

HILL STREET BEVERAGE COMPANY INC.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

FOR THE THREE-MONTH AND SIX MONTHS ENDED DECEMBER 31, 2020 AND 2019

(Expressed in Canadian dollars)

NOTICE TO READER

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the condensed interim consolidated financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

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

The Company's independent auditor has not performed a review of these condensed interim consolidated financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

TORONTO, ON
March 1, 2021

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

	Notes	December 31, 2020	June 30, 2020
		\$	\$
ASSETS			
Current			
Cash and cash equivalents		774,512	700,431
Accounts receivable	5	535,511	406,851
Other receivable	12	3,123	2,823
Inventory	6	139,067	193,911
Prepaid expenses		401,854	272,775
Total current assets		1,854,067	1,576,791
Intangible assets	8	4,273,233	170,928
Property and equipment	7	311,234	268,954
TOTAL ASSETS		6,438,534	2,016,673
LIABILITIES			
Current			
Accounts payable and accrued liabilities	12	1,543,116	987,010
Lease liability – current	9	19,113	18,170
		1,562,229	1,005,180
Lease liability non-current	9	22,932	32,696
Due to Lexaria Canpharm ULC	8 & 10	500,000	-
CEBA loan	10	25,608	22,885
Note payable	10	1,998,508	-
Convertible debenture	10	832,249	770,485
		4,941,526	1,831,246
SHAREHOLDERS' EQUITY			
Share capital	11	16,039,248	13,844,029
Reserve	11	2,973,540	2,900,803
Deficit		(17,515,780)	(16,559,405)
TOTAL SHAREHOLDERS' EQUITY		1,497,008	185,427
TOTAL LIABILITIES AND EQUITY		6,438,534	2,016,673
Nature of operations and going concern (Note 1)			
Subsequent events (Note 18)			
"Jack Fraser"		"Craig Binkley"	
Director		Director	

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

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

	Notes	Three Months Ended		Six Months Ended	
		December 31, 2020	December 31, 2019	December 31, 2020	December 31, 2019
		\$	\$	\$	\$
Gross Revenue	6/15	875,529	973,710	1,259,979	1,487,476
Chargebacks & listing fees	6	(129,780)	(284,434)	(239,518)	(468,761)
Net Revenue		745,749	689,276	1,020,461	1,018,715
Direct Costs		(363,840)	(395,228)	(492,546)	(547,264)
Gross profit		381,909	294,048	527,915	471,451
Expenses					
Accretion expense	10	32,440	-	64,234	-
Bank charges and interest		22,186	462	24,569	1,446
Consulting fees		7,503	-	15,332	-
Depreciation	9/10	31,211	23,307	59,132	47,851
Donations, dues & licenses		(8,704)	30,941	(2,222)	189,477
Filing and transfer agent fees		20,414	21,973	38,052	38,389
Interest on convertible loan	10	15,464	-	30,928	-
Management fees	12	15,000	22,000	30,000	30,000
Marketing		76,560	72,732	133,992	236,998
Office and miscellaneous		44,337	15,802	63,590	31,729
Professional fees		156,088	273,436	212,200	1,060,428
Stock-based compensation	11/12	28,624	84,294	75,243	214,732
Travel and meal allowance		7,378	12,321	7,914	40,450
Wages and salaries	12/13	233,315	398,331	437,454	644,238
Selling and delivery		183,878	196,208	297,117	319,059
		(865,694)	(1,151,807)	(1,487,535)	(2,854,797)
Foreign exchange gain (loss)		(3,497)	(1,433)	(1,980)	(13,757)
Gain on settlement of liability		6,730	-	6,730	-
Write-off of intangibles		-	-	-	(8,000)
Write-off of inventory	6	-	(23,466)	(1,535)	(23,466)
Other income		30	-	30	-
		3,263	(24,899)	3,245	(45,223)
Loss and comprehensive loss for the period		(480,522)	(882,658)	(956,375)	(2,428,569)
Basic and diluted loss per common share		(0.00)	(0.01)	(0.01)	(0.02)
Weighted average number of common shares outstanding		122,399,917	98,754,081	117,289,721	97,858,706

Hill Street Beverage Company Inc.
Condensed Interim Consolidated Statements of Changes in Equity
(Expressed in Canadian Dollars)

	Common Shares		Shares to be issued	Reserve	Deficit	Total
	Shares	Amount				
		\$	\$	\$	\$	\$
As at June 30, 2019	96,283,331	12,938,115	-	2,317,379	(12,877,726)	2,377,768
Units issued for cash (Note 11)	8,666,665	436,235	-	83,765	-	520,000
Units issued for services (Note 11)	4,658,333	234,476	-	45,024	-	279,500
Share issuance costs	-	(52,780)	-	-	-	(52,780)
Exercise of stock options (Note 11)	680,000	169,200	-	(91,000)	-	78,200
Exercise of warrants (Note 11)	187,250	59,350	-	(21,900)	-	37,450
Stock-based compensation	-	-	-	214,732	-	214,732
Net loss for the period	-	-	-	-	(2,428,569)	(2,428,569)
As at December 31, 2019	110,475,579	13,784,596	-	2,548,000	(15,306,295)	1,026,301
Share issuance costs	-	(24,134)	-	-	-	(24,134)
Shares issued for debt (Note 11)	1,584,801	83,567	-	-	-	83,567
Convertible debenture warrants	-	-	-	136,130	-	136,130
Conversion feature - reserve	-	-	-	136,130	-	136,130
Stock-based compensation	-	-	-	80,543	-	80,543
Net loss for the period	-	-	-	-	(1,253,110)	(1,253,110)
As at June 30, 2020	112,060,380	13,844,029	-	2,900,803	(16,559,405)	185,427
Shares issued for debt	144,229	12,259	-	-	-	12,259
Units issued for cash (Note 11)	17,019,000	576,369	-	274,581	-	850,950
Share issuance costs	-	(20,933)	-	-	-	(20,933)
Units issued pursuant to licensing (Note 11)	6,031,363	753,920	-	-	-	753,920
Exercise of warrants (Note 11)	6,465,178	873,604	-	(277,087)	-	596,517
Stock-based compensation	-	-	-	75,243	-	75,243
Net loss for the period	-	-	-	-	(956,375)	(956,375)
As at December 31, 2020	141,720,150	16,039,248	-	2,973,540	(17,515,780)	1,497,008

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

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

For the Six-Month Period Ended	December 31, 2020	December 31, 2019
	\$	\$
OPERATING ACTIVITIES		
Net loss	(956,375)	(2,428,569)
Items not affecting cash:		
Depreciation	59,132	47,851
Write-off of inventory	1,535	23,466
Write-off of intangibles	-	8,000
Shares issued for professional fees	-	279,500
Stock based compensation	75,243	214,732
Accretion expense	64,234	-
Accrued interest	44,755	-
	(711,476)	(1,855,020)
Changes in non-cash working capital items:		
Accounts receivable	(122,510)	(81,122)
Inventory	53,309	(39,672)
Prepaid expenses	(151,198)	132,997
Accounts payable and accrued liabilities	(38,981)	584,150
Other receivable	(300)	-
	(971,156)	(1,258,667)
INVESTING ACTIVITIES		
Purchase of equipment	(4,713)	(3,255)
Purchase of intangible assets	(359,840)	-
	(364,553)	(3,255)
FINANCING ACTIVITIES		
Shares issued net of costs	823,866	467,220
Proceeds from exercise of options	-	78,200
Proceeds from exercise of warrants	596,518	-
Lease payments	(10,594)	-
Repayment of loans	-	-
Advances to related parties	-	30,000
	1,409,790	575,420
CHANGE IN CASH AND CASH EQUIVALENTS	74,081	(686,502)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	700,431	1,068,612
CASH AND CASH EQUIVALENTS, END OF PERIOD	774,512	382,110

Supplementary cash flow information (Note 17)

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

Hill Street Beverage Company Inc.
Notes to the Condensed Interim Consolidated Financial Statements
For the Three and Six Months Period Ended December 31, 2020 and 2019
(Expressed in Canadian Dollars)

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 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’s registered address and the records are held at 480 University Ave. Suite 1401, Toronto, Ontario, M5G 1V2.

Effective July 24, 2018, the Company completed a consolidation of its common shares (“share consolidation”) on the basis of 65.358 post-consolidation shares for every pre-consolidation common share previously held. All references to share, per share amounts and exercise prices have been retroactively restated to reflect the effect of the share consolidation.

These condensed interim 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 December 31, 2020, the Company had not yet achieved profitable operations, had a net loss of \$956,375 (December 31, 2019: \$2,428,569), a deficit of \$17,515,780 (June 30, 2020: \$16,559,405), 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.

Hill Street Beverage Company Inc.
Notes to the Condensed Interim Consolidated Financial Statements
For the Three and Six Months Period Ended December 31, 2020 and 2019
(Expressed in Canadian Dollars)

1. NATURE OF OPERATIONS AND GOING CONCERN (continued)

During the period, the global outbreak of COVID-19 (coronavirus) continued, 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 condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and IAS 34 – Interim Financial Reporting as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"). As such, these interim financial statements do not contain all the disclosures required by IFRS for annual financial statements and should be read in conjunction with the Company's audited annual consolidated financial statements for the years ended June 30, 2020 and 2019 (the "Annual Financial Statements").

Basis of Presentation

The condensed interim 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.

Consolidation

These condensed interim 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 significant intercompany transactions and balances have been eliminated.

Hill Street Beverage Company Inc.
Notes to the Condensed Interim Consolidated Financial Statements
For the Three and Six Months Period Ended December 31, 2020 and 2019
(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES

Accounting Policies

Effective December 9, 2019, 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 ULC. (Note 8).

4. NET REVENUE

For the six-month period ended		December 31, 2020	December 31, 2019
Gross revenue	\$	1,259,979	1,487,476
Chargebacks		(239,518)	(444,761)
Listing fees		-	(24,000)
	\$	1,020,461	1,018,715

5. ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

As at		December 31, 2020	June 30, 2020
Trade receivables	\$	514,040	406,851
GST receivables		15,321	-
Subscription receivable		6,150	-
	\$	535,511	406,851

An allowance for doubtful accounts of \$Nil (June 30, 2020: \$Nil) has been provided against these accounts receivable amounts, which the Company has determined represents a reasonable estimate of amounts that may be uncollectible.

6. INVENTORY

As at		December 31, 2020	June 30, 2020
Finished goods	\$	139,067	193,911

Inventory write downs recognized as an expense amounted to \$1,535 (December 31, 2019: \$Nil).

Hill Street Beverage Company Inc.
Notes to the Condensed Interim Consolidated Financial Statements
For the Three and Six Months Period Ended December 31, 2020 and 2019
(Expressed in Canadian Dollars)

7. PROPERTY AND EQUIPMENT

	ROU Asset	Computer Equipment	Computer Software	Equipment	Asset development (i)	Total
Cost	\$	\$	\$	\$	\$	\$
Balance at June 30, 2019	-	6,104	1,544	277,184	-	284,832
Additions	53,019	901	443	455	-	54,818
Balance at June 30, 2020	53,019	7,005	1,987	277,639	-	339,650
Additions	-	1,589	123	-	71,931	73,643
Balance at December 31, 2020	53,019	8,594	2,110	277,639	71,931	413,293
Accumulated depreciation						
Balance at June 30, 2019	-	2,897	1,219	4,921	-	9,037
Depreciation for the year	5,891	1,069	236	54,463	-	61,659
Balance at June 30, 2020	5,891	3,966	1,455	59,384	-	70,696
Depreciation for the period	8,837	606	94	21,826	-	31,363
Balance at December 31, 2020	14,728	4,572	1,549	81,210	-	102,059
Carrying amount at June 30, 2020	47,128	3,039	532	218,255	-	268,954
Carrying amount at December 31, 2020	38,291	4,022	561	196,429	71,931	311,234

- (i) The Company capitalized cost related of implementation of cloud computing arrangements that qualify for capitalization. Such capitalized costs are amortized using the straight-line-method over the term of the cloud computing service contract, beginning when the cloud computing arrangement is substantially complete and ready for its intended used. During the six-month period ended July 31, 2020, there were \$71,931 and the Company's estimate the implementation of the asset will be completed by June 30, 2021.

Hill Street Beverage Company Inc.
Notes to the Condensed Interim Consolidated Financial Statements
For the Three and Six Months Period Ended December 31, 2020 and 2019
(Expressed in Canadian Dollars)

8. INTANGIBLE ASSETS

	Canpharm License (i)- Finite	Canpharm License (ii) – Infinite	Standard Processor License (ii)	Trademarks	Total
Cost	\$				
Balance at June 30, 2019	209,250	-	59,250	-	268,500
Additions	-	-	-	7,698	7,698
Write-offs	-	-	(8,000)	-	(8,000)
Balance at June 30, 2020	209,250	-	51,250	7,698	268,198
Additions	425,346	3,694,888	-	9,840	4,130,074
Balance at December 31, 2020	634,596	3,694,888	51,250	17,538	4,398,272
Accumulated depreciation					
Balance at June 30, 2019	38,329	-	8,362	-	46,691
Depreciation for the year	42,002	-	8,577	-	50,579
Balance at June 30, 2020	80,331	-	16,939	-	97,270
Depreciation for the period	24,338	-	3,431	-	27,769
Balance at December 31, 2020	104,669	-	20,370	-	125,039
Carrying amount at June 30, 2020	128,919	-	34,311	7,698	170,928
Carrying amount at December 31, 2020	529,927	3,694,888	30,880	17,538	4,273,233

- (i) On July 30, 2018, the Company entered into a semi-exclusive licensing agreement with Lexaria Bioscience Corp. for the use of its technology to produce a line of cannabis-infused alcohol-free beverages for Canadian distribution, following regulatory approval. The Company was required to pay a licensing fee of USD\$93,750 payable over 274 days and an initial share issuance equal to USD\$56,250. 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 an 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.

Hill Street Beverage Company Inc.
Notes to the Condensed Interim Consolidated Financial Statements
For the Three and Six Months Period Ended December 31, 2020 and 2019
(Expressed in Canadian Dollars)

8. 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 intellectual property assets and license agreement assets to produce and/or license cannabis-infused products globally. The Company is required to pay \$350,000 (paid) in cash on closing, an additional \$2,000,000 payable over time in the form of a promissory note bearing 10% interest per annum and \$1,500,000 in common shares of the Company, issuable in three equal tranches of \$500,000 at closing; \$500,000 eight months after closing; and \$500,000 16 months after closing. The license agreements assets acquired with finite life are being amortized over their useful life of 10 years (the effective term of the asset purchase agreement).

The following table summarizes the price allocation:

Assets Acquired		
Prepaid	\$	22,341
Canpharm – finite life		425,346
Canpharm – infinite life		3,694,888
		4,142,575
Consideration		
Fair value of 6,031,363 common shares		753,920
Contingent consideration		1,000,000
Promissory note		2,000,000
Cash		350,000
Transactions cost		38,655
Total Consideration		4,142,575

- (iii) As of June 30, 2019, the Company has capitalized a total of \$59,250 of costs associated with acquiring a Standard Processor License in the Cannabis act (Canada). These licenses fees are being amortized over their useful life of 5 years.
- (iv) As of December 31, 2020, the Company has capitalized a total of \$17,538 for trademarks. The trademark is not amortized as the trademark is not yet in use.

Hill Street Beverage Company Inc.
Notes to the Condensed Interim Consolidated Financial Statements
For the Three and Six Months Period Ended December 31, 2020 and 2019
(Expressed in Canadian Dollars)

9. 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 7).

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.

	Lease liability
Balance, June 30, 2019	-
Additions	53,019
Interest expense	1,378
Lease payments	(3,531)
Balance, June 30, 2020	50,866
Interest expense	1,773
Lease payments	(10,594)
Balance, December 31, 2020	42,045
Current portion	19,113
Non-current portion	22,932

10. LOANS PAYABLE

The Company has the following loans payable as at December 31, 2020 and June 30, 2020:

As at	December 31, 2020	June 30, 2020
	\$	\$
CEBA loan	25,608	22,885
Convertible debenture	832,249	770,485
Due to Lexaria Canpharm ULC (Note 8)	500,000	-
Note payable	1,998,508	-
Total long term debt	3,356,365	793,370

Hill Street Beverage Company Inc.
Notes to the Condensed Interim Consolidated Financial Statements
For the Three and Six Months Period Ended December 31, 2020 and 2019
(Expressed in Canadian Dollars)

10. LOANS PAYABLE (continued)

Canada Emergency Business Account

	CEBA loan
Proceeds	\$40,000
Benefit from favorable interest rate	(\$17,939)
Initial carrying amount	\$22,061
Accretion Expense	\$824
Balance at June 30, 2020	\$22,885
Accretion Expense	\$2,723
Balance at December 31, 2020	\$25,608

On May 1, 2020, the Company received a loan of \$40,000 pursuant to the Canada Emergency Business Account (“CEBA”). The CEBA provides zero-interest, partially forgivable loans of up to \$40,000 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% of the loan 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. The loan was initially measured at its fair value of \$22,061 and is subsequently measured at amortized cost, using an effective interest rate of 23%. During the six-month period ended December 31, 2020, \$2,723 (December 31, 2019: \$Nil) of interest expense related to the CEBA loan was recognized and included in accretion expense in the consolidated statements of operations and comprehensive loss.

The Company received a benefit of \$17,939 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.

Convertible debenture

Proceeds	\$1,022,500
Transaction costs	(\$8,500)
Net proceeds	\$1,014,000
Conversion feature	(\$136,130)
Warrants	(\$136,130)
Debenture liability	\$741,740
Initial measurement of debenture liability	\$741,740
Interest Expense	\$10,085
Accretion Expense	\$18,660
Balance, June 30, 2020	\$770,485
Interest Expense	\$30,927
Accretion Expense	\$61,511
Interest payment reclassified to accounts payable	(\$30,674)
Balance, December 31, 2020	\$832,249

Hill Street Beverage Company Inc.
Notes to the Condensed Interim Consolidated Financial Statements
For the Three and Six Months Period Ended December 31, 2020 and 2019
(Expressed in Canadian Dollars)

10. LOANS PAYABLE (continued)
Convertible debenture (continued)

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 six-month period ended December 31, 2020, the Company recognized \$30,927 (December 31, 2019: \$Nil) in interest expense and \$61,511 (December 31, 2019: \$Nil) in non-cash accretion expense, which are included in the consolidated statements of operations and comprehensive loss.

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%

Promissory note

On December 9, 2020, in consideration of the value received in connection with purchase asset agreement entered with Lexaria Canpharm ULC, the Company promised to pay the principal sum of \$2,000,000. 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. During the six-month period ended December 31, 2020, the Company recognized \$12,055 (December 31, 2020: \$Nil) in interest expenses. As at December 31, 2020, the Company reclassified a principal repayment of \$1,492 to accounts payable.

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11. SHARE CAPITAL

a) Authorized

Unlimited number of common shares with no par value.

b) Issued and outstanding

At December 31, 2020 and June 30, 2020, the issued and outstanding share capital is comprised of 141,720,150 and 112,060,380 common shares, respectively.

During the period ended December 31, 2020 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 \$20,933 in cash for share issuance cost.

On December 9, 2020, the Company issued 6,031,363 units valued to \$753,920 pursuant to licensing agreement entered with Lexaria Canpharm ULC. (Note 8).

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.

During the year ended June 30, 2020 the Company issued the following shares:

On December 19, 2019, the Company issued 13,324,998 units at a price of \$0.06 per unit. 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 December 19, 2019 issuance of units is split into two components:

- 1) The Company issued 8,666,665 units for cash proceeds as part of a private placement. Proceeds of \$520,000 were allocated as follows: \$436,235 to share capital and \$83,765 to warrant reserves. The Company paid \$76,914 in transaction costs in connection with the private placement.

Hill Street Beverage Company Inc.
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11. SHARE CAPITAL (continued)

b) Issued and outstanding

- 2) The Company issued 4,658,333 units for services valued at \$279,500. The Company allocated \$234,476 to share capital and \$45,024 to warrant reserves.

On May 4, 2020, the Company issued 1,584,801 shares in lieu of severance obligations to former senior officers valued at \$126,784. The shares issued were valued at \$83,567 and a \$43,217 gain on settlement was recorded in the consolidated statements of operations and comprehensive loss. A provision of \$12,259 has also been recorded for the contingent payment of 144,229 shares in connection with the settlement of severance obligations. The provision is included in accounts payable and accrued liabilities on the consolidated statements of financial position.

The Company issued 680,000 shares for the exercise of options for gross proceeds of \$78,200. The shares issued were valued at \$169,200, representing the sum of the proceeds of \$78,200 and the transfer of previously recognized option reserves of \$91,000.

The Company issued 187,250 shares for the exercise of warrants, with the exercise price of \$37,450, settled by offsetting against an amount payable to the exercising party. The shares issued were valued at \$59,350, representing the sum of the exercise price of \$37,450 and the transfer of previously recognized warrant reserves of \$21,900.

c) Stock options

The continuity of options for the period ended December 31, 2020 is summarized below:

Granted	Expiry	Exercise Price	June 30, 2020	Granted	Expired / Forfeited	Dec. 31, 2020	Exercisable
July 31, 2018	July 31, 2023	\$ 0.175	6,564,314	-	(2,007,571)	4,556,743	3,417,557
Jan. 31, 2020	Jan. 31, 2021	\$ 0.175	518,027	-	-	518,027	518,027
July 24, 2020	Dec 31, 2021	\$ 0.175	-	1,036,054	-	1,036,054	1,036,054
Dec. 17, 2020	Dec. 27, 2021	\$ 0.175	-	63,750	-	63,750	63,750
May 23, 2019	May 23, 2024	\$ 0.21	215,000	-	-	215,000	107,500
May 1, 2020	May 1, 2025	\$ 0.05	3,740,000	-	(300,000)	3,440,000	860,000
Dec. 17, 2020	Dec. 17, 2021	\$ 0.05	-	75,000	-	75,000	75,000
Total			11,037,341	1,174,804	(2,307,571)	9,904,574	6,077,888
Weighted average exercise price				\$ 0.17	\$ 0.16	\$ 0.13	\$ 0.16
Weighted average remaining contractual life						2.89 years	

During the six-month period ended December 31, 2020, 1,036,054 options held by a former Officer of the Company, previously granted on July 31, 2018, were vested immediately during the period and the expected life were reduced to December 31, 2021. \$4,712 was recorded as result of the modification of the award.

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11. SHARE CAPITAL (continued)

c) Stock options (continued)

During the year ended June 30, 2020 the Company granted the following stock options:

On May 1, 2020, 3,740,000 options were granted to officers, directors, and consultants at an exercise price of \$0.05 per share. The options shall vest equally 12.50% quarterly over a two-year term. The fair value of the options at grant date was \$122,100, of which \$39,477 (December 31, 2019: \$Nil) was recorded during the six-month period ended December 31, 2020 based on the vesting terms. A total of 225,000 of unvested options were forfeited during the periods ended December 31, 2020. Previously recorded stock-based compensation of \$3,954 (December 31, 2019: \$Nil) related to the forfeited options was reversed during the six-month period ended December 31, 2020.

During the year ended June 30, 2019 the Company granted the following stock options:

On July 31, 2018, 7,934,510 options were granted to officers and directors at an exercise price of \$0.175 per share. The options shall vest equally 8.33% quarterly over a three-year term. The fair value of the options at grant date was \$1,289,012, of which \$57,073 (December 31, 2019: \$175,018) was recorded in the three-month period ended December 31, 2020 based on vesting periods. A total of 21,250 and 842,169 of unvested options were forfeited during the periods ended December 31, 2020 and June 30, 2020. Previously recorded stock-based compensation of \$25,621 (December 31, 2019: \$Nil) related to the forfeited options was reversed during the six-month period ended December 31, 2020.

On May 23, 2019, 215,000 options were granted to officers and directors at an exercise price of \$0.21 per share. The options shall vest equally 8.33% quarterly over a three-year term. The fair value of the options at grant date was \$33,699, of which \$3,556 (December 31, 2019: \$12,019) was recorded in the three-month period ended December 31, 2020 based on vesting periods.

On May 13, 2019, the expected life of 10,000 fully vested options held by a former employee of the Company, previously granted on July 31, 2018, were reduced to one year from the date of employee's death and a total of 50,000 of unvested options were cancelled during the year ended June 30, 2019. An additional stock-based compensation was recorded in the amount of \$2,213 as a result of the modification of the award.

On July 17, 2019, 690,702 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. An additional stock-based compensation was recorded in the amount of \$25,482 as a result of the modification of the award.

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11. SHARE CAPITAL (continued)

d) Stock options (continued)

The following weighted average assumptions were used in the option pricing models of stock options granted during the years ended June 30, 2020 and 2019:

	June 30, 2020	June 30, 2019
Share price	\$0.045	\$0.15
Risk-free interest rate	0.43%	2.25%
Expected life	5 years	8.67 years
Expected volatility	100%	100%
Expected dividends	Nil	Nil

Volatility is based on peer companies. Expected life is considered to be the time to expiry.

e) Warrants

Warrants transactions are summarized as follows:

Granted	Expiry	Exercise Price	June 30, 2020	Granted	Expired / Cancelled	Exercised	Dec 31, 2020
July 24, 2018	Dec 31, 2020	\$ 0.30	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	\$ 0.35	13,454,249	-	(7,989,071)	(5,465,178)	-
Sept 18, 2018	Dec 31, 2020	\$ 0.35	16,775	-	(16,775)	-	-
June 5, 2019	June 5, 2022	\$ 0.20	2,500,000	-	-	-	2,500,000
June 7, 2019	June 7, 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
Total			63,742,686	17,019,000	(17,760,856)	(6,465,178)	56,535,652
Weighted average exercise price				0.13	0.11	0.09	0.13
Weighted average remaining contractual life						1.35 years	

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11. SHARE CAPITAL (continued)

c) Warrants (continued)

During the month period ended December 31, 2020, 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 \$0.35per 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.

For details on warrants granted in the current year, refer to Note 10.

The following weighted-average assumptions used in the option-pricing model of warrants issued during the period December 31, 2020 and 2019:

	December 31, 2020	December 31, 2019
Share price	\$0.085	\$0.045
Risk-free interest rate	0.27%	1.69%
Expected life	2 years	2 years
Expected volatility	111.28%	84%
Expected dividends	Nil	Nil

Volatility is based on peer companies. Expected life is considered to be the time to expiry.

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12. 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 the Six-Month Period ended December 31,	\$	\$
	2020	2019
Total salaries, benefits and management fees	272,497	157,245
Stock-based compensation	79,459	89,518
Total salaries and other short-term benefits	351,956	246,763

Included in accounts payable as at December 31, 2020 is \$449,175 (June 30, 2020: \$337,682) payable to Directors and Officers of the Company for management wages. The amount is non-interest bearing and unsecured.

On December 23, 2019, management and board members participated in a non-brokered private placement financing of units (“Units”) for gross proceeds of \$250,000 at a price of \$0.06 per Unit. Each Unit consists of one common share 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 \$0.13 per share for a period of two years from closing, subject to acceleration.

On November 18, 2020, management and board members participated in a non-brokered private placement financing of units (“Units”) for gross proceeds of \$373,500 at a price of \$0.05 per Unit. Each Unit consists of one common share 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 \$0.13 per share for a period of two years from closing, subject to acceleration.

As at December 31, 2020, the company had \$832,249 (June 30, 2020: \$770,485) of related party convertible debt related to a private placement financing on May 4, 2020 for gross proceeds of \$1,022,500 at a price of \$1.00 per Unit. Each Unit is comprised of \$1.00 principal amount of secured convertible debentures and 20 common share purchase.

13. 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 to June 6, 2020 and included three distinct claiming periods. The Company received \$25,548 each for the first and second reporting periods.

During the six-month period ended December 31, 2020, the company received \$83,727 (December 31, 2019: \$Nil) for the period from May 10 to November 21, 2020.

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14. FINANCIAL INSTRUMENTS

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

Financial instrument	Measurement
Cash and cash equivalents	Fair value through profit or loss ("FVTPL")
Accounts receivable	Amortized cost
Other receivable	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
CEBA Loan	Amortized cost
Convertible debenture	Amortized cost

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 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.

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.

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. Financial assets measured at amortized cost include accounts receivable and other receivable. The amortized cost of these assets is representative of their fair value due to the short-term nature of these receivables.

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.

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14. FINANCIAL INSTRUMENTS (continued)

Financial liabilities

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

Amortized cost

Financial liabilities measured at amortized cost are recognized initially at fair value net of any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method. Other financial liabilities are de-recognized when the obligations are discharged, cancelled or expired.

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.

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 is determined based on Level 1 inputs which consist of quoted prices in active markets for identical assets. As at December 31, 2020 and June 30, 2020, the Company believes that the carrying values of cash and cash equivalents approximate the fair values because of their nature and relatively short maturity dates or durations.

15. 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's credit risk is primarily attributable to its trade receivables. The carrying value of these financial assets represents the Company's maximum exposure to credit risk. As at December 31, 2020, the Company had \$535,511 (June 30, 2020 - \$406,851) financial assets that may be subject to credit risk defaults (note 5). Cash is deemed to have a nominal risk as it is primarily held at a tier 1 Canadian chartered bank.

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15. FINANCIAL RISK EXPOSURE AND RISK MANAGEMENT (continued)

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 CEBA loans 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 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 December 31, 2020, the Company held \$1,543,116 (June 30, 2020 - \$987,100) in accounts payable and accrued liabilities.

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 December 31, 2020 and June 30, 2020, the Company holds \$1,022,500 of interest-bearing debt, however there is no cash flow interest rate risk because the interest rate is fixed at 10% (Note 10).

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. However, because most of the Company's financial instruments are denominated in Canadian dollars, the Company does not believe it is subject to any significant foreign exchange risk at this time. The Company has not hedged its exposure to currency fluctuations.

16. CAPITAL MANAGEMENT

The Company considers capital to be the elements of loans 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

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17. 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 six-month period ended December 31, 2020:

On September 14, 2020, the Company issued 144,229 shares in lieu of severance obligations to former senior officers valued at \$12,259 (Note 11).

On December 9, 2020, the Company issued 6,031,363 units valued to \$753,920 pursuant to licensing agreement entered with Lexaria Canpharm ULC. (Note 8).

During the six-month period ended December 31, 2019:

There were no significant non-cash transactions during the three-month period ended December 31, 2019.

18. SUBSEQUENT EVENTS

On January 31, 2021, 518,027 stock options expired unexercised.

On February 17, 2021, the Company issued 450,000 common shares pursuant to the conversions of convertible debt (Note 10) with a fair of \$22,500.

On March 1, 2021, the Company announced that it has granted stock options to purchase 4,800,000 common shares of the Company at an exercise price of \$0.095 per share pursuant to the stock option plan of the Company. The options were granted to existing employees, officers and directors of the Company.