HILL STREET BEVERAGE COMPANY INC.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

(Expressed in Canadian dollars)

# Independent Auditor's Report

To the Shareholders of Hill Street Beverage Company Inc.:

## Opinion

We have audited the consolidated financial statements of Hill Street Beverage Company Inc. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at June 30, 2022 and June 30, 2021, and the consolidated statements of operations and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at June 30, 2022 and June 30, 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

## Basis for Opinion

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

## Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company incurred a net loss during the year ended June 30, 2022 and, as of that date, the Company had an accumulated deficit. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

## Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

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

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

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

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

## Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

The engagement partner on the audit resulting in this independent auditor's report is Brock Stroud.

MNP LLP

Toronto, Ontario
October 28, 2022

Chartered Professional Accountants
Licensed Public Accountants

**Hill Street Beverage Company Inc.**
**Consolidated Statements of Financial Position**
(Expressed in Canadian Dollars)

| | Notes | June 30, 2022 | June 30, 2021 |
|---|---|---|---|
| | | $ | $ |
| **ASSETS** | | | |
| Current | | | |
| Cash and cash equivalents | | 1,153,195 | 2,722,141 |
| Accounts receivable | 6 | 1,343,994 | 361,231 |
| Due from related parties | 14 | 2,823 | 2,823 |
| Subscription receivables | | 6,150 | 6,150 |
| Inventory | 7 | 20,433 | 549,442 |
| Prepaid expenses | | 70,891 | 161,834 |
| Assets held for sale | 9 | 103,089 | - |
| Total current assets | | 2,700,575 | 3,803,621 |
| Intangible assets | 10 | 3,308,072 | 3,597,709 |
| Property and equipment | 9 | 149,194 | 208,004 |
| **TOTAL ASSETS** | | 6,157,841 | 7,609,334 |
| **LIABILITIES** | | | |
| Current | | | |
| Accounts payable and accrued liabilities | 14 | 987,646 | 704,956 |
| Consideration payable | 10 | - | 746,224 |
| Note payable – current | 12 | 113,359 | 22,466 |
| Lease liability – current | 11 | 15,941 | 20,080 |
| CEBA loan | | 53,623 | - |
| | | 1,170,569 | 1,493,726 |
| Lease liability – non-current | 11 | 54,560 | 12,617 |
| CEBA loan | 12 | - | 42,908 |
| Note payable – non-current | 12 | 2,176,408 | 2,082,923 |
| | | 3,401,537 | 3,632,174 |
| **SHAREHOLDERS' EQUITY** | | | |
| Share capital | 13 | 20,095,633 | 19,052,885 |
| Reserve | 13 | 4,884,242 | 4,569,911 |
| Deficit | | (22,223,571) | (19,645,636) |
| **TOTAL SHAREHOLDERS' EQUITY** | | 2,756,304 | 3,977,160 |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | | 6,157,841 | 7,609,334 |

Nature of operations and going concern (Note 1)
Subsequent Events (Note 22)

"Jack Fraser"
Director

"Craig Binkley"
Director

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

**Hill Street Beverage Company Inc.**
**Consolidated Statements of Operations and Comprehensive Loss**
(Expressed in Canadian Dollars)

| For the year ended | Notes | June 30, 2022 | June 30, 2021 |
|---|---|---|---|
| | | $ | $ |
| **Gross revenue** | 5 | 3,660,008 | 2,753,481 |
| **Chargebacks & listing fees** | 5 | (447,685) | (558,567) |
| **Net revenue** | | 3,212,323 | 2,194,914 |
| **Cost of sales** | | (1,675,231) | (1,071,284) |
| **Gross profit** | | 1,537,092 | 1,123,630 |
| | | | |
| **Expenses** | | | |
| Accretion expense | 12 | 10,715 | 111,350 |
| Bad debts | 6 | - | 353 |
| Bank charges and interest | | 16,542 | 17,490 |
| Consulting fees | | 1,044 | 58,654 |
| Depreciation | 9/10 | 338,668 | 253,072 |
| Donations, dues & licenses | | 6,515 | (31) |
| Filing and transfer agent fees | | 47,992 | 127,906 |
| Insurance | | 166,223 | 115,962 |
| Interest on convertible loan | 12 | - | 50,808 |
| Interest on promissory note | 12 | 204,444 | 111,055 |
| Management fees | 14 | 157,196 | 100,021 |
| Marketing | | 221,371 | 251,992 |
| Office and miscellaneous | | 130,822 | 158,806 |
| Professional fees | | 447,337 | 516,723 |
| Stock-based compensation | 13/14 | 357,313 | 486,112 |
| Travel and meal allowance | | 45,537 | 21,890 |
| Wages and salaries | 14 | 1,308,575 | 1,064,050 |
| Selling and delivery | | 559,959 | 625,832 |
| | | 4,020,253 | 4,072,045 |
| | | | |
| Loss before other income (expense) | | (2,483,161) | (2,948,415) |
| | | | |
| **Other income (expenses)** | | | |
| Foreign exchange gain (loss) | | 901 | (5,393) |
| Write-off of inventory | 7 | (115,906) | (17,258) |
| Loss on impairment of assets held for sale | 9 | (54,055) | - |
| Loss on impairment of intangible assets | 10 | (5,629) | - |
| Gain (loss) on fair value of consideration | 10 | 69,308 | (259,216) |
| Gain on favourable interest rate | 12 | - | 6,541 |
| Gain on settlement of liability | | 2,288 | 137,480 |
| Other income | | 8,319 | 30 |
| | | (94,774) | (137,816) |
| | | | |
| **Net loss and comprehensive loss** | | (2,577,935) | (3,086,231) |
| **Basic and diluted loss per common share** | | (0.01) | (0.02) |
| **Weighted average number of common shares outstanding** | | 214,681,160 | 141,775,866 |

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

**Hill Street Beverage Company Inc.**

**Consolidated Statements of Changes in Shareholders' Equity**

(Expressed in Canadian Dollars)

| | Common Shares | | | | |
|---|---|---|---|---|---|
| | **Shares** | **Amount** | **Reserve** | **Deficit** | **Total** |
| | | $ | $ | $ | $ |
| **As at June 30, 2020** | 112,060,380 | 13,844,029 | 2,900,803 | (16,559,405) | 185,427 |
| Shares issued for debt (Note 13) | 144,229 | 12,259 | - | - | 12,259 |
| Units issued for cash (Note 13) | 59,567,544 | 2,661,364 | 1,593,470 | - | 4,254,834 |
| Share issuance costs | - | (93,357) | 2,743 | - | (90,614) |
| Units issued pursuant to licensing (Note 13) | 6,031,363 | 753,920 | - | - | 753,920 |
| Exercise of warrants (Note 13) | 6,465,178 | 873,604 | (277,087) | - | 596,517 |
| Conversion of convertible debt (Note 13) | 20,450,000 | 1,001,066 | (136,130) | - | 864,936 |
| Stock-based compensation | - | - | 486,112 | - | 486,112 |
| Net loss for the year | - | - | - | (3,086,231) | (3,086,231) |
| **As at June 30, 2021** | 204,718,694 | 19,052,885 | 4,569,911 | (19,645,636) | 3,977,160 |
| Units issued pursuant to licensing (Note 13) | 11,764,706 | 676,916 | - | - | 676,916 |
| Exercise of warrants (Note 13) | 6,457,000 | 365,832 | (42,982) | - | 322,850 |
| Stock-based compensation | - | - | 357,313 | - | 357,313 |
| Net loss for the year | - | - | - | (2,577,935) | (2,577,935) |
| **As at June 30, 2022** | 222,940,400 | 20,095,633 | 4,884,242 | (22,223,571) | 2,756,304 |

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

**Hill Street Beverage Company Inc.**
**Consolidated Statements of Cash Flows**
(Expressed in Canadian Dollars)

| Year ended | June 30, 2022 | June 30, 2021 |
|---|---|---|
| | $ | $ |
| **OPERATING ACTIVITIES** | | |
| Net loss for the year | (2,577,935) | (3,086,231) |
| Items not affecting cash: | | |
| Bad debt | - | 353 |
| Depreciation | 338,668 | 253,072 |
| (Gain) loss on fair value of consideration | (69,308) | 259,216 |
| Gain on favourable interest | - | (6,541) |
| Gain on settlement of liabilities | 2,288 | (137,480) |
| Write-off of inventory | 115,906 | 17,258 |
| Loss on impairment of intangible assets | 5,629 | - |
| Loss on impairment of assets held for sale | 54,055 | - |
| Stock-based compensation | 357,313 | 486,112 |
| Accretion expense | 18,275 | 111,350 |
| Accrued interest | 204,444 | 114,237 |
| | (1,550,665) | (1,988,654) |
| Changes in non-cash working capital items: | | |
| Accounts receivable | (982,763) | 45,267 |
| Inventory | 413,103 | (372,789) |
| Prepaid expenses | 90,943 | 133,282 |
| Accounts payable and accrued liabilities | 280,402 | (142,650) |
| Cash used in operating activities | (1,748,980) | (2,325,544) |
| **INVESTING ACTIVITIES** | | |
| Purchase of property and equipment | (82,845) | (1,821) |
| Purchase of intangible assets | (18,058) | (398,495) |
| Cash used in investing activities | (100,903) | (400,316) |
| **FINANCING ACTIVITIES** | | |
| Proceeds from shares issued net of costs | - | 4,158,070 |
| Proceeds from exercise of warrants | 322,850 | 596,518 |
| Proceeds from loan | - | 20,000 |
| Lease payments | (21,847) | (21,352) |
| Repayment of loans | (20,066) | (5,666) |
| Cash provided by financing activities | 280,937 | 4,747,570 |
| **CHANGE IN CASH AND CASH EQUIVALENTS** | (1,568,946) | 2,021,710 |
| **CASH AND CASH EQUIVALENTS, END OF YEAR** | 2,722,141 | 700,431 |
| **CASH AND CASH EQUIVALENTS, END OF YEAR** | 1,153,195 | 2,722,141 |

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

## 1. NATURE OF OPERATIONS AND GOING CONCERN

Hill Street Beverage Company Inc., formerly Avanco Capital Corp. (the "Company") was incorporated on April 6, 2016 in British Columbia under the Business Corporations Act (British Columbia) and was continued to Ontario under the Business Corporations Act (Ontario) on November 30, 2018. The Company commenced trading on the TSX Venture Exchange (the "TSX V") under the symbol "AAA.P" on March 24, 2017. The Company is engaged in supplying alcohol free drinks. The Company sells its products online, in retail stores and to distributors in Canada. The Company is also engaged in cannabis beverage sales and cannabis technology licensing.

The Company changed its name from Avanco Capital Corp. to Hill Street Beverage Company Inc. on July 24, 2018 in conjunction with a reverse takeover transaction (the "RTO"). The Company resumed trading on the TSX V at the opening of the market on July 24, 2018 under the new symbol "BEER". The Company subsequently changed to its current symbol of "HILL" on March 2, 2022.

The Company's registered address and the records are held at 2410 Lucknow Drive Unit #31, Mississauga, Ontario, L5S 1V1.

These consolidated financial statements are prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future and that management does not intend to liquidate the entity, or has no realistic alternative but to do so. As at June 30, 2022, the Company had not yet achieved profitable operations, had a net loss of $2,577,935 (June 30, 2021: $3,086,231), accumulated deficit of $22,223,571 (June 30, 2021: $19,645,636), and expects to incur further losses in the foreseeable future, all of which indicate the existence of a material uncertainty that may cast significant doubt upon the Company's ability to continue as a going concern. Realization values may be substantially different from carrying values as shown and these consolidated financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern. Such adjustments could be material.

The Company's ability to continue its operations and to realize assets at their carrying values is dependent upon its ability to obtain necessary financing and generate operational profit to meet its ongoing levels of corporate overhead and discharge its liabilities as they come due. The success of the Company's endeavors cannot be predicted at this time. There is no assurance that it will be able to obtain adequate financing in the future or that such financing will be on terms advantageous to the Company.

The Company has reclassified certain items on the comparative consolidated statement of operations and comprehensive loss to improve clarity.

## 1. NATURE OF OPERATIONS AND GOING CONCERN (continued)

During the year, there was the continued global outbreak of COVID-19 (coronavirus), which has had an impact on businesses through the restrictions put in place by the Canadian, provincial and municipal governments regarding travel, business operations and isolation/quarantine orders. The Company's operations were impacted by COVID-19 due to a slower growth in year over year sales than anticipated. At this time, it is unknown the extent of the impact the COVID-19 outbreak may have on the Company as this will depend on future developments that are highly uncertain and that cannot be predicted with confidence. These uncertainties arise from the inability to predict the ultimate geographic spread of the disease, and the duration of the outbreak, including the duration of travel restrictions, business closures or disruptions, and quarantine/isolation measures that are currently, or may be put, in place by Canada and other countries to fight the virus. While the extent of the impact is unknown, we anticipate this outbreak may cause reduced customer demand, supply chain disruptions, staff shortages, and increased government regulations, all of which may negatively impact the Company's business and financial condition.

## 2. BASIS OF PREPARATION

Statement of compliance

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

These consolidated financial statements for the years ended June 30, 2022 and June 30, 2021 were authorized for issuance by the Board of Directors on October 28, 2022.

Basis of Presentation

The consolidated financial statements have been prepared on a historical cost basis except for certain financial assets that are measured at fair value. All dollar amounts presented are in Canadian dollars unless otherwise specified.

Basis of Consolidation

These consolidated financial statements incorporate the financial statements of the Company and its wholly owned subsidiaries, Hill Street Marketing Inc. and Hill Avenue Cannabis Inc., companies incorporated in Ontario. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Subsidiaries are included in the consolidated financial statements from the date control is obtained until the date control ceases. All intercompany transactions and balances have been eliminated on consolidation.

**2. BASIS OF PREPARATION (continued)**

Use of Estimates and Judgments

The preparation of these consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported expenses during the year. Actual results could differ from these estimates.

In particular, information about significant areas of estimation uncertainty and judgment considered by management in preparing the financial statements includes:

*Critical Accounting Estimates and Judgements*

- Calculation of the net book value of property and equipment require management to make estimates of the useful economic life of the assets, residual value at the end of the asset's useful economic life, method of depreciation and whether impairment in value has occurred. Residual values of the assets, estimated useful lives and depreciation methodologies are reviewed annually with prospective application of any changes, if deemed appropriate. Changes to estimates could be caused by a variety of factors, including changes to the useful life of the assets. A change in any of the estimates would result in a change in the amount of depreciation and, as a result, a charge to net income recorded in the period in which the change occurs, with a similar change in the carrying value of the asset on the consolidated statement of financial position.

- The amortization of the Company's intangible assets involves estimates of their useful lives. Such estimates may change as more experience is obtained or as general market conditions change, thereby impacting the value of the Company's intangible assets.

- When valuing options, estimates are required to be made by management when determining the inputs to the Black-Scholes option pricing model including the expected plan lives, underlying share price volatility and forfeiture rates. Volatility is estimated by considering the Company's own historical share price volatility, as well as peer companies historic share price volatility over similar periods to the expected life of the awards under consideration. Changes in these assumptions will impact the calculation of fair value and the amount of compensation expense recognized in the consolidated statements of loss and comprehensive loss.

- When valuing warrants, similar to other stock-based compensation, management uses judgment to determine the inputs to the Black-Scholes option pricing model including the expected life, and underlying share price volatility. Volatility is estimated by considering peer companies historic share price volatility over similar periods to the expected life of the warrants. Changes in these assumptions will impact the calculation of fair value and the value attributed to the warrants.

- When determining the discount rate used to estimate the fair value of the debt component of the convertible debenture and the fair value of the CEBA loan, the Company considers market conditions and other internal and external factors. The Company estimates its credit rating and benchmarks the discount rate to certain fixed income indices.

**2. BASIS OF PREPARATION (continued)**

Use of Estimates and Judgments (continued)

- When valuing restricted share units subject to market based vesting terms, similar to other stock-based compensation, management uses judgment to determine the inputs to the Barrier option pricing model including the expected life, and underlying share price volatility. Volatility is estimated by considering the Company's own historical share price volatility. Management is also required to apply judgment in assessing the timing and success rate for which non-market based vesting terms will be achieved. Changes in these assumptions will impact the calculation of fair value and the amount of compensation expense recognized in the consolidated statements of loss and comprehensive loss.

- When the Company enters into leases as a lessee and where the interest rate implicit in a lease cannot be readily determined, the Company determines its incremental borrowing rate in order to measure its lease liability. The incremental borrowing rate is the rate of interest that a lessee would have to pay to borrow over a similar term, and with similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. In estimating its incremental borrowing rate, the Company considers the term of the lease, the nature of the leased asset, and its level of indebtedness with reference to market risk-free interest rates.

- In some contracts, the Company transfers control of a product to distributors and grants the distributors the right to return the product for a full or partial refund in the scenario that products are to expire in the hands of the distributor. To account for the transfer of products with a right of return, the Company recognizes revenue for the transferred products in the amount of consideration to which the Company expects to be entitled to (therefore, revenue would not be recognized for the products expected to be returned). The expected consideration to be received is determined based on a combination of historical, current and forecasted information available to the entity at the end of each reporting period.

- The recoverable amount of intangible asset is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss, or any reversal of a previously recognized impairment loss, is recognized immediately in profit or loss.

- Consideration payable is measured at fair value on initial recognition and at subsequent reporting dates with the corresponding gain or loss recognized in profit or loss. The fair value of consideration payable is subject to the limitation of the Monte Carlo simulation that incorporates market data and involves uncertainty in estimates used by management in the assumptions. Because the Monte Carlo simulation requires the input of highly subjective assumptions, changes in subjective input assumptions can materially affect the fair value estimate.

**2. BASIS OF PREPARATION (continued)**

Use of Estimates and Judgments (continued)

- The Company performs impairment testing at the end of each reporting period for accounts receivable in accordance with IFRS 9. The ECL model requires considerable judgment, including consideration of how changes in economic factors affect ECLs, which are determined on a probability-weighted basis. IFRS 9 outlines a three-stage approach to recognizing ECLs which is intended to reflect the increase in credit risks of a financial instrument based on 1) 12-month expected credit losses or 2) lifetime expected credit losses. The Company measures provision for ECLs at an amount equal to lifetime ECLs. The Company applies the simplified approach to determine ECLs on trade receivables by using a provision matrix based on historical credit loss experiences. The historical results were used to calculate the run rates of default which were then applied over the expected life of the trade receivables, adjusted for forward looking estimate.

- Impairment indicators include a significant decline in an asset's market value, significant changes in the technologies, market, economic or legal environment in which the assets are operated, evidence of obsolescence or physical damage of an asset, significant changes in the planned use of an asset, or ongoing under-performance of an asset. Application of these factors to the facts and circumstances of a particular asset requires a significant amount of judgment.

- The Company regularly reviews inventory quantities on hand and records a provision for those inventories no longer deemed to be fully recoverable. The cost of inventories may no longer be recoverable if those inventories are slow moving, damaged, if they have become obsolete, or if their selling prices or estimated forecast of product demand decline. Accordingly, management is required to estimate the future selling price of inventory, less the expected costs to complete the sale based on the current available market data when determining the net realizable value of inventory. If actual market conditions are less favorable than previously projected, or if liquidation or the inventory no longer deemed to be fully recoverable is more difficult than anticipated, additional provisions may be required.

- The assessment of the Company's ability to continue as a going concern involves judgement regarding future funding available for its operations and working capital requirements as discussed in Note 1.

- Upon reclassification of non-current assets as held for sale, assets are required to be measured at the lower of their carrying value and fair value, less costs to sell. Accordingly, estimates are required to be made by management in assessing the fair market value of the assets held for sale, less the expected costs to complete the sale based on the current available market data. If actual market conditions are more or less favorable than previously projected, this can materially affect the fair value estimate.

## 2. BASIS OF PREPARATION (continued)

Use of Estimates and Judgments (continued)

- When the Company enters into leases as a lessee, it determines the lease term as the non-cancellable period of the lease together with periods covered by an option to extend the lease if it reasonably expects to exercise such option. In assessing whether it is reasonably certain to exercise an option to extend a lease, the Company considers: the contractual terms and conditions for the optional periods compared with market rates; whether any significant leasehold improvements have been undertaken; the costs of terminating the lease; the importance of the underlying asset to the Company's operations; and any conditionality associated with exercising the option.

- Provisions are recognized when the Company has a present obligation, legal or constructive as a result of a previous event, if it is probable that the Company will be required to settle the obligation and a reliable estimate can be made of the obligation. The amount recognized is the best estimate of the expenditure required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligations. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate of the expected future cash flows.

## 3. SIGNIFICANT ACCOUNTING POLICIES

Foreign currency translation

The Canadian dollar is determined to be the functional currency of the Company and its subsidiaries.

Transactions denominated in currencies other than the Canadian dollar are translated using the exchange rate in effect on the transaction date or at an average rate. At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange in effect at the consolidated statement of financial position date. Non-monetary items are translated at historical rates unless they are measured at fair value in which case these items are translated at the rate on the date that fair value was measured. Exchange gains or losses on translation are recorded in the consolidated statements of operations and comprehensive loss.

Revenue recognition

IFRS 15 outlines a single comprehensive model to account for revenue arising from contracts with customers. The core principle of the standard is to recognize revenue to depict the transfer of control of goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The standard has prescribed a five-step model to apply the principles. The standard also specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract as well as requiring more informative and relevant disclosures.

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

Revenue recognition (continued)

Under IFRS 15, revenue is recognized to depict the transfer of goods in an amount that reflects the consideration to which the entity expects to be entitled following five steps:

(i) Identify the contract with a customer
(ii) Identify the performance obligations in the contract
(iii) Determine the transaction price
(iv) Allocate the transaction price to the performance obligations in the contract
(v) Recognize revenue when (or as) the entity satisfies a performance obligation.

Revenue from the sale of products is recognized when the product is shipped and received by the customer, and depending on the delivery conditions, title and risk have passed to the customer. For transactions with retail stores and distributors, the Company's terms are primarily "FOB destination point", which designates that the Company will pay shipping costs and remain responsible for the goods until the buyer takes possession. Sales to consumers through the Company's online store are recorded when the product is shipped out to the consumer. Product returns, promotional allowances, chargebacks, money program and discounts provided to consumers are deducted from gross revenue to arrive at net revenue.

In some contracts, the Company transfers control of a product to distributors and grants the distributors the right to return the product for a full or partial refund in the scenario that products are to expire in the hands of the distributor. To account for the transfer of products with a right of return, the Company recognises revenue for the transferred products in the amount of consideration to which the Company expects to be entitled to (therefore, revenue would not be recognised for the products expected to be returned). The expected consideration to be received is determined based on a combination of historical, current and forecasted information available to the entity at the end of each reporting period.

Licensing income is recognized over time in gross revenue in accordance with the related licensing arrangements and rates determined in the licensing agreement.

Cost of goods sold

Cost of goods sold include the cost of finished goods inventory sold during the year and freight charges.

Inventory

Inventory is comprised of finished goods. Inventory is valued at the lower of cost and net realizable value. Cost is determined on an average cost basis. Net realizable value is the estimated selling price in the ordinary course of business less any applicable selling expenses. The Company utilizes a weighted average cost calculation to determine the value of ending inventory. Average cost is determined separately for domestic and export non-alcohol drinks.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Operating segments

The Company operates in two industry segments, the sale of non-alcoholic drinks products and royalty licensing fees. Most of the Company's sales are within Canada, with a small volume sold in the United States.

Intangible assets

Finite life intangible assets are comprised of Licensing Agreements, which are recorded at cost less accumulated amortization and accumulated impairment losses. Following initial recognition, such intangible assets are carried at cost less any accumulated amortization on a straight-line basis over five years. The estimated useful life and amortization method are reviewed at the end of each reporting period, and the effects of any changes are reported on a prospective basis.

Effective December 9, 2020, the Company changed the useful life over which depreciation expense is record on its licenses from 5 years to 10 years using the straight-line method. The change in estimate has been applied prospectively. This change in estimate is based upon the amended agreement entered with Lexaria Canpharm Corp. (Note 12).

Property and equipment

Property and equipment are recorded at cost less accumulated depreciation and accumulated impairment losses. Rates and basis of depreciation applied to write off the cost of property and equipment to their residual values over their estimated useful lives are as follows:

| | | |
|---|---|---|
| Right of use asset | Straight line | Term of lease |
| Computer hardware | Declining-Balance | 33.33% |
| Computer software | Declining-Balance | 33.33% |
| Equipment | Declining-Balance | 20% |

As at June 30, 2022 and 2021, assets in progress were not available for use and therefore no depreciation has been taken.

Impairment of property and equipment and intangible assets

At the end of each reporting period, the Company reviews the carrying amounts of its property and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of property and equipment and intangible assets (continued)

When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss, or any reversal of a previously recognized impairment loss, is recognized immediately in profit or loss.

Income taxes

Income tax on the profit or loss for the periods presented comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded using the statement of financial position liability method, providing for temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting nor taxable loss; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Loss per share

The Company presents basic and diluted loss per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share does not adjust the loss attributable to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Government grants

The Company recognizes government grants when it is reasonably assured that it will comply with the conditions attached to them and the grants will be received. Government grants include wage subsidies under the Canada Emergency Wage Subsidy ("CEWS") program and the benefit of the below-market interest rate from the Canada Emergency Business Account ("CEBA") loan. Wage subsidies are included in wages and salaries in the consolidated statements of operations and comprehensive loss. The benefit of the below-market interest rate from the CEBA loan is included in gain on favourable interest rate in the consolidated statements of operations and comprehensive loss. The benefit was initially deferred and was recognized as income as the proceeds of the loan were used to fund operating expenses.

The CEBA loan was initially measured at fair value based on the present value of future cash flows, discounted using a market rate of interest for similar loans. The loan is subsequently measured at amortized cost using the effective interest method. Interest expense related to the CEBA loan is included in accretion expense in the consolidated statements of loss and comprehensive loss.

Convertible debentures issued by the Company are comprised of convertible debentures and warrants that can be converted to share capital at the option of the holder. The liability component of the convertible debentures is recognized initially at its fair value, which is equal to the present value of future cash flows, discounted using a market rate of interest for similar non-convertible debt. The equity component, which includes the conversion feature of the debentures and the attached warrants, is initially recognized as the difference between the fair value of the convertible debentures as a whole and the fair value of the liability component. The value of the equity component is allocated between the conversion feature and the warrants based on their relative fair values. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of the convertible debentures is measured at amortized cost using the effective interest method. The equity component of the convertible debentures is not remeasured subsequent to initial recognition. Interest expense, losses and gains relating to the financial liability are recognized in the consolidated statements of operations and comprehensive loss.

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

Share capital

The Company records proceeds from share issuances net of issue costs and any tax effects in shareholders' equity. Common shares issued for consideration other than cash are valued based on their market value at the date the shares were granted. The proceeds from the issuance of units are allocated between common shares and warrants based on the proportionate fair value of both the common share and warrant on the date of issuance. Consideration received for the exercise of warrants is recorded in share capital, and any related amount recorded in warrants reserve is transferred to share capital.

Stock-based payments

The Company's stock-based compensation plans for employees, directors, officers, and service provides consist of stock options and restricted share units ("RSUs").

The Company grants stock options to buy common shares of the Company to directors, officers, employees and service providers. The board of directors grants such options for periods of up to five years, with vesting periods determined at its sole discretion and at prices equal to or greater than the closing market price on the day preceding the date the options were granted.

The fair value of the options granted to employees is measured at grant date, using the Black-Scholes option pricing model, and is recognized as the employees earn the options. The fair value is recognized as an expense with a corresponding increase in equity. The amount recognized as expense is adjusted to reflect the number of share options expected to vest.

The fair value of the options granted to non-employees are measured at the fair value of the goods or services received, unless that fair value cannot be estimated reliably, in which case the fair value of the equity instruments issued is used. The value of the goods or services is recorded at the earlier of the vesting date, or the date the goods or services are received. When the stock options are exercised, the applicable amounts of equity reserves are transferred to share capital.

RSUs are measured at their fair value on the date of grant based on the closing price of the Company's shares on the date prior to the grant and are recognized as share-based compensation expense over the vesting period, with a corresponding credit to reserve for share-based payments. RSUs subject to non-market based vesting conditions are determined using the Barrer Option Pricing model and the fair value of RSUs will be recognized as an expense over the estimated term that the performance goal will be achieve.

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

Assets held for sale

Non-current assets are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing development or use. This condition is met when the sale is highly probable, and the asset is available for immediate sale in its present condition. For the sale to be highly probable, there must be an active program to locate a buyer and plan to complete the sale must be initiated. The asset must be actively marketed, and the sale should be expected to be completed within one year from the date of classification. Certain events or circumstances beyond the Company's control may extend the period to complete the sale beyond one year.

**4. NEW STANDARDS ADOPTED**

New accounting standards announced but not yet effective

During the year ended June 30, 2022, there were no new IFRS or IAS accounting standards that became effective that had a material impact on the Company's consolidated financial statements. There are however a number of new standards and amendments to existing standards effective in future periods. The following may impact the reporting and disclosures of the Company:

i) **IAS 16 – Property, plant and equipment** – Proceeds before intended use ("IAS 16") has been amended to clarify the accounting for the net proceeds from selling any items produced while bringing an item of property, plant or equipment to the location and condition necessary for it to be capable of operating in the manner intended by management. The amendments prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognize such sales proceeds and related cost in profit or loss. These amendments are effective for periods beginning on or after January 1, 2022.

The adoption of the above standard is not expected to have a material impact on the Company's consolidated financial statements.

**IAS 37–Provisions ("IAS 37")**, has been amended to clarify the meaning of "costs to fulfil a contract", which comprise the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts. These amendments are effective for periods beginning on or after January 1, 2022, with early application permitted.

The adoption of the above standard is not expected to have a material impact on the Company's consolidated financial statements.

ii) **IAS 1 –Presentation of Financial Statements ("IAS 1")**, has been amended to clarify how to classify debt and other liabilities as either current or non-current. The amendment to IAS 1 is effective for the years beginning on or after January 1, 2023, with early application permitted.

The adoption of the above standard is not expected to have a material impact on the Company's consolidated financial statements.

(Expressed in Canadian Dollars)

## 5. NET REVENUE

| For the year ended | | June 30, 2022 | June 30, 2021 |
|---|---|---|---|
| Non-alcoholic beverage sales | $ | 2,926,843 | 2,433,561 |
| Licensing income | | 518,786 | 195,652 |
| Other income | | 214,379 | 124,268 |
| Chargebacks | | (447,685) | (558,098) |
| Listing fees | | - | (469) |
| | $ | 3,212,323 | 2,194,914 |

Other income consists of commissions.

## 6. ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

| As at | | June 30, 2022 | June 30, 2021 |
|---|---|---|---|
| Trade receivables | $ | 1,320,010 | 313,362 |
| GST receivables | | 23,984 | 47,869 |
| | $ | 1,343,994 | 361,231 |

Bad debt expenses of $nil (June 30, 2021: $353) have been recognized against these accounts receivable amounts, which the Company has determined represents a reasonable estimate of amounts that may be uncollectible.

## 7. INVENTORY

| As at | | June 30, 2022 | June 30, 2021 |
|---|---|---|---|
| Finished goods | $ | 20,433 | 455,605 |
| Raw materials | | - | 93,837 |
| | $ | 20,433 | 549,442 |

Inventory write downs recognized in write-off of inventory under other income during the year ended June 30, 2022 amounted to $115,906 (June 30, 2021: $17,258). The cost of inventory recognized as an expense and included in cost of sales during the year ended June 30, 2022 was $1,532,843 (June 30, 2021: $1,071,284).

## 8. ASSETS HELD FOR SALE

During the year ended June 30, 2022, the Company listed the equipment from its bottling and canning line for sale, resulting in the reclassification of equipment as assets held for sale. Prior to their reclassification, the equipment was reported under property and equipment at a carrying value of $157,144. Upon reclassification and as at June 30, 2022, the assets held for sale were revalued at the lower of their carrying value and their net realizable value, determined to be $103,089. As a result, a loss on impairment of assets held for sale was recognized in the consolidated statement of operations and comprehensive loss totaling $54,055 (June 30, 2021 - $nil) during the year ended June 30, 2022.

(Expressed in Canadian Dollars)

## 9. PROPERTY AND EQUIPMENT

| | ROU Asset | Computer Equipment | Computer Software | Equipment | Assets in progress | Total |
|---|---|---|---|---|---|---|
| **Cost** | $ | $ | $ | $ | $ | $ |
| Balance at June 30, 2020 | 53,019 | 7,005 | 1,987 | 277,639 | - | 339,650 |
| Additions | - | 1,694 | 127 | - | - | 1,821 |
| Balance at June 30, 2021 | 53,019 | 8,699 | 2,114 | 277,639 | - | 341,471 |
| Additions | 52,091 | 2,494 | 901 | - | 79,450 | 134,936 |
| Reclassification (note 8) | - | - | - | (277,639) | - | (277,639) |
| Balance at June 30, 2022 | 105,110 | 11,193 | 3,015 | - | 79,450 | 198,768 |
| **Accumulated depreciation** | | | | | | |
| Balance at June 30, 2020 | 5,891 | 3,966 | 1,455 | 59,384 | - | 70,696 |
| Depreciation for the year | 17,674 | 1,253 | 193 | 43,651 | - | 62,771 |
| Balance at June 30, 2021 | 23,565 | 5,219 | 1,648 | 103,035 | - | 133,467 |
| Depreciation for the year | 17,487 | 1,372 | 283 | 17,460 | - | 36,602 |
| Reclassification (note 8) | - | - | - | (120,495) | - | (120,495) |
| Balance at June 30, 2022 | 41,052 | 6,591 | 1,931 | - | - | 49,574 |
| Carrying amount at June 30, 2021 | 29,454 | 3,480 | 466 | 174,604 | - | 208,004 |
| **Carrying amount at June 30, 2022** | 64,058 | 4,602 | 1,084 | - | 79,450 | 149,194 |

During the year ended June 30, 2022, the assets in progress were for the cannabis production facility in Mississauga, Canada. As the assets in progress are not yet available for use as at June 30, 2022, no depreciation expense has been recognized on these assets as of June 30, 2022.

(Expressed in Canadian Dollars)

## 10. INTANGIBLE ASSETS

| | Canpharm / Lexaria License (i) & (ii) | Other License (iii) | Trademarks (iv) | Total |
|---|---|---|---|---|
| **Cost** | $ | $ | $ | $ |
| Balance at June 30, 2020 | 209,250 | 51,250 | 7,698 | 268,198 |
| Additions | 3,607,242 | - | 9,840 | 3,617,082 |
| Balance at June 30, 2021 | 3,816,492 | 51,250 | 17,538 | 3,885,280 |
| Additions | - | 17,854 | 204 | 18,058 |
| Impairment | - | - | (5,629) | (5,629) |
| Balance at June 30, 2022 | 3,816,492 | 69,104 | 12,113 | 3,897,709 |
| **Accumulated depreciation** | | | | |
| Balance at June 30, 2020 | 80,331 | 16,939 | - | 97,270 |
| Depreciation for the year | 183,439 | 6,862 | - | 190,301 |
| Balance at June 30, 2021 | 263,770 | 23,801 | - | 287,571 |
| Depreciation for the year | 296,715 | 5,351 | - | 302,066 |
| Balance at June 30, 2022 | 560,485 | 29,152 | - | 589,637 |
| Carrying amount at June 30, 2021 | 3,552,722 | 27,449 | 17,538 | 3,597,709 |
| **Carrying amount at June 30, 2022** | 3,256,007 | 39,952 | 12,113 | 3,308,072 |

(i) On July 30, 2018, the Company entered into a semi-exclusive licensing agreement with Lexaria Canpharm Corp. for the use of its technology to produce a line of cannabis-infused alcohol-free beverages for Canadian distribution, following regulatory approval. As of June 30, 2019, all amounts have been paid and the Company has capitalized a total of $209,250 related to this agreement. These licenses fees are being amortized over their useful life of five years (the effective term of the license agreement).

On December 9, 2020, the Company entered into a intellectual property license agreement with Lexaria HempCo. to expand the Company's license with Lexaria HempCo to make products containing CBD on a global basis for ten years. This agreement hereby supersedes and replaces in its entirety the prior agreement dated July 30, 2018. The Company changed the useful life over which depreciation expense is recorded on its licenses from 5 to 10 years.

**10. INTANGIBLE ASSETS (continued)**

(ii) On December 9, 2020, the Company entered into an asset purchase agreement with Lexaria Canpharm ULC to acquire exclusive rights in perpetuity to use Lexaria's non-pharmaceutical THC-related property assets and license agreement assets (the "Canpharm Licenses") in exchange for aggregate consideration of $3,590,928 (the "Lexaria Asset Acquisition"). Additional transaction costs totaling $38,655 were incurred in connection with the completion of the asset purchase agreement. The transaction has been accounted for as an asset acquisition.

Aggregate consideration included an upfront cash payment of $350,000 on closing (paid), $2,000,000 payable in the form of a promissory note bearing 10% interest per annum (note 12), a total of 6,031,363 common shares valued at $753,920 issued on closing (note 13) and $1,000,000 of consideration payable to be settled in the form of common shares, payable in two equal tranches 8 months and 16 months from the date of closing (note 13).

Consideration payable shall be settled in common shares at a price per share equal to the greater of the 10-day volume weighted average closing price on such payment date and the closing price on the date the Lexaria Asset Acquisition was executed. The fair value of the contingent consideration on the date of closing of the acquisition and June 30, 2021 amounted to $487,008 and $746,224, respectively, determined using a Monte Carlo Simulation. The intangible assets acquired included a license and sublicenses. The value of each was proportionately allocated based on their fair value. The license is being amortized over the useful life of the patents it gives the right to which are 20 years. The sublicenses are being amortized over their remaining useful life which is between 4 and 9 years.

On August 9, 2021, the Company issued 7,575,758 shares to Lexaria CanPharm ULC valued at $530,303 as full payment in settlement of the second tranche of the consideration payable. In connection with the issuance, 1,693,405 of the 7,575,758 shares were issued in excess of the required amount, valued of $118,538 that was applied against the third tranche liability.

On April 8, 2022, the Company issued an additional 4,188,948 shares to Lexaria CanPharm ULC valued at $146,613 as full payment in settlement of the third and final tranche of the consideration payable (Note 13).

As at June 30, 2022, consideration payable was considered to be settled in full and a gain on fair value of consideration payable totaling $69,308 (June 30, 2021: loss $259,216) was recognized in the consolidated statements of operations and comprehensive loss.

(Expressed in Canadian Dollars)

**10. INTANGIBLE ASSETS (continued)**

The following table summarizes the price allocation:

| | | |
|---|---|---|
| **Assets Acquired** | | |
| Prepaid | $ | 22,341 |
| Canpharm – sublicense | | 1,188,947 |
| Canpharm – license | | 2,418,295 |
| | | 3,629,583 |
| **Consideration** | | |
| Fair value of 6,031,363 common shares | | 753,920 |
| Consideration payable | | 487,008 |
| Promissory note | | 2,000,000 |
| Cash | | 350,000 |
| Transaction costs | | 38,655 |
| **Total Consideration** | | **3,629,583** |

(iii) As of June 30, 2022, the Company has capitalized a total of $69,104 of costs associated with acquiring a Standard Processor License under the Cannabis act (Canada), and a Standard Processing License application under Health Canada. These licenses fees are being amortized over their useful life of 5 years.

(iv) As of June 30, 2022, the Company has capitalized a total of $17,742 for trademarks, of which $5,629 was deemed to be impaired and recognized as a loss on impairment of intangible assets during the year ended June 30, 2022.

(Expressed in Canadian Dollars)

## 11. LEASES

The Company has a lease for industrial commercial space. The Company's lease commenced on February 25, 2020 and extends to February 28, 2023. The Company has an option to extend the lease beyond the three-year non-cancellable term for an additional term of three years. The Company has recognized a right-of-use asset in respect of this lease, which is included in property and equipment on the consolidated statements of financial position (note 9).

The Company has also recognized a lease liability for this lease, which was initially measured at the present value of the future lease payments, discounted using the Company's incremental borrowing rate of 6%. Interest expense on the lease liability is included in bank charges and interest in the consolidated statements of operations and comprehensive loss. The carrying amount of the Company's lease liability is summarized in the table below.

During the year ended June 30, 2022, the Company determined that the three-year extension was reasonably certain to be exercised on the lease for the industrial commercial space. In connection with the extension, an addition to the right-of-use asset and lease liability was recognized for amounts totaling $52,091, measured at the present value of the future lease payments, discounted using an incremental borrowing rate of 10%.

| | **Lease liability** |
|---|---:|
| **Balance, June 30, 2020** | **50,866** |
| Interest expense | 3,183 |
| Lease payments | (21,352) |
| **Balance, June 30, 2021** | 32,697 |
| Extension of lease | 52,091 |
| Interest expense | 7,560 |
| Lease payments | (21,847) |
| **Balance, June 30 2022** | 70,501 |
| **Current portion** | 15,941 |
| **Non-current portion** | 54,560 |

The Company's future undiscounted lease payments under this lease agreement are summarized in the following table.

| **Fiscal Year** | **Lease Payments** |
|---|---|
| 2023 | $22,344 |
| 2024 | $22,857 |
| 2025 | $23,383 |
| 2026 | $15,826 |
| TOTAL | $84,410 |

(Expressed in Canadian Dollars)

## 12. LOANS PAYABLE

The Company has the following loans payable as at June 30, 2022 and June 30, 2021:

| As at | June 30, 2022 | June 30, 2021 |
|---|---|---|
| | $ | $ |
| CEBA loan | 53,623 | 42,908 |
| Promissory note | 2,289,767 | 2,105,389 |
| Total loans payable | 2,343,390 | 2,148,297 |

<u>Canada Emergency Business Account</u>

| | CEBA loan |
|---|---|
| **Balance at June 30, 2020** | **$22,885** |
| Proceeds | $20,000 |
| Benefit from favorable interest rate | ($6,541) |
| Accretion Expense | $6,564 |
| **Balance at June 30, 2021** | **$42,908** |
| Accretion Expense | $10,715 |
| **Balance at June 30, 2022** | **$53,623** |

The Company received a loan in the aggregate amount of $60,000 pursuant to the Canada Emergency Business Account ("CEBA"). The CEBA provides zero-interest, partially forgivable loans of up to $60,000 to small businesses that have experienced diminished revenues due to COVID-19 but face ongoing non-deferrable costs, such as rent, utilities, insurance, taxes and employment costs. If the balance of the loan is repaid on or before December 31, 2022, 25% on the first $40,000, plus 50% percent on the additional $20,000 will be forgiven. The loan bears no interest until December 31, 2022, at which point if unpaid, it will convert to a three-year term loan bearing interest at 5% per annum. On recognition, the initial $40,000 and additional $20,000 were recognized at their respective fair values totaling $22,061 and $13,459, and the subsequently measured at amortized cost, using an effective interest rate of 23%. During the year ended June 30, 2022, $10,715 (June 30, 2021: $6,564) of interest expense related to the CEBA loan was recognized and included in accretion expense in the consolidated statements of operations and comprehensive loss.

On February 15, 2022, the repayment terms for the CEBA loan were amended such that, provided that $40,000 of the CEBA loan's outstanding balance is repaid on or before December 31, 2023, the remaining $20,000 in outstanding balance will be forgiven. The outstanding balance of the CEBA loan that is not repaid by December 31, 2023 becomes immediately repayable in 24 consecutive monthly instalments beginning January 1, 2024 until fully repaid at December 31, 2025.

During the year ended June 30, 2022, an interest benefit of $nil (June 30, 2021: $6,541) was included in the consolidated statements of operations and comprehensive loss due to the below-market interest rate on the CEBA loan. This benefit was initially recognized as a deferred gain and was recognized as income as the Company used the proceeds from the loan to fund its operational expenditures.

(Expressed in Canadian Dollars)

## 12. LOANS PAYABLE (continued)

Convertible debenture

| | |
|---|---|
| **Balance, June 30, 2020** | **$770,485** |
| Interest Expense | $50,808 |
| Accretion Expense | $104,786 |
| Conversion of convertible debt into shares | ($864,936) |
| Interest paid | ($61,143) |
| **Balance, June 30, 2021 and 2022** | **$ -** |

On May 1, 2020, the Company issued $1,022,500 principal amount of convertible debenture units. Each unit is comprised of $1.00 principal amount of secured convertible debentures and 20 common share purchase warrants. Each warrant entitles the holder to purchase one common share in the capital of the Company at a price of $0.05 per share for a period of two years from the date of issuance. The convertible debentures bear interest at 6% per annum, payable semi-annually on November 1 and May 1 in each year.

The outstanding principal and any accrued and unpaid interest may, at the option of the holder, be converted at any time prior to maturity into common shares in the capital of the Company at a conversion price of $0.05 per share for the first year of the term and $0.10 thereafter. The principal subscribers in the financing were the Company's CEO and HoldCo St. Catharines Ltd., the Company's largest shareholder.

The loan was initially measured at its fair value of $741,740, calculated by discounting the future cash flows using a market interest rate of 25%. The loan is subsequently measured at amortized cost using the effective interest method, at an effective interest rate of 23%. During the year ended June 30, 2022, the Company recognized $nil (June 30, 2021: $50,808) in interest expense and $nil (June 30, 2021: $104,786) in non-cash accretion expense, which are included in the consolidated statements of operations and comprehensive loss.

During the year ended June 30, 2021, the principal amount of $1,022,500 were converted into 20,450,000 common shares at conversion price of $0.05 per share (note 13).

(Expressed in Canadian Dollars)

## 12. LOANS PAYABLE (continued)

Convertible debenture (continued)

At issuance, the equity component of the convertible debenture was measured at $272,260. The equity component was allocated between the conversion feature and warrants based on their relative fair values, measured using the Black-Scholes option pricing model. A value of $136,130 was assigned to both the conversion feature and the warrants, both of which are included in reserves on the consolidated statements of financial position. Significant assumptions used to value the conversion feature and attached warrants are presented in the following table.

| | |
|---|---|
| Stock Price | $0.045 |
| Exercise Price | $0.05 |
| Expected life | 2 years |
| Volatility | 93% |
| Dividends | $0 |
| Risk-free rate | 0.37% |

Notes payable

On December 9, 2020, in consideration of the value received in connection with the Lexaria Asset Acquisition, the Company agreed to pay the principal sum of $2,000,000 in the form of a promissory note. On initial recognition the principal amount shall bear interest at the rate of 10% per annum and shall accrue and be calculated quarterly-annually. The principal amount and any accrued interest shall be repayable by the Company in quarterly installments in an amount equal to 5% of the gross sales realized from cannabis infused product sold by the Company or its licenses utilizing the acquired technology. This promissory note and any accrued interest may be prepaid by the Company at any time in its sole and absolute discretion without penalty. On December 9, 2021, the principal balance on the promissory note was amended to $2,180,082, comprising the original principal balance of $2,000,000 and $180,082 of accrued and unpaid interest. Under the amended terms of the promissory note, interest shall now be compounded and calculated annually. During the year ended June 30, 2022, the Company recognized interest expenses totaling $204,444 (June 30, 2021: $111,055) in the consolidated statements of operations and comprehensive loss. During the year ended June 30, 2022, total principal repayment was $20,066 (June 30, 2021: $5,666).

## 13. SHARE CAPITAL

a) Authorized

Unlimited number of common shares with no par value.

b) Issued and outstanding

At June 30, 2022 and June 30, 2021, the issued and outstanding share capital is comprised of 222,940,400 and 204,718,694 common shares, respectively.

**13. SHARE CAPITAL (continued)**

b) Issued and outstanding

***During the year ended June 30, 2022 the Company issued the following shares:***

On August 9, 2021, the Company issued 7,575,758 shares to Lexaria CanPharm ULC valued at $530,303 as full payment in settlement of the second tranche of the consideration payable (note 10).

On February 22, 2022, the Company issued 6,457,000 shares for the exercise of warrants for gross proceeds of $322,850. The shares issued were valued at $365,832, representing the sum of the proceeds of $322,850 and the transfer of previously recognized warrants reserve of $42,982.

On April 8, 2022, the Company issued 4,188,948 shares to Lexaria CanPharm ULC valued at $146,613 as full payment in settlement of the third and final tranche of the consideration payable (Note 10).

***During the year ended June 30, 2021 the Company issued the following shares:***

On September 14, 2020, the Company issued 144,229 shares in lieu of severance obligations to a former senior officer valued at $12,259. A provision of $12,259 was included in accounts payable and accrued liabilities on the consolidated statements of financial position as at June 30, 2020.

On November 18, 2020, the Company issued 17,019,000 units at a price of $0.05 per unit for gross proceeds of $850,950. Each unit consisted of one common share and one common share purchase warrant, with each whole warrant exercisable into one common share of the Company at an exercise price of $0.13 per share, exercisable for a period of 24 months from the date of issuance. The warrants were assigned a value of $274,581. In connection to the private placement, the Company paid $25,938 in cash for share issuance cost.

On December 9, 2020, the Company issued 6,031,363 units valued at $753,920 pursuant to licensing agreement entered with Lexaria Canpharm UCL. (note 10).

On April 9, 2021, the Company issued 42,548,544 units at a price of $0.08 per unit for gross proceeds of $3,403,884. Each unit consisted of one common share and one common share purchase warrant, with each whole warrant exercisable into one common share of the Company at an exercise price of $0.11 per share, exercisable for a period of 36 months from the date of issuance. The warrants were assigned a value of $1,318,889. In connection to the private placement, finder's fees of $8,320 in cash and 52,000 broker warrants were paid and issued to arm's length parties, valued at $2,743. Each broker warrants entitle the holder to purchase one share at a price of $0.08 for a period of 24 months from the date of issuance. The Company also paid $56,356 in cash for share issuance costs.

The Company issued 20,450,000 common shares pursuant to the full conversion of $1,022,500 principal amount of the convertible debt. In relation to the conversion of convertible debt, $864,936 was transferred to share capital based on the carrying value of the loan on the conversion date and $136,130 was reclassified from reserves to share capital.

(Expressed in Canadian Dollars)

**13. SHARE CAPITAL (continued)**

c) Stock options

The Company issued 6,465,178 shares for the exercise of warrants for gross proceeds of $596,517. The shares issued were valued at $873,604, representing the sum of the proceeds of $596,517 and the transfer of previously recognized warrants reserve of $277,087.

The continuity of options for the year ended June 30, 2022 is summarized below:

| Granted | Expiry | Exercise Price | June 30, 2021 | Granted | Expired / Forfeited | June 30, 2022 | Exercisable |
|---|---|---|---|---|---|---|---|
| July 31, 2018 | July 31, 2023 | $ 0.075 | 2,228,742 | - | - | 2,228,742 | 2,228,742 |
| July 31, 2018 | Dec 31, 2021 | $ 0.075 | 1,036,054 | - | (1,036,054) | - | - |
| July 31, 2018 | Dec. 17, 2021 | $ 0.075 | 63,750 | - | (63,750) | - | - |
| July 31, 2018 | Feb. 8, 2022 | $ 0.075 | 1,220,519 | - | (1,220,519) | - | - |
| July 31, 2018 | Aug. 18, 2022 | $ 0.075 | 863,378 | - | - | 863,378 | 863,378 |
| May 23, 2019 | May 23, 2024 | $ 0.075 | 215,000 | - | - | 215,000 | 215,000 |
| May 1, 2020 | May 1, 2025 | $ 0.05 | 1,650,000 | - | - | 1,650,000 | 1,650,000 |
| May 1, 2020 | Dec. 17, 2021 | $ 0.05 | 75,000 | - | (75,000) | - | - |
| May 1, 2020 | Feb. 8, 2022 | $ 0.05 | 318,750 | - | (318,750) | - | - |
| May 1, 2020 | Aug. 18, 2022 | $ 0.05 | 940,000 | - | (352,500) | 587,500 | 587,500 |
| Mar. 1, 2021 | Mar. 1, 2026 | $ 0.095 | 3,200,000 | - | - | 3,200,000 | 1,566,667 |
| Mar. 1, 2021 | Aug. 18, 2022 | $ 0.095 | 1,500,000 | - | (1,062,500) | 437,500 | 437,500 |
| Mar. 1, 2021 | May 27, 2023 | $ 0.095 | 100,000 | - | (66,667) | 33,333 | 33,333 |
| Apr. 30, 2021 | Apr. 30, 2026 | $ 0.09 | 3,778,500 | - | - | 3,778,500 | 3,778,500 |
| Mar. 28, 2022 | Mar. 28, 2027 | $ 0.04 | - | 750,000 | - | 750,000 | 750,000 |
| | Total | | 17,189,693 | 750,000 | (4,195,740) | 13,743,953 | 12,110,620 |
| | Weighted average exercise price | | | 0.04 | (0.08) | $ 0.08 | $ 0.08 |
| | Weighted average remaining contractual life | | | | | 2.73 years | |

(Expressed in Canadian Dollars)

**13. SHARE CAPITAL (continued)**

c) Stock options

The continuity of options for the year ended June 30, 2021 is summarized below:

| Granted | Expiry | | Exercise Price | June 30, 2020 | Granted | Expired / Forfeited | June 30, 2021 | Exercisable |
|---|---|---|---|---|---|---|---|---|
| July 31, 2018 | July 31, 2023 | $ | 0.075 | 3,357,474 | - | (265,354) | 3,092,120 | 2,834,443 |
| July 31, 2018 | July 17, 2020 | $ | 0.175 | 690,702 | - | (690,702) | - | - |
| July 31, 2018 | Dec. 19, 2020 | $ | 0.175 | 195,815 | - | (195,815) | - | - |
| July 31, 2018 | Jan. 31, 2021 | $ | 0.175 | 518,027 | | (518,027) | - | - |
| July 31, 2018 | Dec 31, 2021 | $ | 0.075 | 1,036,054 | - | - | 1,036,054 | 1,036,054 |
| July 31, 2018 | Dec. 17, 2021 | $ | 0.075 | 63,750 | - | - | 63,750 | 63,750 |
| July 31, 2018 | Feb. 8, 2022 | $ | 0.075 | 1,220,519 | - | - | 1,220,519 | 1,220,519 |
| May 23, 2019 | May 23, 2024 | $ | 0.075 | 215,000 | - | - | 215,000 | 143,333 |
| May 1, 2020 | May 1, 2025 | $ | 0.05 | 3,346,250 | - | (756,250) | 2,590,000 | 1,295,000 |
| May 1, 2020 | Dec. 17, 2021 | $ | 0.05 | 75,000 | - | - | 75,000 | 75,000 |
| May 1, 2020 | Feb. 8, 2022 | $ | 0.05 | 318,750 | - | - | 318,750 | 318,750 |
| Mar. 1, 2021 | Mar. 1, 2026 | $ | 0.095 | - | 4,800,000 | - | 4,800,000 | 1,662,500 |
| Apr. 30, 2021 | Apr. 30, 2026 | $ | 0.09 | - | 3,778,500 | - | 3,778,500 | 1,930,583 |
| | Total | | | 11,037,341 | 8,578,500 | (2,426,148) | 17,189,693 | 10,579,932 |
| | Weighted average exercise price | | | | $0.09 | $ 0.13 | $ 0.08 | $ 0.08 |
| | Weighted average remaining contractual life | | | | | | 3.45 years | |

***During the year ended June 30, 2022 the Company granted the following stock options:***

On March 28, 2022, 750,000 options were to certain directors at an exercise price of $0.040 per share, expiring on March 28, 2027. These options vest immediately and the fair value of the options at grant date was $23,719.

On May 27, 2022, the expected life of 33,333 fully vested options held by a former employee of the Company, previously granted on March 1, 2021, were reduced to one year from the date of employment termination and a total of 66,667 of unvested options were forfeited during the year ended June 30, 2022. Previously recorded stock-based compensation of $2,997 related to the forfeited options was reversed during the year ended June 30, 2022.

On August 18, 2021, the expected life of 863,378 fully vested options held by a former officer of the Company, previously granted on July 31, 2018, were reduced to one year from the date of employment termination.

On August 18, 2021, the expected life of 587,500 fully vested options held by a former officer of the Company, previously granted on May 1, 2020, were reduced to one year from the date of employment termination and a total of 352,500 of unvested options were forfeited during the year ended June 30, 2022. Previously recorded stock-based compensation of $7,478 related to the forfeited options was reversed during the year ended June 30, 2022.

**13. SHARE CAPITAL (continued)**

c) Stock options (continued)

On August 18, 2021, the expected life of 437,500 fully vested options held by a former officer of the Company, previously granted on March 1, 2021, were reduced to one year from the date of employment termination and a total of 1,062,500 of unvested options were forfeited during the year ended June 30, 2022. Previously recorded stock-based compensation of $14,258 related to the forfeited options was reversed during the year ended June 30, 2022.

***During the year ended June 30, 2021 the Company granted the following stock options:***

On May 6, 2021, the Company received approval from the TSXV Exchange to reduce the exercise price of the following options at the discretion of the Board of Directors:

- 3,092,120 stock options at an exercise price of $0.175 per share. The amended stock options will now be exercisable at $0.075 per share with their original maturity date unchanged.
- 1,036,054 stock options at an exercise price of $0.175 per share. The amended stock options will now be exercisable at $0.075 per share with their original maturity date unchanged.
- 1,220,519 stock options at an exercise price of $0.175 per share. The amended stock options will now be exercisable at $0.075 per share with their original maturity date unchanged.
- 215,000 stock options at an exercise price of $0.21 per share. The amended stock options will now be exercisable at $0.075 per share with their original maturity date unchanged.
- 63,750 stock options at an exercise price of $0.175 per share. The amended stock options will now be exercisable at $0.075 per share with their original maturity date unchanged.

On April 30, 2021, 3,778,500 options were granted to officers, directors, and consultants at an exercise price of $0.090 per share, expiring on April 30, 2026. 1,561,000 of these options vest immediately and 2,217,500 options shall vest equally 8.33% monthly over 12 months and the fair value of the options at grant date was $250,767.

On March 1, 2021, 4,800,000 options were granted to officers, directors, and consultants at an exercise price of $0.095 per share, expiring on March 31, 2026. 4,050,000 options shall vest in three equal tranches on June 30, 2021, July 1, 2022 and July 1, 2023, with the first tranche to vest based on the achievement of various performance goals. Any options unvested from the first tranche shall vest on March 1, 2024. The remaining 750,000 options shall vest equally monthly over a period of 6 months. The fair value of the options at grant date was $338,576.

On February 8, 2021, the expected life of 1,220,519 fully vested options held by a former Officer of the Company, previously granted on July 31, 2018, were reduced to one year from the date of employment termination and a total of 244,104 of unvested options were forfeited during the year ended June 30, 2021. Previously recorded stock-based compensation of $32,779 related to the forfeited options was reversed during the year ended June 30, 2021.

(Expressed in Canadian Dollars)

**13. SHARE CAPITAL (continued)**

c) Stock options (continued)

On February 8, 2021, the expected life of 318,750 fully vested options held by a former Officer of the Company, previously granted on May 1, 2020, were reduced to one year from the date of employment termination and a total of 531,250 of unvested options were forfeited during the year ended June 30, 2021. Previously recorded stock-based compensation of $7,790 related to the forfeited options was reversed during the year ended June 30, 2021.

On August 18, 2020, 1,036,054 options held by a former employee of the Company, previously granted on July 31, 2018, were vested immediately during the period and the expected life were reduced to one year from the date of employment termination. Due to the accelerated vesting of the options as a result of the employee's termination, additional stock-based compensation of $15,302 was recorded.

On December 17, 2020, 63,750 options held by a former employee of the Company, previously granted on July 31, 2018, were reduced to one year from the date of employment termination and a total of 21,250 of unvested options were forfeited during the year ended June 30, 2021. Previously recorded stock-based compensation of $2,692 related to the forfeited options was reversed during the year ended June 30, 2021.

On December 17, 2020, 75,000 options held by a former employee of the Company, previously granted on May 1, 2020, were reduced to one year from the date of employment termination and a total of 225,000 of unvested options were forfeited during the year ended June 30, 2021. Previously recorded stock-based compensation of $2,263 related to the forfeited options was reversed during the year ended June 30, 2021.

All options are recorded at fair value using the Black-Scholes option pricing model. Volatility is based on peer companies and the historical trading prices of the Company's shares. Pursuant to the vesting schedule of options granted during the year ended June 30, 2022 share-based compensation of $192,286 (June 30, 2021: $486,112) was recognized in the consolidated statement of operations and comprehensive loss.

The following weighted average assumptions were used in the option pricing models of stock options granted during the years ended June 30, 2022 and June 30, 2021:

| | **June 30, 2022** | **June 30, 2021** |
|---|---:|---:|
| Share price | $0.04 | $0.085-$0.09 |
| Risk-free interest rate | 2.46% | 0.81% - 0.93% |
| Expected life | 5 years | 5 years |
| Expected volatility | 109% | 110% - 111% |
| Expected dividends | Nil | Nil |

(Expressed in Canadian Dollars)

## 13. SHARE CAPITAL (continued)

c) Stock options (continued)

The following weighted average assumptions were used in the option pricing models of stock options modified during the year ended June 30, 2022 and 2021:

| | June 30, 2022 | June 30, 2021 |
|---|---|---|
| Share price | $Nil | $0.85 |
| Risk-free interest rate | Nil | 0.30% |
| Expected life | Nil | 0.61 years – 3.05 years |
| Expected volatility | Nil | 104% - 110% |
| Expected dividends | Nil | Nil |

d) Warrants

The continuity of warrants for the year ended June 30, 2022 is summarized below:

| Granted | Expiry | Exercise Price | June 30, 2021 | Granted | Expired / Cancelled | Exercised | June 30, 2022 |
|---|---|---|---|---|---|---|---|
| June 5, 2019 | June 5, 2022 | $ 0.20 | 2,500,000 | - | (2,500,000) | - | - |
| June 7, 2019 | Dec. 31, 2021 | $ 0.40 | 4,241,654 | - | (4,241,654) | - | - |
| Dec 19, 2019 | Dec 19, 2021 | $ 0.13 | 13,324,998 | - | (13,324,998) | - | - |
| May 1, 2020 | May 1, 2022 | $ 0.05 | 19,450,000 | - | (12,993,000) | (6,457,000) | - |
| Nov 18, 2020 | Nov. 18, 2022 | $ 0.13 | 17,019,000 | - | - | - | 17,019,000 |
| April 9, 2021 | April 9, 2024 | $ 0.11 | 42,548,544 | - | - | - | 42,548,544 |
| April 9, 2021 | April 9, 2023 | $ 0.08 | 52,000 | - | - | - | 52,000 |
| | Total | | 99,136,196 | - | (33,059,652) | (6,457,000) | 59,619,544 |
| | Weighted average exercise price | | | - | (0.14) | (0.05) | 0.12 |
| Weighted average remaining contractual life | | | | | | 1.38 years | |

(Expressed in Canadian Dollars)

## 13. SHARE CAPITAL (continued)

d) Warrants (continued)

The continuity of warrants for the year ended June 30, 2021 is summarized below:

| Granted | Expiry | Exercise Price | June 30, 2020 | Granted | Expired / Cancelled | Exercised | June 30, 2021 |
|---|---|---|---|---|---|---|---|
| July 24, 2018 | Dec 31, 2020 | $ 0.10 | 8,560,800 | - | (8,560,800) | - | - |
| July 24, 2018 | July 24, 2020 | $ 0.175 | 1,194,210 | - | (1,194,210) | - | - |
| July 24, 2018 | Dec 31, 2020 | $ 0.10 | 13,454,249 | - | (7,989,071) | (5,465,178) | - |
| Sept 18, 2018 | Dec 31, 2020 | $ 0.10 | 16,775 | - | (16,775) | - | - |
| June 5, 2019 | June 5, 2022 | $ 0.20 | 2,500,000 | - | - | - | 2,500,000 |
| June 7, 2019 | Dec. 31, 2021 | $ 0.40 | 4,241,654 | - | - | - | 4,241,654 |
| Dec 19, 2019 | Dec 19, 2021 | $ 0.13 | 13,324,998 | - | - | - | 13,324,998 |
| May 1, 2020 | May 1, 2022 | $ 0.05 | 20,450,000 | - | | (1,000,000) | 19,450,000 |
| Nov 18, 2020 | Nov. 18, 2022 | $ 0.13 | - | 17,019,000 | - | - | 17,019,000 |
| April 9, 2021 | April 9, 2024 | $ 0.11 | - | 42,548,544 | - | - | 42,548,544 |
| April 9, 2021 | April 9, 2023 | $ 0.08 | - | 52,000 | - | - | 52,000 |
| | Total | | 63,742,686 | 59,619,544 | (17,760,856) | (6,465,178) | 99,136,196 |
| | Weighted average exercise price | | | 0.12 | 0.11 | 0.09 | 0.12 |
| Weighted average remaining contractual life | | | | | | 1.70 years | |

During the year ended June 30, 2021, the Company received approval from the TSXV Exchange to extend the expiry dates and reduce the exercise price of the following warrants:

- 5,934,780 share purchase warrants at an exercise price of $0.30 per share extended to December 31, 2020, which were schedule to expire on July 24, 2020. The exercise price was reduced to $0.10.
- 13,454,249 share purchase warrants at an exercise price of $0.35 per share extended to December 31, 2020, which were schedule to expire on July 24, 2020. The exercise price was reduced to $0.10.
- 16,775 share purchase warrants at an exercise price of $0.35 per share extended to December 31, 2020, which were schedule to expire on July 24, 2020. The exercise price was reduced to $0.10.
- 4,241,654 share purchase warrants at an exercise price of $0.40 per share extended to December 31, 2021, which were schedule to expire on June 7, 2021.

For details on warrants granted, refer to Note 13(b).

The following weighted-average assumptions used in the option-pricing model of warrants issued during the period June 30, 2022 and 2021:

(Expressed in Canadian Dollars)

**13. SHARE CAPITAL (continued)**

d) Warrants (continued)

| | **June 30, 2021** |
|---|---|
| Share price | $0.085 - $0.09 |
| Risk-free interest rate | 0.27% - 0.48% |
| Expected life | 2 – 3 years |
| Expected volatility | 109% - 111% |
| Expected dividends | Nil |

The volatility of the Company is based on peer companies and the historical trading prices of the Company's shares. Expected life is considered to be the time to expiry.

e) Restricted share unit plan

The Company has adopted a restricted share unit plan (the "RSU Plan"), which provides that the Board of Directors of the Company may, from time to time, grant to directors, officers, employees and consultants of the Company, non-transferable RSUs. The expiry date for each restricted share unit shall be set by the Board of Directors at the time of issue. A vesting schedule may be imposed at the discretion of the Board of Directors at the time of issue. The number of shares that may be reserved for issuance shall not exceed 20% of the total number of issued and outstanding shares of the Company.

On March 28, 2022, the Company granted 2,700,000 RSUs to an officer and employees of the Company. Each RSU entitles the holder to receive one common share of the Company upon the vesting of such RSU. 850,000 of the RSUs are to vest immediately and 1,850,000 will vest on July 1, 2022. The fair value of these RSUs was determined to be $108,000 by reference to the fair value of the Company's common shares on the date of grant and will be recognized as an expense over the vesting period of the RSUs.

On March 28, 2022, the Company granted 4,245,889 RSUs to an officer of the Company. Each RSU entitles the holder to receive one common share of the Company upon the vesting of such RSU. 849,178 of the RSUs will vest on January 6, 2023, and the remaining 3,396,711 RSUs will vest equally quarterly over a period of 4 years, with the first tranche vesting April 6, 2023. The fair value of these RSUs was determined to be $169,836 by reference to the fair value of the Company's common shares on the date of grant and will be recognized as an expense over the vesting period of the RSUs.

On March 28, 2022, the Company granted 4,725,334 RSUs to an officer of the Company. Each RSU entitles the holder to receive one common share of the Company upon the vesting of such RSU. 2,362,668 of the RSUs will vest based on the achievement of various non-market based performance goals and 2,362,666 of the RSUs will vest based on the achievement of market based performance goals. The fair value of the RSUs subject to non-market based vesting terms was determined to be $94,507 by reference to the fair value of the Company's common shares on the date of grant and the fair value of the RSUs subject to market based vesting conditions was determined to be $66,885 using a probability weighting for each market-based performance target. The fair value of RSUs will be recognized as an expense over the estimated term that the performance goal will be achieved.

(Expressed in Canadian Dollars)

## 13. SHARE CAPITAL (continued)

e) Restricted share unit plan (continued)

Pursuant to the vesting schedule of RSUs granted during the year ended June 30, 2022 share-based compensation of $165,027 (June 30, 2021: $Nil) was recognized in the consolidated statement of operations and comprehensive loss.

The continuity of RSUs for the years ended June 30, 2022 and 2021 are summarized below:

| | Number of RSUs |
|---|---|
| Balance as at June 30, 2021 | - |
| RSUs granted | 11,671,223 |
| Balance as at June 30, 2022 | 11,671,223 |

As at June 30, 2022, a total of 1,243,778 RSUs have vested and are exercisable.

## 14. RELATED PARTY TRANSACTIONS

The Company considers its executive officers and directors to be key management personnel. The Company incurred the following amounts to related parties during the respective periods for key management personnel compensation:

| During year ended June 30, | $ 2022 | $ 2021 |
|---|---|---|
| Total salaries, benefits and management fees | 1,083,946 | 1,010,815 |
| Stock-based compensation | 356,629 | 480,744 |
| Total salaries and other short-term benefits | 1,440,575 | 1,491,559 |

Included in accounts payable and accrued liabilities as at June 30, 2022 is $504,665 (June 30, 2021: $294,287) payable to Directors and Officers of the Company for management wages. The amount is non-interest bearing and unsecured.

During the year ended June 30, 2022, a related party of the Corporation exercised 6,457,000 warrants in the Corporation at an exercise price of $0.05 per warrant, which warrants were originally issued in a private placement financing of the Corporation on May 4, 2020 (Note 13). As at June 30, 2022, this related party held 26% (June 30, 2021 – 19%) share ownership in the company.

On April 9, 2021, management and board members participated in a non-brokered private placement financing of units ("**Units**") for gross proceeds of $310,825 at a price of $0.08 per Unit. Each Unit consists of one common shares and one warrant, with each warrant entitling the holder thereof to purchase one common share in the capital of the Company at a price of $0.11 per share for a period of three years from closing, subject to acceleration.

During the year ended June 30, 2021, the principal amount of $1,022,500 were converted into 20,450,000 common shares at conversion price of $0.05 per share (note 12).

(Expressed in Canadian Dollars)

## 15. CANADA EMERGENCY WAGE SUBSIDY

The Company applied for and received the Canada Emergency Wage Subsidy ("CEWS"), which provides up to 75% of an employee's wages, up to a maximum of $847 per week. The initial program was in place for a 12-week period, from March 15, 2020 to June 6, 2020 and included three distinct claiming periods.

During the year ended June 30, 2022, the Company received $nil (June 30, 2021: $83,727) as a result of an extension on this program.

As at June 30, 2022, the Company continues to monitor the program and apply for subsidies as applicable.

## 16. FINANCIAL INSTRUMENTS

Financial instruments are initially recognized at fair value on the consolidated statements of financial position. Subsequent measurement of financial instruments is based on their classification. Financial assets and liabilities classified at fair value through profit or loss ("FVTPL") are measured at fair value with changes in those fair values recognized in the consolidated statements of operations and comprehensive loss. Financial assets and liabilities classified at amortized cost are measured at amortized cost using the effective interest method.

The following table summarizes the classification and measurement for each financial instrument:

| Financial instrument | Category | Measurement |
|---|---|---|
| Cash and cash equivalents | FVTPL | FVTPL |
| Accounts receivable | Loans and receivables | Amortized cost |
| Due from related parties | Loans and receivables | Amortized cost |
| Subscription receivables | Loans and receivables | Amortized cost |
| Accounts payable and accrued liabilities | Other liabilities | Amortized cost |
| Consideration payable | FVTPL | FVTPL |
| CEBA Loan | Other liabilities | Amortized cost |
| Note payable | Other liabilities | Amortized cost |
| Convertible debenture | Other liabilities | Amortized cost |

Financial assets

The Company classifies its financial assets into the following categories, depending on the purpose for which the asset was acquired. Management determines the classification of its financial assets at initial recognition. Financial assets are derecognized when the contractual rights to cash flows from the financial asset receipt or when the contractual rights to those assets are transferred.

**16. FINANCIAL INSTRUMENTS (continued)**

*Amortized cost*

Financial assets measured at amortized cost are financial assets held within a business model whose objective is to collect contractual cash flows, with the cash flows representing solely payments of principal and interest. These assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial assets are measured at amortized cost using the effective interest method, less any impairment losses.

*FVTPL*

Financial instruments are classified as FVTPL when they are held for trading. A financial instrument is held for trading if it was acquired for the purpose of sale in the near term. Financial instruments classified as FVTPL are measured at fair value, with any changes in fair value recognized in net loss.

Financial liabilities

Management determines the classification of its financial liabilities at initial recognition.

*Amortized cost*

Financial liabilities are classified as measured at amortized cost unless they fall into one of the following categories: financial liabilities at FVTPL, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition, financial guarantee contracts, commitments to provide a loan at a below-market interest rate, or contingent consideration recognized by an acquirer in a business combination.

Financial liabilities are classified as current liabilities if payment is due within one year or less. If not, there are presented as non-current liabilities.

*Financial liabilities recorded FVTPL*

Financial liabilities are classified as FVTPL if they fall into one of the five exemptions detailed above.

Transaction costs

Transaction costs associated with financial instruments, carried at FVTPL, are expensed as incurred, while transaction costs associated with all other financial instruments are included in the initial carrying amount of the asset or the liability.

Subsequent measurement

Instruments classified as FVTPL are measured at fair value with unrealized gains and losses recognized in profit or loss. Instruments classified as amortized cost are measured at amortized cost using the effective interest rate method. Instruments classified as FVTOCI are measured at fair value with unrealized gains and losses recognized in other comprehensive income.

## 16. FINANCIAL INSTRUMENTS (continued)

Derecognition

The Company derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled, or expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

Expected credit loss impairment model

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due. The Company considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Company in full or when the financial asset is more than 90 days past due.

The carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

During the year ended June 30, 2022, the Company recognized $nil (June 30, 2021 - $353) of bad debts in the consolidated statements of operations and comprehensive loss.

The fair value hierarchy that prioritizes the inputs used to measure fair value is as follows:

Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 - Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3 - Inputs that are not based on observable market data.

The fair value of cash and cash equivalents is determined based on Level 1 inputs which consist of quoted prices in active markets for identical assets. The fair value of consideration payable is determined based on level 2 inputs which consists of inputs other than quoted prices that are observable for the liability.

The fair value of the Company’s amounts receivable, due from related parties, subscription receivables, accounts payable and accrued liabilities, CEBA loan and loan payable approximate their carrying values due to their short-term nature and their subjectivity to interest rates that are similar to the market interest rates of a similar item with similar security.

(Expressed in Canadian Dollars)

## 17. FINANCIAL RISK EXPOSURE AND RISK MANAGEMENT

The Company's financial instruments are exposed to a number of risks that are summarized below:

Credit Risk

Credit risk is the risk of potential loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations. The Company is exposed to credit risk from its cash and cash equivalents, accounts receivable, due from related parties, and subscription receivables. The risk exposure is limited to their carrying amounts reflected on the consolidated statements of financial position. The risk for cash and cash equivalents is mitigated by holding most of these instruments with highly rated Canadian financial institutions. The carrying value of these financial assets represents the Company's maximum exposure to credit risk. As at June 30, 2022, the Company had $1,352,967 (June 30, 2021 - $370,204) financial assets that may be subject to credit risk defaults.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations with respect to financial liabilities as they fall due. The Company's financial liabilities consist of its accounts payable and accrued liabilities, CEBA loan, consideration payable, note payable and convertible debentures. The Company manages its liquidity risk through the management of its capital structure as described in Note 18. The Company's accounts payable and accrued liabilities have contractual maturities of 30 days or are due on demand, do not generally bear interest and are subject to normal trade terms. As at June 30, 2022, the Company held $1,170,569 (June 30, 2021 - $1,493,726) in current liabilities.

The composition and maturity of the Company's financial liabilities was as follow:

| | | Total | 1 year | 2-3 years | 4-5 years | Over 5 years |
|---|---|---|---|---|---|---|
| Accounts payable and accrued liabilities | $ | 987,646 | 987,646 | - | - | - |
| Lease liability | | 84,410 | 22,344 | 46,240 | 15,826 | - |
| CEBA loan | | 60,000 | 60,000 | - | - | - |
| Note payable | | 2,289,767 | 113,359 | 447,565 | 551,837 | 1,177,006 |
| | $ | 3,421,823 | 1,183,349 | 493,805 | 567,663 | 1,177,006 |

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, investment fluctuations, and equity prices. Market conditions will cause fluctuations in the fair values of financial assets classified as fair value through profit or loss, and cause fluctuations in the fair value of future cash flows for assets or liabilities measured at fair value. As at June 30, 2022, the Company holds $2,289,767 (June 30, 2021 - $2,105,389) of interest-bearing debt, however there is no cash flow interest rate risk because the interest rate is fixed at 10%.

## 17. FINANCIAL RISK EXPOSURE AND RISK MANAGEMENT (continued)

Foreign exchange risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the foreign currency exchange rates. Revenue and expenses are mostly denominated in Canadian dollar, US dollar or Euro. A significant change in the currency exchange rates between the Canadian dollar, US dollar and Euro could have an effect on the Company's results of operations, financial position or cash flows. The Company has not hedged its exposure to currency fluctuations.

As at June 30, 2022, a plus or minus 5% change in foreign exchange rates would affect the consolidated statements of operations and comprehensive loss by $19,022 (June 30, 2021 - $1,674).

## 18. CAPITAL MANAGEMENT

The Company considers capital to consist of note payable and shareholders' equity. The Company's primary objectives in capital management are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and to maintain sufficient funds to finance its business development and meet its obligations as they come due. The Company is in the early stages of operations and is currently developing a capital structure which will support expanded activity. The Company monitors economic conditions and the risks related to the underlying assets and business opportunities. The Company does not presently utilize any quantitative measures to monitor its capital and is not subject to externally imposed capital requirements.

## 19. SEGMENTED REPORTING

The Company operates primary in two business segments, the sale of beverages and licensing. Revenues from external customers are derived from customers located as follows:

| During the year ended June 30, | | 2022 | 2021 |
|---|---|---|---|
| Canada | $ | 2,453,443 | 1,804,290 |
| United States | | 606,900 | 285,582 |
| Other | | 151,980 | 105,042 |
| | $ | 3,212,323 | 2,194,914 |

During the year ended June 30, 2022, one of the Company's customers accounted for 67% of net revenue and another customer accounted for 12% of net revenue (June 30, 2021: 70% and 8%, respectively).

Disaggregation of non-current assets by geographic area:

| As at | | June 30, 2022 | June 30, 2021 |
|---|---|---|---|
| Canada | $ | 3,457,266 | 3,805,713 |
| United States | | - | - |
| Other | | - | - |
| | $ | 3,457,266 | 3,805,713 |

(Expressed in Canadian Dollars)

## 19. SEGMENTED REPORTING (continued)

Reportable business segment information is as follows:

| | June 30, 2022 | | June 30, 2021 | |
|---|---|---|---|---|
| | **Beverages** | **Licensing** | **Beverages** | **Licensing** |
| | $ | $ | $ | $ |
| Revenue | (2,693,537) | (518,786) | (1,999,262) | (195,652) |
| Interest and accretion | 19,697 | 212,004 | 176,460 | 114,238 |
| Depreciation | 19,115 | 319,553 | 45,097 | 207,975 |
| Total assets | 2,345,868 | 3,811,973 | 3,953,568 | 3,655,766 |
| Total liabilities | (1,041,269) | (2,360,268) | (747,864) | (2,884,310) |

## 20. SUPPLEMENTAL CASH FLOW INFORMATION

Investing and financing activities that do not have a direct impact on cash flows are excluded from the statement of cash flows.

*During the year ended June 30, 2022*:

Investing activities

On August 9, 2021, the Company issued 7,575,758 shares to Lexaria CanPharm ULC valued at $530,303 as full payment in settlement of the second tranche of the consideration payable (Note 10 & 13).

On April 8, 2022, the Company issued 4,188,948 shares to Lexaria CanPharm ULC valued at $146,613 as full payment in settlement of the third and final tranche of the consideration payable (Note 10 & 13).

During the year ended June 30, 2022, the Company reclassified $157,144 from property and equipment to assets held for sale (Note 8 & 9).

*During the year ended June 30, 2021*:

Financing activities

On September 14, 2020, the Company issued 144,229 shares in lieu of severance obligations to former senior officers valued at $12,259 (Note 13).

During the year ended June 30, 2021, the Company issued 20,450,000 common shares pursuant to the full conversion of $1,001,066 principal amount of the convertible debt. In relation to the conversion of convertible debt, $136,130 was reclassified from reserves to share capital (Note 12 & 13).

During the year ended June 30, 2021, the Company recognized interest expenses totaling $111,055 in connection with the promissory note (Note 12).

(Expressed in Canadian Dollars)

## 20. SUPPLEMENTAL CASH FLOW INFORMATION (continued)

During the year ended June 30, 2021, the Company made interest payment totaling $50,808 of its convertible debenture (Note 12).

Investing activities

On December 9, 2020, the Company issued 6,031,363 units valued to $753,920 pursuant to licensing agreement entered with Lexaria Canpharm UCL. (Note 10 & 13).

## 21. INCOME TAXES

The reconciliation of the combined Canadian federal and provincial statutory income tax rate of 26.5% (2021 - 26.5%) to the effective tax rate is as follows:

(a) Current Income

| | June 30, 2022 | June 30, 2021 |
|---|---|---|
| | $ | $ |
| Net loss for the year | (2,577,935) | (3,086,231) |
| Expected income tax (recovery) expense: | (683,153) | (817,851) |
| Share-based compensation | 94,688 | 128,820 |
| Non-deductible items | 8,761 | 29,378 |
| Convertible debenture | - | (41,689) |
| Other adjustments | - | (23,995) |
| Change in tax benefits not recognized | 579,704 | 725,337 |
| Income tax (recovery) expense | - | - |

(b) Deferred Income Taxes – The following table summarizes the components of deferred tax:

| | June 30, 2022 | June 30, 2021 |
|---|---|---|
| | $ | $ |
| Deferred tax assets | | |
| Non-capital losses carried forward | 9,012 | 10,901 |
| Lease liabilities | 16,989 | 7,805 |
| Consideration payable | - | 178,757 |
| Deferred tax liabilities | | |
| Property and equipment | - | (10,901) |
| Intangible assets | (9,012) | (178,757) |
| Right-of-use asset | (16,989) | (7,805) |
| Net Deferred tax asset | - | - |

(Expressed in Canadian Dollars)

## 21. INCOME TAXES (continued)

(c) Unrecognized Deferred Income Taxes

Deferred taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

| | June 30, 2022 | June 30, 2021 |
|---|---|---|
| | $ | $ |
| Property and equipment | 1,369 | - |
| Intangible assets | 10,195 | - |
| Lease liabilities | 6,390 | 3,243 |
| Consideration payable | - | 71,671 |
| Share issuance costs – 20(1)(e) | 190,003 | 349,527 |
| Non-capital losses carried forward | 17,451,462 | 15,047,415 |
| Total unrecognized deferred income tax assets | 17,659,419 | 15,471,856 |

The Canadian non-capital loss carry forwards expire as noted in the table below. Share issue and financing costs will be fully amortized in 2025. The remaining deductible temporary differences may be carried forward indefinitely.

Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the group can utilize the benefits therefrom.

The Company's Canadian non-capital income tax losses, the benefit of which has not been recognized on the consolidated financial statements, expire as follows:

| | | |
|---|---|---|
| 2031 | | 57,123 |
| 2032 | | 210,019 |
| 2033 | | - |
| 2034 | | 1,344,758 |
| 2035 | | 617,450 |
| 2036 | | 618,695 |
| 2037 | | 2,649,494 |
| 2038 | | 168,759 |
| 2039 | | 4,127,650 |
| 2040 | | 2,514,251 |
| 2041 | | 2,746,344 |
| 2042 | | 2,396,919 |
| | $ | 17,451,462 |

## 22. SUBSEQUENT EVENTS

On August 18, 2022, 1,888,378 options exercisable at prices ranging from $0.05 to $0.095 expired unexercised.

Subsequent to year end, the Company granted 1,500,000 restricted share units to an officer and an employee of the Company, of which 500,000 vested on July 1, 2022 and the remaining are to vest on October 12, 2023. In addition, a total of 1,700,000 of the RSUs previously granted were redeemed by employees for common shares of the Company.

Subsequent to year end, the expected life of 2,790,702 fully vested options held by a former Officer of the Company, previously granted with exercise prices ranging from $0.05 to $0.095, were reduced to one year from the date of employment termination and a total of 500,000 unvested options with an exercise price of $0.095 were forfeited.