**3,204,268**

(Expressed in Canadian dollars)

17. RELATED PARTY TRANSACTIONS

Transactions with key management personnel

Related parties include the Board 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 year ended October 31,	**2022**	2021
	$	$
Salaries	**119,529**	86,799
Consulting fees (1)	**433,202**	256,071
Stock-based compensation	**28,359**	381,449
Total remuneration	**581,090**	724,319
Office and facilities	**99,000**	88,750

(1) As at October 31, 2022, unpaid consulting fees and office and facilities lease payments in the aggregate amount of $438,938 are owed to management, a company related to management and two companies related to a director and have been included in accounts payable and accrued liabilities (2021 – $74,950). The amounts owing are unsecured, non-interest bearing and due on demand.

See Notes 10, 11 and 14 for additional related party disclosure.

18. CONTINGENCIES

Preferred Share Issuance

Pursuant to the terms of the Arrangement Agreement (Note 1) the Company created and issued 9,313,447 preferred shares (the "Preferred Shares"). The purpose of the Preferred Shares is to provide the shareholders of the Company other than original OpCo shareholders with a right to receive, on a pro rata basis, an economic benefit, subject to an aggregate maximum of up to $500,000, in the event that any of the Company's remaining mining royalties are triggered and generate revenue within a maximum period of five (5) years from the date of the issuance of the Preferred Shares. The Preferred Shares provide that, if triggered, the Preferred Shares will be redeemable, on a pro rata basis, for cash up to an aggregate maximum of $500,000. The Preferred Shares do not otherwise have any rights or recourses. As these royalties relate to properties with no verified resources and as no triggering event has occurred as at October 31, 2022 and 2021, the Preferred Shares are valued at $nil in the consolidated financial statements.

See "*Subsequent Events*" for additional information.

(Expressed in Canadian dollars)

19. INCOME TAXES

Provision for income taxes

The Company's expected tax rate is different from the combined federal and provincial income tax rate in Canada. The differences result from the following elements:

For the year ended October 31	**2022**	2021
	$	$
Earnings before income taxes	**(4,543,921)**	(4,227,353)
Statutory tax rate	**26.50%**	26.50%
Expected tax benefit resulting from the loss	**(1,204,000)**	(1,120,000)
Adjustments for the following items:		
Non-deductible items	**75,000**	254,000
Changes in estimates and other	**23,000**	(32,000)
Change in deferred tax assets not recognized	**1,106,000**	898,000
Income tax provision (recovery)	**-**	-

Deferred income tax

Deferred income tax assets in excess of deferred income tax liabilities have not been recognized in respect of the following attributes because it is not probable that future taxable profit will be available against which the Company can use the benefits:

As at	**October 31, 2022**	October 31, 2021
	$	$
Non-capital loss carry-forwards	**9,025,000**	5,470,000
Share issuance costs	**434,000**	847,000
Capital assets	**1,524,000**	159,000
Mineral properties	**5,912,000**	5,912,000
	16,895,000	12,388,000

Tax loss carry-forwards

The Company has approximate non-capital losses available to reduce future years' federal and provincial taxable income which expires as follows:

Year of Expiry	Amount
	$
2038	859,000
2039	-
2040	1,431,000
2041	2,983,000
2042	3,752,000
	9,025,000

20. SUBSEQUENT EVENTS

Amendments to $500,000 in Principal of Secured Convertible Debentures

On February 23, 2023, the Company announced that it has entered into an amending agreement (the "Amending Agreement") with holders of the convertible debentures issued on March 18, 2021, that matured on September 18, 2022, to amend certain terms of the debentures.

Following the repayment of $250,000 in principal amount of the Debentures in May 2022, $750,000 in principal amount remained outstanding under the debentures (the "Outstanding Principal Amount"). Pursuant to the terms of the Amending Agreement, the Company and the holders of $500,000 of the Outstanding Principal Amount (the "Amending Debentureholders") agreed to the following amendments to their debentures:

- to extend the maturity date of the debentures from September 18, 2022 to September 18, 2023;
- to increase the interest rate of the debentures from 8% to 12%, to take effect retroactively from September 18, 2022;
- that the Company will provide a one-time penalty payment of 15% of the face value of the debentures' principal amount; and
- to adjust the principal amount of the debentures to account for an interest overpayment remitted by the Company and interest payments owed by the Company to the Amending Debentureholders; and
- that all interest payments, both accrued and unpaid and future interest payments, and the one-time penalty amount, accrue, and will accrue, as applicable, to the face value of the debentures, until the earlier of (a) the new maturity date; and (b) the date on which all of the indebtedness under the debentures is converted into Common Shares.

Senior Secured Promissory Note

On April 11, 2023, the Company announced that it obtained short-term financing (the "Financing") from one of the Company's existing lenders (the "Lender"), in the amount of $250,000. The Company entered into a senior secured promissory note (the "Senior Secured Note") in favour of the Lender. The Senior Secured Note is payable in 60 days, bears interest at a rate of 3% per month and is secured by certain accounts receivable payable to the Company. Holders of the Company's other secured debt have entered into a postponement, subordination and standstill agreement with respect to the Senior Secured Note and the security granted thereunder.

The obligations under the Senior Secured Note are secured by the assets of the Company and OpCo. OpCo acted as guarantor for the obligations under the Senior Secured Note, including providing a pledge of the OpCo shares.

Amendments to Additional Secured Convertible Debentures

Also on April 11, 2023, in connection with the Financing, and further to the Company's press release of February 23, 2023, holders of the remaining secured convertible debentures of the Company issued by the Company in the March 2021 Offering , amounting to $250,000 in principal, including the Lender and an affiliate, entered into amending agreements with respect to their secured convertible debentures. The Lender and its affiliate, which hold an aggregate of $250,000 in secured convertible debentures that matured on September 18, 2022, and the Company, agreed:

- to extend the maturity date of the debentures from September 18, 2022 to September 18, 2023;
- to increase the interest rate of the debentures from 8% to 12%, to take effect retroactively from September 18, 2022;
- that the Company will provide a one-time penalty payment of 15% of the face value of the debentures' principal amount; and

- that all interest payments, both accrued and unpaid and future interest payments, and the one-time penalty amount, accrue, or will accrue, as applicable, to the face value of the debentures, until the earlier of (a) the new maturity date; and (b) the date on which all of the indebtedness under the debentures is converted into Common Shares.

Also on April 11, 2023, the holder of the secured convertible debenture issued in the May 2022 Offering and the Company agreed:

- to increase the interest rate of the debenture from 8% to 12%, to take effect retroactively from December 31, 2022;
- that the Company will provide a one-time penalty payment of 15% of the face value of the debentures' principal amount; and
- that all interest payments, both accrued and unpaid and future interest payments, and the one-time penalty amount, accrue, or will accrue, as applicable, to the face value of the debentures, until the earlier of (a) their original maturity date (i.e., September 18, 2024); and (b) the date on which all of the indebtedness under the debentures is converted into Common Shares.

Amendments to Unsecured Debt of the Company

Also on April 11, 2023, the Company announced that the unsecured debt currently held by the Lender and certain of its affiliates, being: (a) the unsecured convertible debentures held by the Lender and certain of its affiliates in the aggregate principal amount of $359,000 from the July 2021 Offering (the "Unsecured Convertible Debentures"); and (b) the $250,000 unsecured promissory note payable issued by the Company to the Lender on April 28, 2022 (i.e., the Note), has been amended and restated as secured convertible debentures and a secured grid promissory note, respectively, secured by all present and after-acquired property of the Company and ranking junior in priority to the Senior Secured Note and all other secured convertible debentures of the Company.

As part of the amendments to the Unsecured Convertible Debentures, the holders of the amended Unsecured Convertible Debentures and the Company agreed:

- to extend the maturity date of the Unsecured Convertible Debentures from July 20, 2023 to March 31, 2024;
- that the Company will provide a one-time penalty payment of 5% of the face value of the debentures' principal amount, and
- that all interest payments, both accrued and unpaid and future interest payments, and the one-time penalty amount, accrue, or will accrue, as applicable, to the face value of the debentures, until the earlier of (a) the new maturity date; and (b) the date on which all of the indebtedness under the debentures is converted into Common Shares.

As part of the amendments to the Unsecured Note, the Lender and the Company agreed:

- to establish a maturity date of January 31, 2024, from a demand note payable at any time;
- to increase the interest rate of the Unsecured Note from 10% to 12%, to take effect from the amendment date; and
- that all interest payments, both accrued and unpaid and future interest payments, and the one-time penalty amount, accrue, or will accrue, as applicable, accrue to the face value of the Unsecured Note until the new maturity date.

Mining Royalty Sale

On February 13, 2023, the Company realized $100,000 in gross proceeds from the sale of a mining royalty with a carrying value of $nil on the consolidated statements of financial position.