MOLECULE HOLDINGS INC.

Interim Condensed Consolidated Financial Statements

For the three months ended January 31, 2023

(Expressed in Canadian Dollars)

(Unaudited)

Interim Condensed Consolidated Financial Statements

NOTICE TO READER

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

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

Molecule Holdings Inc.

Interim Condensed Consolidated Statements of Financial Position (Unaudited)

(Expressed in Canadian dollars)

As at	**January 31, 2023**	October 31, 2022
	$	$
ASSETS		
Current assets		
Cash and cash equivalents (Note 3)	**533**	83,619
Trade and other receivables (Note 4)	**304,606**	283,176
Inventory (Note 5)	**483,008**	607,566
Prepaid expenses and deposits	**310,639**	308,205
	1,098,786	1,282,566
Capital assets (Note 6)	**2,465,927**	2,629,562
Total assets	**3,564,713**	3,912,128
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	**2,430,284**	2,161,240
Government remittances payable	**284,148**	189,614
Current portion of lease liability (Note 8)	**60,910**	58,337
Promissory note payable (Note 9)	**256,524**	250,274
Current portion of convertible debt (Note 10)	**1,024,485**	952,736
Convertible debt and warrant liabilities at fair value through profit or loss (Note 10)	**3,765,897**	3,907,667
	7,822,248	7,519,868
Lease liability (Note 8)	**10,979**	27,032
Other long-term liabilities	**60,000**	60,000
Total liabilities	**7,893,227**	7,606,900
EQUITY		
Share capital (Note 11)	**8,733,371**	8,733,371
Warrants (Note 12)	**147,328**	147,328
Contributed surplus (Notes 13 and 14)	**661,622**	614,044
Deficit	**(13,870,835)**	(13,189,515)
Total equity (deficiency)	**(4,328,514)**	(3,694,772)
Total liabilities and equity (deficiency)	**3,564,713**	3,912,128

On behalf of the Board

(signed) "Andre Audet"
Andre Audet, Director

(signed) "David Reingold"
David Reingold, Director

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

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

For the three months ended January 31,	**2023**	2022
Revenue from sale of goods (Note 15)	**421,280**	259,924
Excise taxes	**(29,855)**	-
Net revenue from sale of goods	**391,425**	259,924
Cost of goods sold (Notes 5 and 16)	**394,479**	404,734
Gross profit (loss) before inventory write-down	**(3,054)**	(144,810)
Write-down of inventory to net realizable value (Note 5)	**(132,018)**	(40,506)
Gross profit (loss)	**(135,072)**	(185,316)
Operating expenses		
Management and consulting fees (Note 16)	**203,745**	423,804
Salaries and benefits (Note 16)	**130,318**	170,192
Office and facilities (Note 16)	**116,181**	123,803
Professional fees	**56,851**	127,311
Supplies and testing	**13,710**	38,085
Travel and promotion	**46,063**	5,237
Interest on lease liability (Note 9)	**852**	379
Depreciation of capital assets (Notes 7 and 16)	**9,859**	9,831
Stock-based compensation (Notes 11, 13, 14 and 16)	**47,578**	5,422
	625,157	904,064
Loss before other items	**(760,229)**	(1,089,380)
Other income (loss)		
Interest income	**-**	3,040
Interest and financing fees on convertible debt (Note 10)	**(136,183)**	(113,778)
Change in fair value of financial liabilities at fair value through profit or loss (Note 10)	**218,204**	(225,849)
Gain on settlement of debt (Note 11)	**-**	67,680
Foreign exchange loss	**(3,112)**	(1,847)
	78,909	(270,754)
Net loss and total comprehensive loss	**(681,320)**	(1,360,134)
Basic and diluted net loss per common share	**(0.007)**	0.015
Basic and diluted weighted average number of common shares outstanding	**97,781,903**	95,765,543

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

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

	Share Capital		Warrants	Contributed Surplus	Deficit	Total
	# of shares	$	$	$	$	$
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)	1,692,000	101,520	-	-	-	101,520
Stock-based compensation	-	-	-	5,422	-	5,422
Net loss and total comprehensive loss	-	-	-	-	(1,360,134)	(1,360,134)
Balance, January 31, 2022	**97,071,326**	**8,662,313**	**147,328**	**581,283**	**(10,005,728)**	**(614,804)**
Shares issued for debt (Note 11)	375,000	37,500	-	-	-	37,500
Shares issued for services (Note 11)	335,577	33,558	-	-	-	33,558
Stock-based compensation	-	-	-	32,761	-	32,761
Net loss and total comprehensive loss	-	-	-	-	(3,183,787)	(3,183,787)
Balance, October 31, 2022	**97,781,903**	**8,733,371**	**147,328**	**614,044**	**(13,189,515)**	**(3,694,772)**
Stock-based compensation	-	-	-	47,578	-	47,578
Net loss and total comprehensive loss	-	-	-	-	(681,320)	(681,320)
Balance, January 31, 2023	**97,781,903**	**8,733,371**	**147,328**	**661,622**	**(13,870,835)**	**(4,328,514)**

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

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

For the three months ended January 31,	**2023**	**2022**
	$	$
OPERATING ACTIVITIES		
Net loss	**(681,320)**	(1,360,134)
Adjustments for:		
Stock-based compensation (Notes 11, 13, 14 and 16)	**47,578**	174,622
Depreciation of capital assets (Notes 6 and 16)	**163,635**	160,916
Interest on lease liability (Note 8)	**2,270**	3,787
Interest on promissory note payable (Note 9)	**6,250**	-
Interest on convertible debt (Note 10)	**148,182**	113,778
Gain on settlement of debt (Note 11)	**-**	(67,680)
Interest income	**-**	(3,040)
Write-down of inventory to net realizable value (Note 5)	**132,018**	40,506
Change in fair value of financial liabilities at fair value through profit or loss (Note 10)	**(218,204)**	225,849
Changes in non-cash working capital items	**332,255**	(45,542)
Net cash flows from operating activities	**(67,336)**	(756,938)
INVESTING ACTIVITIES		
Interest received	**-**	3,088
Investment in capital assets (Note 8)	**-**	(71,041)
Net cash flows from investing activities	**-**	(67,953)
FINANCING ACTIVITIES		
Interest paid on convertible debentures (Note 11)	**-**	(62,764)
Lease payments (Note 10)	**(15,750)**	(15,750)
Net cash flows from financing activities	**(15,750)**	(78,514)
Increase (decrease) in cash and cash equivalents	**(83,086)**	(903,405)
Cash and cash equivalents, beginning of the period	**83,619**	1,203,327
Cash and cash equivalents, end of the period	**533**	299,922
Changes in non-cash working capital items consists of the following:		
Trade and other receivables	**(21,430)**	(79,357)
Inventory	**(7,460)**	(153,426)
Prepaid expenses and deposits	**(2,434)**	90,270
Accounts payable and accrued liabilities	**269,045**	96,971
Government remittances payable	**94,534**	-
	332,255	(45,542)
Supplemental information:		
Shares issued for debt and services	**-**	101,520

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

1. NATURE OF OPERATIONS AND GOING CONCERN

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

On September 16, 2020, the Company completed a reverse takeover transaction pursuant to a statutory plan of arrangement (the “Transaction”) whereby the Company acquired all of the issued and outstanding common shares (the “OpCo Shares”) of Molecule Inc. (“OpCo”), which became a wholly-owned subsidiary of the Company. 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”.

<u>Going Concern</u>

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 January 31, 2023, the Company had been generating revenue for less than two years, has no positive income or cash inflow from operations, has incurred losses since its inception and as at January 31, 2023, has 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 January 31, 2023, 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.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These unaudited interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34"). The notes presented in these unaudited interim condensed consolidated financial statements include only significant events and transactions occurring since the last fiscal year end and do not fully include all matters required to be disclosed in the annual audited consolidated financial statements and should be read in conjunction with the Company's annual audited consolidated financial statements for the years ended October 31, 2022 and 2021. The policies applied in these unaudited interim condensed consolidated financial statements are based on International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

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

(b) Basis of presentation

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

These unaudited interim condensed consolidated interim financial statements have been prepared using accounting policies that are consistent with those used in the preparation of the Company's audited consolidated financial statements for the years ended October 31, 2022 and 2021.

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	January 31, 2023	October 31, 2022
	$	$
Cash at banks	**533**	83,619
Total cash and cash equivalents	**533**	83,619

4. TRADE AND OTHER RECEIVABLES

Trade and other receivables consist of the following:

	January 31, 2023	October 31, 2022
	$	$
Trade accounts receivable	**285,554**	268,286
Sales taxes receivable	**19,052**	14,890
Total trade and other receivables	**304,606**	283,176

(Expressed in Canadian dollars)

5. INVENTORY

Inventory consists of the following:

	January 31, 2023	October 31, 2022
	$	$
Raw materials	**252,355**	242,546
Finished goods	**230,653**	365,020
Total inventory	**483,008**	607,566

The Company recognizes the costs of inventory expensed in two separate lines on the interim condensed consolidated statements of loss and comprehensive loss. Amounts expensed and included in cost of goods sold was $394,479 for the three months ended January 31, 2023 (2022 – $404,734). The write-down of inventories to net realizable value on the interim condensed consolidated statements of loss and comprehensive loss for the three months ended January 31, 2023 was $ 132,018 (2022 – $40,506). As at January 31, 2023 and October 31, 2022, raw materials are carried at cost. As at January 31, 2023 and October 31, 2022, finished goods are carried at net realizable value.

See note 15 for a breakdown of costs capitalized to inventory during the three months ended January 31, 2023 and 2022.

6. CAPITAL ASSETS

	Right-of-use asset	**Leasehold improvements**	**Equipment**	**Total**
	$	$	$	$
Cost				
Balance, October 31, 2022	239,865	1,444,723	2,223,333	3,907,921
Cost, January 31, 2023	**239,865**	**1,444,723**	**2,223,333**	**3,907,921**
Accumulated depreciation				
Balance, October 31, 2022	171,914	529,555	576,890	1,278,359
Depreciation (1)	11,994	72,236	79,405	163,635
Accumulated depreciation, January 31, 2023	**183,908**	**601,791**	**656,295**	**1,441,994**
Net book value, January 31, 2023	**55,957**	**842,932**	**1,567,038**	**2,465,927**

(1) During the three months ended January 31, 2023, the company capitalized $153,776 (2022 – $151,085) of depreciation to inventory and expensed $9,859 (2022 – $9,831) to the interim condensed consolidated statements of loss and comprehensive loss.

(Expressed in Canadian dollars)

	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 (2)	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**

(2) 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).

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, marketable securities, accounts payable and accrued liabilities, convertible debt and warrant liabilities and other long-term liabilities. The fair value of the Company's financial instruments approximates their carrying value due to their short-term nature.

(Expressed in Canadian dollars)

The classification of financial instruments is as follows:

	January 31, 2023	October 31, 2022
Financial assets		
Amortized cost		
Cash	**533**	83,619
Trade accounts receivable	**285,554**	268,286
Total financial assets	**286,087**	351,905
Financial liabilities		
Amortized cost		
Accounts payable and accrued liabilities	**(2,430,284)**	(2,161,240)
Promissory note payable	**(256,524)**	(250,274)
Convertible debt	**(1,024,485)**	(952,736)
Other long-term liabilities	**(60,000)**	(60,000)
Fair Value through profit and loss		
Convertible debt	**(3,695,599)**	(3,622,679)
Warrant liability	**(70,298)**	(284,988)
Total financial liabilities	**(7,537,190)**	(7,331,917)

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 periods ended January 31, 2023 and October 31, 2022.

(Expressed in Canadian dollars)

8. LEASE LIABILITY

	$
Balance, October 31, 2021	**135,440**
Interest expense	12,929
Lease payments	(63,000)
Balance, October 31, 2022	**85,369**
Interest expense	2,270
Lease payments	(15,750)
Balance, January 31, 2023	**71,889**
Current	60,910
Long-term	10,979
	71,889

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

During the three months ended January 31, 2023, the Company capitalized $2,043 (2022 – $3,408) of interest on lease liability to inventory. During the three months ended January 31, 2023, interest on lease liability expensed to the interim condensed consolidated statements of loss and comprehensive loss was $227 (2022 – $ 379).

(Expressed in Canadian dollars)

9. PROMISSORY NOTE PAYABLE

Promissory note payable consists of the following:

	January 31, 2023	October 31, 2022
	$	$
Promissory note payable issued April 28, 2022	**250,000**	250,000
Interest accretion on promissory note payable	**19,024**	12,774
Interest paid on promissory note payable	**(12,500)**	(12,500)
Total promissory note payable	**256,524**	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:

	January 31, 2023	October 31, 2022
	$	$
Convertible debentures and warrants measured at FVTPL		
Convertible Debenture issued March 18, 2021	**767,106**	810,989
Convertible Debenture issued July 30, 2021	**1,431,117**	1,469,089
Convertible Debenture issued August 13, 2021	**1,028,372**	1,057,123
Convertible Debenture issued May 30, 2022	**539,302**	570,465
Total convertible debt and warrant liabilities measured at FVTPL	**3,765,897**	3,907,665
Convertible debentures measured at amortized cost		
Convertible Debenture issued September 16, 2020	**1,024,485**	952,736
Total convertible debt	**4,790,382**	4,860,401

(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, 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**
Interest accretion on Debentures	71,749	-	71,749
Interest paid on Debentures	-	-	-
Balance, January 31, 2023	**1,024,485**	**73,768**	**1,098,253**

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 period-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 January 31, 2023, the fair value of the convertible debenture liability component was adjusted to $750,000 (2022 – $934,880), plus accrued interest of $7,709 (2022 – $4,160), or $757,709 in aggregate (2022 – $939,040), 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 $nil for the three months ended January 31, 2023 (2022 –$24,024).

Also on January 31, 2023, the fair value of the warrants was adjusted to $9,397 (2022 – $170,309), using the Black-Scholes pricing model using the following assumptions: stock price of $0.02 (2022 – $0.075), weighted-average exercise price of $0.15 (2022 – $0.15), risk-free interest rate of 4.40% (2022 – 1.31%), expected life of warrants of 1.13 years (2022 – 2.13), expected volatility of 120% (2022 – 100%) and expected dividend rate of 0% (2022 – 0%), resulting in a gain in fair value of financial liabilities at FVTPL of $59,006 for the three months ended January 31, 2023 (2022 – $40,546).

	Debentures	**Warrants**	**Other income (loss)**	**Total**
	$			$
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**
Interest accretion on Debentures	15,123	-	(15,123)	-
Interest paid on Debentures	-	-	-	-
Change in financial liabilities at FVTPL	-	(59,006)	-	(59,006)
Balance, January 31, 2023	**757,709**	**9,397**	**(367,352)**	**399,754**

<u>Convertible Debenture issued July 30, 2021</u>

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;
- 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.

(Expressed in Canadian dollars)

See "*Subsequent Events*" for additional information.

On January 31, 2023, the fair value of the convertible debenture liability component was adjusted to $1,341,047 (2022 – $1,211,806), plus accrued interest of $66,711 (2022 – $57,566), or $1,407,758 in aggregate (2022 – $1,269,373), 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 $34,829 for the three months ended January 31, 2023 (2022 – $29,025).

Also on January 31, 2023, the fair value of the warrants was adjusted to $23,359 (2022 – $270,967), using the Black-Scholes pricing model using the following assumptions: stock price of $0.02 (2022 – $0.075), weighted-average exercise price of $0.15 (2022 – $0.15), risk-free interest rate of 4.00% (2022 – 1.42%), expected life of warrants of 1.50 years (2022 – 2.50), expected volatility of 120% (2022 – 100%) and expected dividend rate of 0% (2022 – 0%), resulting in a gain in fair value of financial liabilities at FVTPL of $101,313 for the three months ended January 31, 2023 (2022 – loss of $64,479).

	Debentures	**Warrants**	**Other income (loss)**	**Total**
	$		$	$
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**
Interest accretion on Debentures	28,512	-	(28,512)	-
Interest paid on Debentures	-	-	-	-
Change in financial liabilities at FVTPL	34,829	(101,313)	66,484	-
Balance, January 31, 2023	**1,407,758**	**23,359**	**(274,540)**	**1,156,577**

Convertible Debentures Issued August 13, 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 January 31, 2023, the fair value of the convertible debenture liability component was adjusted to $963,476 (2022 – $870,897), plus accrued interest of $47,250 (2022 – $37,637), or $1,010,726 in aggregate (2022 – $908,534), 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 $24,949 for the three months ended January 31, 2023 (2022 – $20,791).

Also, on January 31, 2023, the fair value of the warrants was adjusted to $17,646, using the Black-Scholes pricing model using the following assumptions: stock price of $0.02 (2022 – $0.075), weighted-average exercise price of $0.15 (2022 – $0.15), risk-free interest rate of 4.00% (2022 – 1.42%), expected life of warrants of 1.53 years (2022 – 2.53), expected volatility of 120% (2022 – 100%) and expected dividend rate of 0% (2022 – 0%), resulting in a gain in fair value of financial liabilities at FVTPL of $74,267 for the three months ended January 31, 2023 (2022 – loss of $46,984).

(Expressed in Canadian dollars)

	Debentures	Warrants	Other income (loss)	Total
	$		$	$
Balance, October 31, 2021	**867,991**	**150,597**	**(48,570)**	**970,018**
Interest accretion on Debentures	80,785	-	(80,785)	-
Interest paid on Debentures	(71,987)	-	-	(71,987)
Change in financial liabilities at FVTPL	88,420	(58,684)	(29,736)	-
Balance, October 31, 2022	**965,209**	**91,913**	**(159,091)**	**898,031**
Interest accretion on Debentures	20,568	-	(20,568)	-
Interest paid on Debentures	-	-	-	-
Change in financial liabilities at FVTPL	24,949	(74,267)	49,318	-
Balance, January 31, 2023	**1,010,726**	**17,646**	**(130,341)**	**898,031**

Convertible Debenture issued May 30, 2022

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 January 31, 2023, the fair value of the convertible debenture liability component was adjusted to $507,307, plus accrued interest of $12,099, or $519,406 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 $12,006 for the three months ended January 31, 2023.

Also on January 31, 2023, the fair value of the warrants was adjusted to $19,896, using the Black-Scholes pricing model using the following assumptions: stock price of $0.02, weighted-average exercise price of $0.15, risk-free interest rate of 3.58%, expected life of warrants of 2.33 years, expected volatility of 120% and expected dividend rate of 0%, resulting in a gain in fair value of financial liabilities at FVTPL of $7,773 for the three months ended January 31, 2023.

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 Debenture	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**
Interest accretion on Debentures	12,230	-	(12,230)	-
Interest paid on Debentures	-	-	-	-
Change in financial liabilities at FVTPL	12,006	(55,400)	43,394	-
Balance, January 31, 2023	**519,406**	**19,896**	**(85,012)**	**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 17)

Issued
9,313,447 Preferred Shares as at January 31, 2023 and October 31, 2022

(Expressed in Canadian dollars)

Common Shares issued are as follows:

	Number of shares	
	#	$
Balance, October 31, 2021	**95,379,326**	**8,560,793**
Shares issued for debt (1)	2,067,000	139,020
Shares issued for services (2 and 3)	335,577	33,558
Balance, October 31, 2022 and January 31, 2023	**97,781,903**	**8,733,371**

(1) 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 an 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.

(2) 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.

(3) 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, 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 and January 31, 2023	**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 January 31, 2023 and 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**	

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

13. STOCK OPTIONS

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

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

	Number of options	Weighted average exercise price
	#	$
Balance, October 31, 2021	**5,600,000**	**0.13**
Granted (1 and 3)	725,000	0.15
Expired (2)	(500,000)	0.20
Balance, October 31, 2022 and January 31, 2023	**5,825,000**	**0.13**

(1) 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.

(2) On January 7, 2022, 500,000 Options with an exercise price of $0.15 expired without exercise.

(3) 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.

(Expressed in Canadian dollars)

As at January 31, 2023, 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	1.92	0.10	2,500,000	0.10
$0.15	3,325,000	2.56	0.15	3,325,000	0.15
	5,825,000	**2.28**	**0.13**	**5,825,000**	**0.13**

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

	Three months ended January 31, 2023	Year ended October 31, 2022
Stock options granted	-	725,000
Weighted average fair value	-	0.01
Weighted-average exercise price	-	0.15
Weighted-average market price at date of grant	-	0.05
Expected life of stock options (years)	-	2.00
Expected stock price volatility	-	100%
Risk-free interest rate	-	1.33%
Expected dividend yield	-	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, $nil of stock-based compensation expense relating to Options was included in the interim condensed consolidated statements of loss and comprehensive loss or capitalized in inventory for the three months ended January 31, 2023 (2022 – $5,422) 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.

(Expressed in Canadian dollars)

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

The following table reflects the continuity of RSUs:

	Number of RSUs	**Weighted-average market price at date of grant**
	#	$
Balance, October 31, 2021	**-**	**n/a**
Granted (1)	3,000,000	0.04
Balance, October 31, 2022 and January 31, 2023	**3,000,000**	**0.04**

(1) 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 contemplated 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 three months ended October 31, 2022 (2021 – $nil) and credited to accrued liabilities.

In total $47,578 of stock-based compensation expense relating to RSUs was included in the interim condensed consolidated statements of loss and comprehensive loss or capitalized in inventory for the three months ended January 31, 2023 (2022 – $nil) and credited to contributed surplus.

14. REVENUES FROM THE SALES OF GOODS

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

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.

(Expressed in Canadian dollars)

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

For the three months ended January 31, 2023, total revenue from the sale of goods consisted of sales of 94% from Provincial Retailers (2022 – 0%) and 6% to Vortex (2022 – 100%), and is presented net of provisions for sales returns and price concessions. During the three months ended January 31, 2023, the Company reduced its reserve by $5,819 (2022 – increased reserve $8,039) 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.

15. SELECTED OPERATING EXPENSES BY NATURE

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

	Management and consulting fees	Salaries and benefits	Office and facilities	Depreciation and amortization	Stock-based compensation	Total
	$	$	$	$	$	$
Operating expenses	203,745	130,318	116,181	9,859	47,578	507,681
Capitalized to inventory	-	91,539	71,041	153,776	-	316,356
Total for the three months ended January 31, 2023	**203,745**	**221,857**	**187,222**	**163,635**	**47,578**	**824,037**

	Management and consulting fees	Salaries and benefits	Office and facilities	Depreciation and amortization	Stock-based compensation	Total
	$	$	$	$	$	$
Operating expenses	423,804	170,192	123,803	9,831	174,622	902,252
Capitalized to inventory	-	107,268	48,192	151,085	-	306,545
Total for the three months ended January 31, 2022	**423,804**	**277,460**	**171,995**	**160,916**	**174,622**	**1,208,797**

16. 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.

(Expressed in Canadian dollars)

Remuneration of directors and key management personnel of the Company and office and facilities lease amounts paid or payable to a company related to a director of the Company (Note 10) was as follows:

For the three months ended January 31,	2023	2022
	$	$
Salaries	30,000	30,330
Consulting fees (1)	82,500	82,500
Stock-based compensation	47,578	-
Total remuneration	160,078	112,830
Office and facilities	24,750	24,750

(1) As at January 31, 2023, unpaid consulting fees and office and facilities lease payments in the aggregate amount of $491,752 are owed to management and a company related to a director and have been included in accounts payable and accrued liabilities (October 31, 2022 – $438,938). The amounts owing are unsecured, non-interest bearing and due on demand.

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

17. CONTINGENCIES

Preferred Share Issuance

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

See "*Subsequent Events*" for additional information.

18. 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 interim condensed consolidated statements of financial position.