HILL STREET BEVERAGE COMPANY INC.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

FOR THE THREE-MONTH PERIOD ENDED SEPTEMBER 30, 2020 AND 2019

(Expressed in Canadian dollars)

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

	Notes	September 30, 2020	June 30, 2020
		$	$
ASSETS			
Current			
Cash and cash equivalents		214,193	700,431
Accounts receivable	5	140,003	406,851
Other receivable	12	3,123	2,823
Inventory	6	128,148	193,911
Prepaid expenses		460,753	272,775
Total current assets		946,220	1,576,791
Intangible assets	8	168,510	170,928
Property and equipment	7	254,110	268,954
TOTAL ASSETS		1,368,840	2,016,673
LIABILITIES			
Current			
Accounts payable and accrued liabilities	12	713,263	987,010
Lease liability – current	9	18,637	18,170
		731,900	1,005,180
Lease liability non-current	9	27,860	32,696
CEBA loan	10	24,671	22,885
Convertible debenture	10	815,957	770,485
		1,600,388	1,831,246
SHAREHOLDERS' EQUITY			
Share capital	11	13,856,288	13,844,029
Reserve	11	2,947,422	2,900,803
Deficit		(17,035,258)	(16,559,405)
TOTAL SHAREHOLDERS' EQUITY		(231,548)	185,427
TOTAL LIABILITIES AND EQUITY		1,368,840	2,016,673

Nature of operations and going concern (Note 1)
Subsequent events (Note 18)

"Jack Fraser" — Director

"Craig Binkley" — 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)

For the Three-Month Period Ended	Notes	September 30, 2020	September 30, 2019
		$	$
Gross revenue	4	384,450	513,766
Chargebacks & listing fees	4	(109,738)	(184,327)
Net revenue		274,712	329,439
Cost of sales		(128,706)	(152,036)
Gross profit		146,006	177,403
Expenses			
Accretion expense	10	31,794	-
Bank charges and interest		2,383	984
Consulting fees		7,829	-
Depreciation	7/8	27,921	24,544
Donations, dues & licenses		6,482	158,536
Filing and transfer agent fees		17,638	16,416
Interest on convertible loan	10	15,464	-
Management fees	12	15,000	8,000
Marketing		57,432	164,266
Office and miscellaneous		19,253	15,927
Professional fees		56,112	786,992
Stock-based compensation	11	46,619	130,438
Travel and meal allowance		536	28,129
Wages and salaries	12	204,139	245,907
Selling and delivery		113,239	122,851
		621,841	1,702,990
Loss before other income (expense)		(475,835)	(1,525,587)
Other income (expenses)			
Foreign exchange gain (loss)		1,517	(12,324)
Write-off of inventory	6	(1,535)	-
Write-off of intangibles	8	-	(8,000)
		(18)	(20,324)
Net loss and comprehensive loss		(475,853)	(1,545,911)
Basic and diluted loss per common share		(0.01)	(0.02)
Weighted average number of common shares outstanding		112,085,463	96,845,070

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

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

	Common Shares					
	Shares	Amount	Shares to be issued	Reserve	Deficit	Total
		$	$	$	$	$
As at June 30, 2019	96,283,331	12,938,115	-	2,317,379	(12,877,726)	2,377,768
Exercise of stock options	680,000	169,200	-	(91,000)	-	78,200
Share issuance costs	-	(15,000)	-	-	-	(15,000)
Stock-based compensation	-	-	-	130,438	-	130,438
Net loss for the period	-	-	-	-	(1,545,911)	(1,545,911)
As at September 30, 2019	96,963,331	13,092,315	-	2,356,817	(14,423,637)	1,025,495
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	-	(61,914)	-	-	-	(61,914)
Exercise of warrants	187,250	59,350	-	(21,900)	-	37,450
Shares issued for debt	1,584,801	83,567	-	-	-	83,567
Convertible debenture warrants	-	-	-	136,130	-	136,130
Conversion feature - reserve	-	-	-	136,130	-	136,130
Stock-based compensation	-	-	-	164,837	-	164,837
Net loss for the period	-	-	-	-	(2,135,768)	(2,135,768)
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
Stock-based compensation	-	-	-	46,619	-	46,619
Net loss for the period	-	-	-	-	(475,853)	(475,853)
As at September 30, 2020	112,204,609	13,856,288	-	2,947,422	(17,035,258)	(231,548)

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 Three-Month Period Ended	September 30, 2020	September 30, 2019
	$	$
OPERATING ACTIVITIES		
Net loss	(475,853)	(1,545,911)
Items not affecting cash:		
Depreciation	27,921	24,544
Write-off of inventory	1,535	-
Write-off of intangibles	-	8,000
Stock based compensation	46,619	130,438
Accretion expense	31,794	-
Accrued interest	16,392	-
	(351,592)	(1,382,929)
Changes in non-cash working capital items:		
Accounts receivable	266,848	33,452
Inventory	64,228	108,458
Prepaid expenses	(187,978)	55,037
Accounts payable and accrued liabilities	(261,488)	252,601
Other receivable	(300)	-
Cash used in operating activities	(470,282)	(933,381)
INVESTING ACTIVITIES		
Purchase of equipment	(819)	(2,240)
Purchase of intangible assets	(9,840)	-
Cash used in investing activities	(10,659)	(2,240)
FINANCING ACTIVITIES		
Shares issued net of costs	-	(15,000)
Proceeds from exercise of options	-	78,200
Lease payments	(5,297)	-
Repayment of loans	-	-
Advances to related parties	-	8,000
Cash provided by (used in) financing activities	(5,297)	71,200
CHANGE IN CASH AND CASH EQUIVALENTS	(486,238)	(864,421)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	700,431	1,068,612
CASH AND CASH EQUIVALENTS, END OF PERIOD	214,193	204,191

Supplementary cash flow information (Note 17)

The accompanying notes are an integral part of these condensed interim 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 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 September 30, 2020, the Company had not yet achieved profitable operations, had a net loss of $475,853 (September 30, 2019: $1,545,911), accumulated deficit of $17,035,258 (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.

1. NATURE OF OPERATIONS AND GOING CONCERN (continued)

During the year, there was a 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 interim condensed 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 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 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.

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

- The determination of income tax is inherently complex and requires making certain estimates and assumptions about future events. While income tax filings are subject to audits and reassessments, the Company has adequately provided for all income tax obligations. However, changes in facts and circumstances as a result of income tax audits, reassessments, jurisprudence and any new legislation may result in an increase or decrease in our provision for income taxes.

- Calculation of the net book value of machinery and equipment requires 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 balance sheet.

- 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, management uses judgment to determine 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 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.

2. BASIS OF PREPARATION (continued)

Use of Estimates and Judgments (continued)

- 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.

- 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.

- 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.

Judgments

- 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.

2. BASIS OF PREPARATION (continued)

Use of Estimates and Judgments (continued)

- 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. 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.

- 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.

- 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.

3. SIGNIFICANT ACCOUNTING POLICIES

Foreign currency translation

The Canadian dollar is considered 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 statement of financial position date. Non-monetary items are translated at historical rates. Exchange gains or losses on translation are recorded in the 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.

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 received by 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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

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.

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. Cost includes purchases and costs incurred in bringing inventory to the present location.

Operating segments

The Company operates in one industry segment, the sale of non-alcoholic drinks products. 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 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.

Property and equipment

Machinery 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:

Computer hardware	Declining-Balance	33.33%
Computer software	Declining-Balance	33.33%
Equipment	Declining-Balance	20%

The Company records one-half of the calculated depreciation in the year of acquisition.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of machinery and equipment and intangible assets

At the end of each reporting period, the Company reviews the carrying amounts of its tangible 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.

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 definite 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Convertible debentures (continued)

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.

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.

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand.

Stock-based payments

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.

(Expressed in Canadian Dollars)

4. NET REVENUE

For the three-month period ended		September 30, 2020	September 30, 2019
Gross revenue	$	384,450	513,766
Chargebacks		(109,738)	(154,327)
Listing fees		-	(30,000)
	$	274,712	329,439

5. ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

As at		September 30, 2020	June 30, 2020
Trade receivables	$	127,443	406,851
GST receivables		12,560	-
	$	140,003	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		September 30, 2020	June 30, 2020
Finished goods	$	128,148	193,911

Inventory write downs recognized as an expense amounted to $1,535 (September 30, 2019: $Nil).

(Expressed in Canadian Dollars)

7. PROPERTY AND EQUIPMENT

	ROU Asset	Computer Equipment	Computer Software	Equipment	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	-	819	-	-	819
Balance at September 30, 2020	$ 53,019	$ 7,824	$ 1,987	$ 277,639	$ 340,469
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	4,418	287	45	10,913	15,663
Balance at September 30, 2020	$ 10,309	$ 4,253	$ 1,500	$ 70,297	$ 86,359
Carrying amount at June 30, 2020	47,128	$ 3,039	$ 532	$ 218,255	$ 268,954
Carrying amount at September 30, 2020	42,710	$ 3,571	$ 487	$ 207,342	$ 254,110

(Expressed in Canadian Dollars)

8. INTANGIBLE ASSETS

	Canpharm License (i)	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	-	-	9,840	9,840
Balance at September 30, 2020	$ 209,250	$ 51,250	$ 17,538	$ 278,038
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	10,543	1,715	-	12,258
Balance at September 30, 2020	$ 90,874	$ 18,654	$ -	$ 109,528
Carrying amount at June 30, 2020	$ 128,919	$ 34,311	$ 7,698	$ 170,928
Carrying amount at September 30, 2020	$ 118,376	$ 32,596	$ 17,538	$ 168,510

(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. The Company is 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).

(ii) 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.

(iii) As of September 30, 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.

(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	928
Lease payments	(5,297)
Balance, September 30, 2020	46,497
Current portion	18,637
Non-current portion	27,860

10. LOANS PAYABLE

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

As at	**September 30, 2020**	**June 30, 2020**
	$	$
CEBA loan	24,671	22,885
Convertible debenture	815,957	770,485
Total long term debt	840,628	793,370

(Expressed in Canadian Dollars)

10. LOANS PAYABLE (continued)

Canada Emergency Business Account

Proceeds	$40,000
Benefit from favourable interest rate	($17,939)
Initial carrying amount	$22,061
Accretion Expense	$824
Balance at June 30, 2020	$22,885
Accretion Expense	$1,786
Balance at September 30, 2020	$24,671

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 three-month period ended September 30, 2020, $1,786 (September 30, 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 Transaction costs	$1,022,500 ($8,500)
Net proceeds Conversion feature Warrants	$1,014,000 ($136,130) ($136,130)
Debenture liability	$741,740

Initial measurement of debenture liability Interest Expense Accretion Expense	$741,740 $10,085 $18,660
Balance, June 30, 2020	$770,485
Interest Expense Accretion Expense	$15,464 $30,008
Balance, September 30, 2020	$815,957

(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 three-month period ended September 30, 2020, the Company recognized $15,464 (September 30, 2019: $Nil) in interest expense and $30,008 (September 30, 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%

11. SHARE CAPITAL

a) Authorized

Unlimited number of common shares with no par value.

b) Issued and outstanding

At September 30, 2020 and June 30, 2020, the issued and outstanding share capital is comprised of 112,204,609 and 112,060,380 common shares, respectively.

11. SHARE CAPITAL (continued)

b) Issued and outstanding (continued)

During the period ended September 30, 2020 the Company issued the following shares:

On September 14, 2020, the Company issued 144,229 shares in lieu of severance obligations to former senior officers 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.

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.

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.

(Expressed in Canadian Dollars)

11. SHARE CAPITAL (continued)

b) Stock options

The continuity of options for the period ended September 30, 2020 is summarized below:

Granted	Expiry	Exercise Price	June 30, 2020	Granted	Expired / Forfeited	Sept 30, 2020	Exercisable
July 31, 2018	July 31, 2023	$ 0.175	7,082,341	-	(1,036,054)	6,046,287	4,509,039
July 24, 2020	Dec 31, 2020	$ 0.175	-	1,036,054	-	1,036,054	1,036,054
May 23, 2019	May 23, 2024	$ 0.21	215,000	-	-	215,000	89,583
May 1, 2020	May 1, 2025	$ 0.05	3,740,000	-	-	3,740,000	311,667
	Total		11,037,341	1,036,054	(1,036,054)	11,037,341	5,946,343
	Weighted average exercise price			$ 0.175	$ 0.175	$ 0.13	$ 0.17
	Weighted average remaining contractual life					3.20 years	

During the three-month period ended September 30, 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, 2020. $11,554 was recorded as result of the modification of the award.

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 $17,828 (September 30, 2019: $Nil) was recorded during the three-month period ended September 30, 2020 based on the vesting terms.

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 $15,459 (September 30, 2019: $87,287) was recorded in the three-month period ended September 30, 2020 based on vesting periods.

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 $1,778 (September 30, 2019: $7,153) was recorded in the three-month period ended September 30, 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.

(Expressed in Canadian Dollars)

11. SHARE CAPITAL (continued)

b) Stock options (continued)

An additional stock-based compensation was recorded in the amount of $2,877 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 $33,121 as a result of the modification of the award.

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:

Share price	$0.045
Risk-free interest rate	0.43%
Expected life	5 years
Expected volatility	100%
Expected dividends	Nil

Share price	$0.15
Risk-free interest rate	2.25%
Expected life	8.67 years
Expected volatility	100%
Expected dividends	Nil

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

c) Warrants

Warrants transactions are summarized as follows:

Granted	Expiry	Exercise Price	June 30, 2020	Granted	Expired	Sept 30, 2020	Exercisable
July 24, 2018	Dec 31, 2020	$ 0.30	8,560,800	-	(2,626,020)	5,934,780	5,934,780
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	-	-	13,454,249	13,454,249
Sept 18, 2018	Dec 31, 2020	$ 0.35	16,775	-	-	16,775	16,775
June 5, 2019	June 5, 2022	$ 0.20	2,500,000	-	-	2,500,000	2,500,000
June 7, 2019	June 7, 2021	$ 0.40	4,241,654	-	-	4,241,654	4,241,654
Dec 19, 2019	Dec 19, 2021	$ 0.13	13,324,998	-	-	13,324,998	13,324,998
May 1, 2020	May 1, 2022	$ 0.05	20,450,000	-		20,450,000	20,450,000
	Total		63,742,686	-	(3,820,230)	59,922,456	59,922,456
	Weighted average exercise price			-	0.26	0.19	0.19
Weighted average remaining contractual life						0.87 years	

(Expressed in Canadian Dollars)

11. SHARE CAPITAL (continued)

c) Warrants (continued)

During the month period ended September 30, 2020, the Company received approval from the TSXV Exchange to extend the expiry dates 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.
- 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.
- 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.

During the year ended June 30, 2019, the Company entered into a marketing and distribution agreement. As additional compensation, the Company issued 2,500,000 warrants purchase one common share in the Company at an exercise price of $0.20 per share, for three years from the date of issuance. The warrants were valued at $331,396 based on the fair value of the warrants issued using the Black-Scholes Option Pricing Model and included in prepaids. The amount is being expensed over the three-year term of the agreement. The Company recorded an expense of $80,879.66 during the year ended June 30, 2020.

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 year June 30, 2020 and 2019:

Share price	$0.045
Risk-free interest rate	1.69%
Expected life	2 years
Expected volatility	84%
Expected dividends	Nil

Share price	$0.15 - $0.21
Risk-free interest rate	1.41% - 2.02%
Expected life	0.67 – 3 years
Expected volatility	100%
Expected dividends	Nil

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

(Expressed in Canadian Dollars)

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 Three-Month Period ended September 30,	$ 2020	$ 2019
Total salaries, benefits and management fees	184,137	157,245
Stock-based compensation	43,696	89,518
Total salaries and other short-term benefits	227,833	246,763

Included in accounts payable as at September 30, 2020 is $322,843 (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 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 $0.13 per share for a period of two years from closing, subject to acceleration.

As at September 30, 2020, the company had $815,957 (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.

As at September 30, 2020, the company continues to monitor the program and apply for subsidies as applicable.

14. FINANCIAL INSTRUMENTS

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

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

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 September 30, 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 September 30, 2020, the Company had $140,003 (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.

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 September 30, 2020, the Company held $713,263 (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 September 30, 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

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 three-month period ended September 30, 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).

During the three-month period ended September 30, 2019:

There were no significant non-cash transactions during the three-month period ended September 30, 2019.

18. SUBSEQUENT EVENTS

On October 15, 2020, the Company announced that it had signed a non-binding Term Sheet with Molecule Holdings Inc. to produce select cannabis infused beverages for Hill Avenue Cannabis Inc., the wholly owned subsidiary of the Company that was created to manage its business in the legal cannabis segment. The Notice of New Product Introduction to Health Canada was filed on October 1, 2020 for the first beverages to be produced by this partnership. This begins the sixty-day notice period wherein the two companies can begin arranging sales and distribution agreements with provincial regulators and independent retailers. The three-year agreement will include both formulating and manufacturing beverage products using proprietary infusion technologies provided either by Molecule’s or the Company's previously announced Joint Manufacturing Partnership with Lexaria Biosciences, once the Company’s Cannabis Processing Facility has been licensed by Health Canada under the Cannabis Act.

On November 18, 2020, the Company announced that it had signed a definitive agreement to acquire the primary assets of Lexaria Canpharm, the cannabis-related division of Lexaria Bioscience Inc. This acquisition provides Hill Street with the exclusive rights in perpetuity to use Lexaria's DehydraTECH patent portfolio on a global basis to make any type of products containing (tetrahydrocannabinol) and other psychoactive cannabinoids. In addition, the agreement expands Hill Street's licence with Lexaria HempCo to make products containing cannabidiol on a global basis for 10 years. Total consideration for the acquisition is $3.85 million, including $350,000 in cash upon closing and future payments of $2.0 million. In addition, Hill Street will issue Lexaria Bioscience a total of $1.5 million worth of common shares in the capital of the company in three equal instalments with the first tranche issuable on closing.