MOLECULE HOLDINGS INC.

Interim Condensed Consolidated Financial Statements

For the three and nine months ended July 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 – Prepared by Management)

Expressed in Canadian Dollars

	July 31, 2023 $	October 31, 2022 $
Assets		
Current:		
Cash and cash equivalents	141,927	83,619
Trade and other receivable (Note 3)	350,001	283,176
Inventory (Note 4)	320,022	607,566
Prepaid expenses and deposits	203,302	308,205
Total current assets	1,015,252	1,282,566
Non-current assets:		
Capital assets (Note 5)	2,138,658	2,629,562
Total Assets	**3,153,910**	**3,912,128**
Liabilities		
Current:		
Accounts payable and accrued liabilities	2,574,181	2,161,240
Government remittances payable	315,754	189,614
Current portion of lease liability (Note 7)	74,049	58,337
Promissory notes payable (Note 8)	250,274	250,274
Current portion of convertible debt (Note 9)	1,134,612	952,736
Convertible debt and warrant liabilities at fair value through profit and loss (Note 9)	4,372,799	3,907,667
Total current liabilities	8,721,669	7,519,868
Non-current liabilities:		
Lease liability (Note 8)	-	27,032
Other long-term liabilities	60,000	60,000
Total Liabilities	8,781,669	7,606,900
Shareholders' Equity		
Share capital (Note 10)	8,733,371	8,733,371
Warrants (Note 11)	147,328	147,328
Contributed surplus (Note 12 and 13)	683,472	614,044
Deficit	(15,191,930)	(13,189,515)
Total Equity	(5,627,759)	(3,694,772)
Total Liabilities and Shareholders' Equity	**3,153,910**	**3,912,128**

Nature of operations and going concern (Note 1)

Commitments and contingencies (Note 16)

Subsequent events (Note 17)

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

Approved on behalf of the Board:

"Andre Audet" Director

"David Reingold" Director

Molecule Holdings Inc.

Interim Condensed Consolidated Statements of Loss and Comprehensive Loss

(Unaudited – Prepared by Management)

Expressed in Canadian Dollars

	Three-months ended		Nine-months ended	
	July 31, 2023	**July 31, 2022**	**July 31, 2023**	**July 31, 2022**
	$	**$**	**$**	**$**
Revenue:				
Revenue from sale of goods (Note 14)	751,562	758,008	1,339,030	1,461,756
Excise taxes	(37,286)	-	(66,431)	-
Net revenue from sale of goods	**714,276**	**758,008**	**1,272,599**	**1,461,756**
Cost of goods sold	(380,067)	(828,223)	(938,230)	(1,864,921)
Profit (loss) before inventory write-down	334,209	(70,215)	334,369	(403,165)
Write-down of inventory to net realizable value (Note 4)	(84,379)	(19,209)	(217,232)	(103,974)
Gross Margin	**249,830**	**(89,424)**	**117,137**	**(507,139)**
Expenses:				
Management and consulting fees (Note 15)	135,000	193,010	381,738	566,962
Salaries and employee benefits (Note 15)	95,901	158,559	296,043	506,109
Office and facilities (Note 15)	174,289	116,440	396,327	371,620
Professional fees	94,756	67,993	199,532	285,800
Supplies and testing	8,222	40,449	39,091	109,238
Travel and promotion	-	35,187	47,669	50,098
Interest on lease liability (Note 7)	3,383	5,893	5,545	6,888
Depreciation on capital assets (Note 5)	43,673	10,244	63,391	29,906
Stock-based compensation (Note 12 and 13)	11,106	38,505	69,428	246,685
Total Expenses	566,330	666,280	1,498,764	2,173,306
Loss before other items	**(316,500)**	**(755,704)**	**(1,381,627)**	**(2,680,445)**
Other income and (loss)				
Interest income	732	-	1,351	3,091
Other income	-	-	25,000	-
Interest and financing fees on convertible debt (Note 9)	(390,515)	(274,397)	(659,997)	(507,967)
Change in fair value of financial liabilities at fair value through profit or loss (Note 9)	(80,999)	286,476	12,654	95,524
Foreign exchange gain (loss)	342	18	204	(1,646)
	(470,440)	12,097	(620,788)	(410,998)
Net loss and comprehensive loss for the period	**(786,940)**	**(743,607)**	**(2,002,415)**	**(3,091,443)**
Net loss per common share:				
- basic	(0.01)	(0.01)	(0.02)	(0.03)
- diluted	(0.01)	(0.01)	(0.02)	(0.03)
Weighted average number of common shares outstanding:				
- basic	**97,781,903**	97,569,946	**97,781,903**	96,887,819
- diluted	**97,781,903**	97,569,946	**97,781,903**	96,887,819

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 – Prepared by Management)

Expressed in Canadian Dollars

	Shares #	Share Capital $	Warrants $	Contributed Surplus $	Deficit $	Total equity
October 31, 2021	**95,379,326**	**8,560,793**	**147,328**	**575,861**	**(8,645,594)**	**638,388**
Shares issued for debt (Note 10)	2,067,000	206,700	-	-	-	206,700
Shares issued for services (Note 10)	335,577	33,558	-	-	-	33,558
Stock-based compensation	-	-	-	6,427	-	6,427
Loss for nine months	-	-	-	-	(3,091,443)	(3,091,443)
July 31, 2022	**97,781,903**	**8,801,051**	**147,328**	**582,288**	**(11,737,037)**	**(2,206,370)**
Stock-based compensation	-	-	-	31,756	-	31,756
Loss for three months	-	-	-	-	(1,452,478)	(1,452,478)
October 31, 2022	**97,781,903**	**8,733,371**	**147,328**	**614,044**	**(13,189,515)**	**(3,694,772)**
Stock-based compensation	-	-	-	69,428	-	69,428
Loss for nine months	-	-	-	-	(2,002,415)	(2,002,415)
Balance at July 31, 2023	**97,781,903**	**8,733,371**	**147,328**	**683,472**	**(15,191,930)**	**(5,627,759)**

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 – Prepared by Management)

Expressed in Canadian dollars

	Nix-months ended	
	July 31, 2023	**July 31, 2022**
	$	**$**
Cash was provided by (used in):		
Operating activities:		
Net loss for the period	(2,002,415)	(3,091,443)
Items not affecting cash:		
Stock-based compensation	69,428	246,685
Depreciation on capital assets	491,904	488,238
Interest on lease liability	5,545	10,263
Interest on convertible debt and promissory note payable	659,997	363,049
Convertible debt financing fee	-	144,916
Interest income	(1,351)	(3,091)
Write-down of inventory to net realizable value	(217,232)	(53,746)
Gain on disposal of mining royalty	(25,000)	-
Change in fair value of financial liabilities at fair value through profit and loss	(12,654)	(95,523)
Change in non-cash working capital		
Trade and other receivables	(66,825)	(316,552)
Inventory	287,544	(22,892)
Prepaid expenses and deposits	104,903	196,842
Accounts payable and accrued liabilities	403,221	925,752
Government remittence payable	126,140	-
Net cash used in operating activities	**(176,795)**	**(1,207,502)**
Investing activities:		
Interest received	1,351	3,091
Proceeds from disposal of marketable securities	100,000	-
Investment in capital assets	-	(33,106)
Net cash provided by investing activities	**101,351**	**(30,015)**
Financing activities:		
Proceeds from promissory notes payable	300,000	250,000
Proceeds from issuance of convertible debt	-	350,000
Repayment of promissory notes	(300,000)	-
Convertible debt issuance costs	-	(144,916)
Interest paid on convertible debentures	-	(300,389)
Lease payments	(15,881)	(47,250)
Net cash provided by financing activities	**(15,881)**	**107,445**
Change in cash and cash equivalents	**(91,325)**	(1,130,072)
Cash and cash equivalents, beginning of period	233,252	1,203,327
Cash and cash equivalents, end of period	**141,927**	**73,255**
Supplimentary information		
Shares issued for debts and services	-	240,258

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

As at July 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 July 31, 2023 and has a working capital deficiency. 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 December 28, 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. TRADE AND OTHER RECEIVABLES

Trade and other receivables consist of the following:

	July 31, 2023 $	**October 31, 2022** $
Trade accounts receivable	349,601	268,286
Sales taxes receivable	400	14,890
Total trade and other receivables	**350,001**	**283,176**

4. INVENTORY

Inventory consists of the following:

	July 31, 2023 $	**October 31, 2022** $
Raw materials	120,081	242,546
Finished goods	199,941	365,020
Total inventory	**320,022**	**607,566**

(Unaudited - Expressed in Canadian dollars)

The Company recognizes the costs of inventory expensed in two separate lines on the interim condensed consolidated statements of loss and comprehensive loss. The write-down of inventories to net realizable value on the interim condensed consolidated statements of loss and comprehensive loss for the three and nine months ended July 31, 2023 was $84,379 and $217,232, respectively (July 31, 2022 – $19,209 and $103,974, respectively). As at July 31, 2023 and October 31, 2022, raw materials are carried at cost and finished goods are carried at net realizable value.

5. CAPITAL ASSETS

	Right-of-use assets	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
Balance, October 31, 2022	239,865	1,444,723	2,223,333	3,907,921
Additions	-	-	-	-
Balance, July 31, 2023	**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	47,976	288,945	313,953	650,874
Balance, October 31, 2022	171,914	529,555	575,890	1,277,359
Depreciation	35,982	216,708	239,214	491,904
Accumulated depreciation, July 31, 2023	207,896	746,263	815,104	1,769,263
Net book value, July 31, 2023	**31,969**	**698,460**	**1,408,229**	**2,138,658**
Net book value, October 31, 2022	67,951	915,168	1,647,443	2,630,562

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, that is included in other income in the condensed interim consolidated statements of loss and other comprehensive loss.

(Unaudited - Expressed in Canadian dollars)

6. 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.

The classification of financial instruments is as follows:

	July 31, 2023	October 31, 2022
	$	$
Financial assets		
Amortized cost:		
Cash and cash equivalents	141,927	83,619
Trade account receivable	349,601	268,286
Total financial assets	**491,528**	**351,905**
Financial Liabilities		
Amortized cost:		
Accounts payable and accrued liabilities	2,574,181	2,161,240
Promissory notes payable	250,274	250,274
Convertible debt	1,134,612	952,736
Other long-term liabilities	60,000	60,000
Fair-value through profit and loss		
Convertible debt	4,226,219	3,622,679
Warrant liability	146,580	284,988
Total financial liabilities	**8,391,866**	**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 customer in the normal course of business and has established credit evaluation and monitoring processes to mitigate credit risk. Since that customer sells end products to Provincial Retailers, the Company has limited credit risk. The Company's cash and cash equivalents are held at reputable financial institutions with high external credit ratings. It is Management's opinion that the Company is not exposed to significant credit risk.

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

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

(ii) Liquidity risk

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

(iii) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and other price risk, such as equity price risk and commodity risk. Financial instruments affected by market risk include marketable securities, the promissory notes 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 period ended July 31, 2023 and October 31, 2022.

(Unaudited - Expressed in Canadian dollars)

7. LEASE LIABILITY

	$
Balance, October 31, 2021	135,440
Interest expense	12,929
Lease payments	(63,000)
Balance, October 31, 2022	**85,369**
Interest expense	5,545
Lease payments	(16,865)
Balance, July 31, 2023	**74,049**
Current lease liability	74,049
Long-term lease liability	-

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

8. PROMISSORY NOTES PAYABLE

Promissory notes payable consist of the following:

	July 31, 2023	October 31, 2022
	$	$
Promissory notes		
Unsecured promissory note payable issued April 28, 2022, as		
amended to be a secured promissory note payable on April 11, 2023	250,000	250,000
Interest accretion	26,959	12,774
Interest paid	(26,959)	(12,500)
Repayment of promissory note	0	-
	250,000	**250,274**
Senior secured promissory note payable issued April 11, 2023	300,000	-
Interest accretion	274	-
Repayment of promissory note	(300,000)	-
	274	**-**
Total promissory note payable	**250,274**	**250,274**

Promissory note payable issued April 28, 2022

On April 28, 2022, the Company issued an unsecured promissory note (the "2022 Note") to an arms-length lender (the "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.

On April 11, 2023, the 2022 Note, was amended and restated as a secured grid promissory note, secured by all present and after-acquired property of the Company and ranking junior in priority to the Senior Secured Note described in Note 9 and all other secured convertible debentures of the Company.

As part of the amendments to the 2022 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 2022 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 2022 Note until the new maturity date.

Promissory note payable issued April 11, 2023

On April 11, 2023, the Company obtained short-term financing from 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.

During the quarter ended July 31, 2023, the Company has repaid the principal amount of $250,000 of the Senior Secured Promissory Note to the Lender, with $7,501 in outstanding interest remaining payable.

Promissory note payable issued June 1, 2023

On June 1, 2023, the Company obtained short-term financing from an affiliate of the Lender, in the amount of $50,000. The Company entered into a senior secured promissory note in favour of the Lender, that is payable in 16 days, is subject to a one-time loan fee of $6,000 and is secured by certain accounts receivable payable to the Company. During the quarter ended July 31, 2023, $56,000 was paid by the Company to the secured promissory note holder.

(Unaudited - Expressed in Canadian dollars)

9. CONVERTIBLE DEBT

Convertible debt consists of the following:

	July 31, 2023	October 31, 2022
	$	$
Convertible debentures and warrants measured at FVTPL		
Convertible debentures March 18, 2021	953,307	810,989
Convertible debentures July 30, 2021	1,556,985	1,469,089
Convertible debentures August 13, 2021	1,169,216	1,057,122
Convertible debentures May 30, 2022	693,291	570,465
Total convertible debt and warrant liabilities measured at FVTPL	**4,372,799**	**3,907,665**
Convertible debenture measured at amortized cost		
Convertible debentures September 16, 2020	1,134,612	952,736
Total convertible debt	**5,507,411**	**4,860,401**

During the nine months ended July 31, 2023, the Company incurred total transaction costs in the amount of $46,454 (October 31, 2022 – $nil) associated with the amendments of the convertible debentures on February 23 and April 11, 2023, that have been immediately expensed in financing fees in the consolidated statements of loss and comprehensive loss.

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.

(Unaudited - Expressed in Canadian dollars)

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.

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 accreation on debenture	216,449	-	216,449
Interest paid on debenture	(80,800)	-	(80,800)
Balance, October 31, 2022	**952,736**	**73,768**	**1,026,504**
Interest accreation on debenture	181,876	-	181,876
Balance, July 31, 2023	**1,134,612**	**73,768**	**1,208,380**

<u>Convertible Debenture issued March 18, 2021</u>

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% 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. The Company amended the debentures issued under the March 2021 Offering to, among other things, extend the maturity date (as described below).

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 section 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 more favourable 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).

(Unaudited - Expressed in Canadian dollars)

On September 18, 2022, the debentures matured without repayment. Subsequently, the Company and all of the remaining 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.

The first such amendment occurred on February 23, 2023 with two holders of the March 2021 Offering owed principal in aggregate of $500,000. The second such amendment occurred on April 11, 2023 with the Lender and an affiliate with principal in aggregate of $250,000.

As a result of these amendments, the Company recorded $21,281 of additional interest retroactive to September 18, 2022 and $110,054 of one-time penalties in the interim condensed consolidated statements of loss and comprehensive loss in the three months ended April 30, 2023.

On July 31, 2023, the fair value of the convertible debenture liability component was adjusted to $916,751, 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 gain in fair value of financial liabilities at FVTPL of $4,096 for the nine months ended July 31, 2023 (July 31, 2022 – loss of $78,263).

Also on July 31, 2023, the fair value of the warrants was adjusted to $36,528 (October 31, 2022 – $68,403), using the Black-Scholes pricing model using the following assumptions: stock price of $0.015 (October 31, 2022 – $0.045), weighted average exercise price of $0.15 (July 31, 2022 – $0.15), risk-free interest rate of 4.70% (October 31, 2022 –3.92%), expected life of warrants of 0.63 years (October 31, 2022 – 1.38), expected volatility of 120% (October 31, 2022 – 120%) and expected dividend rate of 0% (October 31, 2022 – 0%), resulting in a gain in fair value of financial liabilities at FVTPL of $31,847 for the nine months ended July 31, 2023 (July 31 2022 – loss of $75,630).

	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 accreation on debenture	69,056	-	(69,056)	-
Interest paid on debenture	(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 accreation on debenture	46,926	-	(46,926)	-
Penalty payable on debentures	110,054	-	(110,054)	-
Retroactive interest on debentures	21,281	-	(21,281)	-
Change in financial liabilities at FVTPL	(4,096)	(31,847)	35,943	-
Balance, July 31, 2023	**916,751**	**36,556**	**(494,547)**	**458,760**

Convertible Debenture issued July 30, 2021

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

The debentures bear interest at a simple rate of 8% 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 change of control as well as anti-dilution adjustments, including corporate actions of the Company as well as future equity issuances below the conversion price or exercise price, as applicable.

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

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

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

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

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

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

On April 11, 2023, the Company announced that the unsecured debt currently held by the Lender and certain of its affiliates, including 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"), has been amended and restated as secured convertible debentures, 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.

(Unaudited - Expressed in Canadian dollars)

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 a result of the amendments, the Company recorded $17,950 of one-time penalties in the interim condensed consolidated statements of loss and comprehensive loss in the three months ended April 30, 2023.

On July 31, 2023, the fair value of the convertible debenture liability component was adjusted to $1,494,622, 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 $63,051 for the nine months ended July 31, 2023 (July 31, 2022 – loss of $90,171).

Also on July 31, 2023, the fair value of the warrants was adjusted to $62,363 (October 31, 2022 – $124,672), using the Black-Scholes pricing model using the following assumptions: stock price of $0.015 (October 31, 2022 – $0.045), weighted average exercise price of $0.15 (October 31, 2022 – $0.15), risk-free interest rate of 4.70% (October 31, 2022 – 3.92%), expected life of warrants of 1 year (October 31, 2022 – 1.75), expected volatility of 251% (October 31, 2022 – 120%) and expected dividend rate of 0% (October 31, 2022 – 0%), resulting in a gain in fair value of financial liabilities at FVTPL of $62,309 for the nine months ended July 31, 2023 (July 31, 2022 – of $108,825).

	Debentures	Warrants	Other income (loss)	Total
	$	$	$	$
Balance, October 31, 2021	**1,211,914**	**206,488**	**(157,693)**	**1,260,709**
Interest accreation on debenture	113,199	-	(113,199)	-
Interest paid on debenture	(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 accreation on debenture	58,431	-	(58,431)	-
Penalty payable on debentures	17,950	-	(17,950)	-
Fair value adjustment in loss on debt restructuring	10,773	-	(10,773)	-
Change in financial liabilities at FVTPL	63,051	(62,309)	(742)	-
Balance, July 31, 2023	**1,494,622**	**62,363**	**(400,408)**	**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. Asfour 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 July 31, 2023, the fair value of the convertible debenture liability component was adjusted to $1,084,931, 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 $75,983 for the nine months ended July 31, 2023 (July 31, 2022 – $55,817).

Also, on July 31, 2023, the fair value of the warrants was adjusted to $44,549, using the Black-Scholes pricing model using the following assumptions: stock price of $0.015 (October 31, 2022 – $0.045), weighted-average exercise price of $0.15 (October 31, 2022 – $0.15), risk-free interest rate of 4.70% (October 31, 2022 – 3.92%), expected life of warrants of 1.04 years (October 31, 2022 – 1.79), expected volatility of 245% (October 31, 2022 – 120%) and expected dividend rate of 0% (October 31, 2022 – 0%), resulting in a gain in fair value of financial liabilities at FVTPL of $47,364 for the nine months ended July 31, 2023 (July 31, 2022 – loss of $78,608).

(Unaudited - Expressed in Canadian dollars)

	Debentures	Warrants	Other income (loss)	Total
	$	$	$	$
Balance, October 31, 2021	**867,991**	**150,597**	**(48,570)**	**970,018**
Interest accreation on debenture	80,785	-	(80,785)	-
Interest paid on debenture	(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 accreation on debenture	43,739	-	(43,739)	-
Change in financial liabilities at FVTPL	75,983	(47,364)	(28,619)	-
Balance, July 31, 2023	**1,084,931**	**44,549**	**(231,449)**	**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% 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.

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.

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.

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.

As a result of this amendment, the Company recorded $8,867 of additional interest retroactive to December 31, 2022 and $90,000 of one-time penalties in the interim condensed consolidated statements of loss and comprehensive loss in the three months ended April 30, 2023.

On July 31, 2023, the fair value of the convertible debenture liability component was adjusted to $690,179, 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 $60,557 for the nine months ended July 31, 2023 (July 31, 2022 – $7,425).

Also, on July 31, 2023, the fair value of the warrants was adjusted to $42,848, using the Black-Scholes pricing model using the following assumptions: stock price of $0.015 (October 31, 2022 – $0.045), weighted-average exercise price of $0.15 (October 31, 2022 – $0.15), risk-free interest rate of 4.65% (October 31, 2022 – 3.92), expected life of warrants of 1.83 years (October 31, 2022 – 2.58), expected volatility of 202% (October 31, 2022 – 120%) and expected dividend rate of 0% (October 31, 2022 – 0%), resulting in a gain in fair value of financial liabilities at FVTPL of $28,109 for the nine months ended July 31, 2023 (July 31, 2022 – $36,551).

(Unaudited - Expressed in Canadian dollars)

	Debentures	Warrants	Other income (loss)	Total
	$	$	$	$
Balance, October 31, 2021	-	-	-	-
Proceeds from issuance of convertible debt	476,398	96,006	27,596	600,000
Other issuance costs	-	-	(125,195)	(125,195)
Net proceeds	476,398	96,006	(97,599)	474,805
Interest accreation on debenture	20,384	-	(20,384)	-
Interest paid on debenture	(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 accreation on debenture	35,585	-	(35,585)	-
Penalty payable on debentures	90,000	-	(90,000)	-
Retroactive interest on debentures	8,867	-	(8,867)	-
Change in financial liabilities at FVTPL	60,557	(32,448)	(28,109)	-
Balance, July 31, 2023	**690,179**	**42,848**	**(278,737)**	**454,290**

10. SHARE CAPITAL

Authorized
An unlimited number of the following shares:

Common Shares – voting, no par value
Preferred Shares – issued in connection with the Transaction (Note 16)

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

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.

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.

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.

(Unaudited - Expressed in Canadian dollars)

11. WARRANTS

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

The following table reflects the continuity of warrants:

	Number of Warrants	Weighted average Exercise price
	#	$
Balance October 31, 2021	**24,142,783**	**0.18**
Issued as part of May 2022 convertible debt financing	3,600,000	0.15
Expired (1)	(1,103,250)	0.70
Balance October 31, 2022 and July 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.

As at July 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**		

Refer to Note 9 for details on warrants measured at FVTPL.

On September 16, 2023, 615,000 warrants expired unexercised. The warrants had a weighted average exercise price of $0.23.

(Unaudited - Expressed in Canadian dollars)

12. STOCK OPTIONS

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

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

	Number of Options	Weighted average Exercise price
	#	$
Balance October 31, 2021	**5,600,000**	**0.13**
Granted (1 & 3)	725,000	0.15
Expired (2)	(500,000)	0.20
Balance October 31, 2022 and July 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.

As at July 31, 2023, the following Options were outstanding and exercisable:

Outstanding and exercisable				
Number of options	Exercise Price	Weighted average exercise Price	Weighted average remaining contractual life	Expiry
#	$	$	(years)	
2,500,000	0.10	0.04	0.12	November 8, 2023
3,325,000	0.15	0.09	0.36	June 2, 2024
5,825,000		**0.13**	**0.48**	

As at July 31, 2023, all outstanding options had vested. There were no stock options granted during the nine months ended July 31, 2023.

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 nine months ended July 31, 2023 (July 31, 2022 – $6,427) and credited to contributed surplus.

13. RESTRICTED SHARE UNITS

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

(Unaudited - 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 RSU's	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 July 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 interim condensed consolidated statements of loss and comprehensive loss for the three months ended October 31, 2022 and credited to accrued liabilities.

In total $11,107 and $69,428, respectively of stock-based compensation expense relating to RSUs was included in the interim condensed consolidated statements of loss and comprehensive loss or capitalized in inventory for the three and nine months ended July 31, 2023 (July 31, 2022 – $nil and $nil, respectively) and credited to contributed surplus.

14. REVENUES FROM THE SALES OF GOODS

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

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 now sell cannabis extracts, beverages, edibles, and topical products directly to Provincial Retailers as of that date.

(Unaudited - Expressed in Canadian dollars)

The Company provided notice to end the Service Agreement on or about December 6, 2022.

For the nine months ended July 31, 2023, total revenue from the sale of goods consisted of sales of 94% from Provincial Retailers (July 31, 2022 – 0%) and 6% to Vortex (July 31, 2022 – 100%), and is presented net of provisions for sales returns and price concessions. During the three and nine months ended July 31, 2023, the Company reduced its reserve by $nil and $49,705, respectively (July 31, 2022 – increased reserve by $14,768 and $39,470, respectively) 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. 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 was as follows:

	Three-months ended		**Nine-months ended**	
	July 31, 2023	**July 31, 2022**	**July 31, 2023**	**July 31, 2022**
	$	**$**	**$**	**$**
Salaries	30,000	29,859	90,000	89,529
Consulting fees (1)	82,500	82,500	247,500	247,500
Stock-based compensation	11,106	-	69,428	-
Total remuneration	**123,606**	**112,359**	**406,928**	**337,029**
Office and facilites	25,013	24,750	74,665	74,250

(1) As at July, 2023, unpaid consulting fees and office and facilities lease payments in the aggregate amount of $554,780 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.

16. CONTINGENCIES

Preferred Share Issuance

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

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.

17. SUBSEQUENT EVENTS

On September 16, 2023, 615,000 warrants expired unexercised. The warrants had a weighted average exercise price of $0.23. Further, on September 16, 2023, the aggregate principal amount of $1,065,000 in unsecured debentures issued under the September 2020 Offerings matured. Prior to the CTO, the Company was engaged in discussions with both the CSE and the holders of certain debentures issued by the Company (the “Holders”), including the Holders of the Matured Debentures, to amend the terms of such debentures in order to allow for conversion on terms satisfactory to the Company, the Holders, and the CSE.

On October 6, 2023, the Company announced that the Ontario Securities Commission (the “OSC”) had denied the Company’s application for an MCTO under NP 12-203. As such, on October 5, 2023, the OSC issued on a “failure to file” cease trade order (“CTO”) prohibiting the trading by any person or company of any securities of the Company in Canada, except pursuant to limited exceptions under the CTO. The CTO will remain in place until such time as it is revoked following the filing of the Interim Filings by the Company, in accordance with National Policy 11-207 – *Failure-to-File Cease Trade Orders and Revocations in Multiple Jurisdictions.*

On November 8, 2023, 575,000 Options expired unexercised. The options had an exercise price of $0.15 per share.