

HILL STREET BEVERAGE COMPANY INC.
(formerly Avanco Capital Corp.)

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

FOR THE THREE & SIX MONTHS PERIOD ENDED DECEMBER 31, 2019 AND 2018

(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 interim 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 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 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
February 27, 2020

Hill Street Beverage Company Inc. (formerly Avanco Capital Corp.)**Condensed Interim Consolidated Statement of Financial Position**

(Expressed in Canadian Dollars) - Unaudited

	Notes	December 31, 2019	June 30, 2019
		\$	\$
ASSETS			
Current			
Cash and cash equivalents		382,110	1,068,612
Accounts receivable	7	371,144	290,022
Due from related parties	12	-	5,080
Inventory	8	690,120	673,914
Prepaid expenses		336,680	469,677
Total current assets		1,780,054	2,507,305
Intangible assets	10	193,068	221,809
Machinery and equipment	9	251,940	275,795
TOTAL ASSETS		2,225,062	3,004,909
LIABILITIES			
Current			
Accounts payable and accrued liabilities	12	1,173,841	627,141
Due to related parties	12	24,920	-
TOTAL LIABILITIES		1,198,761	627,141
SHAREHOLDERS' EQUITY			
Share capital	11	13,822,185	12,938,115
Reserve	11	2,510,411	2,317,379
Deficit		(15,306,295)	(12,877,726)
TOTAL SHAREHOLDERS' EQUITY		1,026,301	2,377,768
TOTAL LIABILITIES AND EQUITY		2,225,062	3,004,909

Nature of operations and going concern (Note 1)

Commitments and Contingencies (Note 17)

"Jack Fraser"

Director

"Craig Binkley"

Director

Hill Street Beverage Company Inc. (formerly Avanco Capital Corp.)
Condensed Interim Consolidated Statements of Operations and Comprehensive Loss
(Expressed in Canadian Dollars) - Unaudited

	Notes	Three Months Ended		Six Months Ended	
		December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
		\$	\$	\$	\$
Gross Revenue	6/15	973,710	527,652	1,487,476	1,321,519
Chargebacks & listing fees	6	(284,434)	(132,296)	(468,761)	(414,574)
Net Revenue		689,276	395,356	1,018,715	906,945
Direct Costs		(395,228)	(169,569)	(547,264)	(464,444)
Gross profit		294,048	225,787	471,451	442,501
Expenses					
Marketing, products and packaging		72,732	452,121	236,998	713,041
Bad debts		-	-	-	161
Bank charges and interest		462	713	1,446	4,230
Consulting fees		-	30,000	-	59,650
Depreciation	9/10	23,307	376	47,851	643
Donations, dues & licenses		30,941	60,789	189,477	135,046
Filing and transfer agent fees		21,973	9,493	38,389	94,270
Management fees	12	22,000	24,500	30,000	24,500
Office and miscellaneous		15,802	19,629	31,729	45,632
Professional fees		273,436	288,462	1,060,428	481,476
RTO expenses		-	1,445	-	120,940
Stock-based compensation	11/12	84,294	262,117	214,732	483,136
Travel and meal allowance		12,321	29,444	40,450	53,154
Wages and salaries	12	398,331	321,055	644,238	596,732
Warehousing costs		196,208	138,254	319,059	238,298
		1,151,807	1,638,398	2,854,797	3,050,909
Loss before other income (expense)		(857,759)	(1,412,611)	(2,383,346)	(2,608,408)
Other income (losses)					
Charges related to public company listing		-	-	-	(918,345)
Foreign exchange gain (loss)		(1,433)	(1,168)	(13,757)	(16,055)
Write-off of intangibles		-	-	(8,000)	-
Write-off of inventory		(23,466)	(59,449)	(23,466)	(67,456)
Other income		-	30,208	-	32,848
		(24,899)	(30,409)	(45,223)	(969,008)
Loss and comprehensive loss for the period		(882,658)	(1,443,020)	(2,428,569)	(3,577,416)
Basic and diluted loss per common share		(0.01)	(0.02)	(0.02)	(0.05)
Weighted average number of common shares outstanding		98,754,081	87,112,165	97,858,706	76,224,512

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

Hill Street Beverage Company Inc. (formerly Avanco Capital Corp.)
Condensed Interim Consolidated Statements of Changes in Equity
(Expressed in Canadian Dollars) - Unaudited

	Common Shares		Shares to be issued	Reserve	Deficit	Total
	Shares	Amount				
		\$	\$	\$	\$	\$
As at June 30, 2018	51,635,093	6,444,931	1,947,160	-	(6,933,874)	1,458,217
Equity issued on RTO (Note 5)	6,800,000	1,020,000	-	119,000	-	1,139,000
Units issued for cash (Note 11)	27,242,061	3,909,265	(1,947,160)	787,900	-	2,750,005
Shares issued as finders' fees	468,000	70,200	-	-	-	70,200
Share issuance costs	-	(273,346)	-	-	-	(273,346)
Shares issued pursuant to licensing agreement (Note 10)	419,982	86,096	-	-	-	86,096
Exercise of warrants	547,125	149,384	-	(27,661)	-	121,723
Stock based compensation	-	-	-	483,136	-	483,136
Net loss for the period	-	-	-	-	(3,577,416)	(3,577,416)
As at December 31, 2018	87,112,261	11,406,530	-	1,362,375	(10,511,290)	2,257,615
Exercise of warrants	167,200	27,125	-	(10,404)	-	16,721
Stock based compensation	-	-	-	341,812	-	341,812
Units issued for cash (Note 11)	8,483,308	1,404,460	-	292,200	-	1,696,660
Shares issued pursuant to distribution agreement	520,562	100,000	-	-	-	100,000
Warrants issued for services (Note 11)	-	-	-	331,396	-	331,396
Net loss for the period	-	-	-	-	(2,366,436)	(2,366,436)
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
Exercise of warrants	187,250	59,350	-	(21,900)	-	37,450
Units issued for cash (Note 11)	13,324,998	708,300	-	91,200	-	799,500
Share issuance costs	-	(52,780)	-	-	-	(52,780)
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	13,822,185	-	2,510,411	(15,306,295)	1,026,301

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

Hill Street Beverage Company Inc. (formerly Avanco Capital Corp.)**Condensed Interim Consolidated Statement of Cash Flows**

(Expressed in Canadian Dollars) - Unaudited

For the Six-Month Period Ended	December 31, 2019	December 31, 2018
	\$	\$
OPERATING ACTIVITIES		
Net loss for the year	(2,428,569)	(3,577,416)
Items not affecting cash:		
Depreciation	47,851	643
Bad debts expense	-	161
Charges related to public company listing	-	918,345
Inventory adjustment	-	67,456
Write-off of intangibles	8,000	-
Write-off of inventory	23,466	-
Stock based compensation	214,732	483,136
Accrued interest	-	2,836
	(2,134,520)	(2,104,839)
Changes in non-cash working capital items:		
Accounts receivable	(81,122)	(287,740)
Inventory	(39,672)	(771,680)
Prepaid expenses	132,997	(96,160)
Accounts payable and accrued liabilities	546,700	(505,804)
Cash used in operating activities	(1,575,617)	(3,766,223)
INVESTING ACTIVITIES		
Purchase of equipment	(3,255)	(4,984)
Cash acquired on RTO	-	214,955
Cash used in investing activities	(3,255)	209,971
FINANCING ACTIVITIES		
Shares issued net of costs	746,720	2,546,855
Proceeds from exercise of warrants	37,450	121,723
Proceeds from exercise of options	78,200	-
Repayment of loans	-	(139,867)
Advances to related parties	30,000	-
Interest payment	-	(2,836)
Cash provided by (used in) financing activities	892,370	2,525,875
CHANGE IN CASH AND CASH EQUIVALENTS	(686,502)	(1,030,377)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,068,612	2,111,046
CASH AND CASH EQUIVALENTS, END OF PERIOD	382,110	1,080,669

Supplementary Cash Flow Information (Note 16)

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

Hill Street Beverage Company Inc. (formerly Avanco Capital Corp.)
Notes to the Condensed Interim Consolidated Financial Statements
For the Three and Six Months Period Ended December 31, 2019 and 2018
(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”) (Note 5). 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 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, 2019, the Company had not yet achieved profitable operations, had a net loss of \$2,428,569 (December 31, 2018: \$3,577,416), accumulated deficit of \$15,306,295 (June 30, 2019: \$12,877,726), 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 operation 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. (formerly Avanco Capital Corp.)
Notes to the Condensed Interim Consolidated Financial Statements
For the Three and Six Months Period Ended December 31, 2019
(Expressed in Canadian Dollars)

2. BASIS OF PREPARATION

Statement of compliance

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

These condensed interim consolidated financial statements for the six-month period ended December 31, 2019 were authorized for issuance by the Board of Directors on February 27, 2020.

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 consolidated financial statements incorporate the financial statements of the Company and its wholly-owned subsidiary, Hill Street Marketing Inc., a company 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. The consolidated financial statements include the accounts of the Company and its direct wholly-owned subsidiary. All significant intercompany transactions and balances have been eliminated.

Reclassification

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

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:

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

2. BASIS OF PREPARATION (continued)

Use of Estimates and Judgments (continued)

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 methodology 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 physical 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.
- 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.

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 estimates.

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

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 of 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.

3. SIGNIFICANT ACCOUNTING POLICIES

Foreign currency translation

The Canadian dollar is considered to be the functional currency of the Company.

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.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

IFRS 15 outlines a single comprehensive model to account for revenue arising from contracts with customers and replaced the majority of existing IFRS requirements on revenue recognition including IAS 18, Revenue, IAS 11, Construction Contracts and related interpretations. 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. In April 2016, the IASB issued amendments to IFRS 15, which provided additional guidance on the identification of performance obligations, on assessing principal versus agent considerations and on licensing revenue. The amendments also provide additional transition relief upon initial adoption of IFRS 15 and have the same effective date as the IFRS 15 standard.

The Company has adopted IFRS 15 Revenue from Contracts with Customers with an initial adoption date of July 1, 2018. The Company utilized the modified retrospective method to adopt the new standard and therefore, the comparative information has not been restated and continues to be reported under IAS 18 and IAS 11. In its adoption of IFRS 15, the Company applied a practical expedient that allows the Company to avoid re-considering the accounting for any sales contracts that were completed prior to July 1, 2018 and were previously accounted for under IAS 11 and IAS 18. There was no material impact on the Company's net loss and financial position resulting from the adoption of IFRS 15 and there was no effect to the opening deficit from the application of IFRS 15 as at July 1, 2018.

Under IFRS 15, revenue is recognized to depict the transfer of goods in an amount that reflects the consideration to which the entity expect 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 obligation in the contract
- (v) Recognize revenue when (or as) the entity satisfies a performance obligation.

Revenue may be earned over time as the performance obligations are satisfied or at a point in time which is when the entity has earned a right to payment, the customer has possession of the asset and the related significant risks and rewards of ownership, and the customer has accepted the asset.

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 online store is recorded when the product is received by the consumer. Product returns, promotional allowance, chargebacks, money program and discounts provided to consumers are deducted from gross revenue to arrive at sales.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

In some contracts, the Company transfers control of a product to distributors and also 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 shall recognise revenue for the transferred products in the amount of consideration to which the entity 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.

Cost of goods sold

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

Inventory

Inventory comprises 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.

Operating segments

The Company operates in one industry segment, the sale of non-alcoholic drinks products. All of the Company's sales are within Canada, with a small volume sold in the United States.

Intangible assets

Finite life intangible assets are comprised of Licensing Agreements, which are recorded at cost less accumulated amortization and accumulated impairment losses. Following initial recognition, such intangible assets are carried at cost less any accumulated amortization on a straight-line basis over 5 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.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Machinery 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.

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 pretax 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.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Income taxes (continued)

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

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Loss per share

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

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.

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 capital stock, and any related amount recorded in warrants reserve is transferred to capital stock.

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.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Stock-based payments (continued)

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.

If and when the stock options are exercised, the applicable amounts of equity reserves are transferred to share capital.

4. NEW STANDARDS ADOPTED

The following new standards, and amendments to standards and interpretations, are effective for the current year and have been applied in preparing these consolidated financial statements.

- i) IFRS 16, "Leases", In January 2016, the IASB issued IFRS 16, Leases, effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted. IFRS 16 will replace IAS 17, Leases. The Company adopted this standard on July 1, 2019 with no material impact on its consolidated statement of financial position or results of operations.

5. REVERSE TAKEOVER TRANSACTION

On July 24, 2018, the Company completed the RTO with Hill Street Marketing Inc. pursuant to which the Company acquired all of the outstanding securities of Hill Street Marketing Inc. As part of the transaction, the Company changed its name to Hill Street Beverage Company Inc.

The terms of transaction were as follows:

- An exchange of common shares of the Company and Hill Street Marketing Inc. at a ratio of 65.358 shares of the Company share for every one share of Hill Street Marketing Inc.
- Share purchase warrants and stock options of the Company were issued to/exchanged with holders of Hill Street Marketing Inc. convertible securities.

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

5. REVERSE TAKEOVER TRANSACTION (continued)

The acquisition of Hill Street Marketing Inc. was accounted for as a reverse takeover transaction that was not a business combination and effectively a capital transaction of the Company. Hill Street Marketing Inc. has been treated as the accounting parent (legal subsidiary) and the Company has been treated as the accounting subsidiary (legal parent) in these consolidated financial statements. As Hill Street Marketing Inc. was deemed to be the acquirer for accounting purposes, its assets, liabilities and operations since incorporation are included in these consolidated financial statements at their historical carrying values. Hill Street Beverage Company Inc. results of operations have been included from the date of the RTO. The legal capital continues to be that of Hill Street Beverage Company Inc, the legal parent. These consolidated financial statements are a continuation of those of Hill Street Marketing Inc. which was incorporated on December 3, 2008.

	\$
Cost of acquisition	
Common share issuance, 6,800,000 x \$0.15	1,020,000
Fair value of options granted	91,000
Fair value of warrants granted	28,000
	1,139,000
Allocated as follows:	
Cash	214,955
Accounts receivable	3,800
Prepaid	3,500
Liabilities	(1,600)
	220,655
Allocated to public listing expense	918,345
	1,139,000

The purchase price of \$1,139,000 was calculated based on a share value of \$0.15 and the fair value of 680,000 stock options and 400,000 warrants was based on the Black-Scholes option pricing model.

Weighted-average assumptions used in the option-pricing model for the warrants and options are as follows:

Share Price	\$0.15
Exercise Price	\$0.10 - \$0.15
Risk-free interest rate	2.02% - 2.28%
Expected life	0.67 – 8.67 years
Expected volatility	100%
Expected dividends	Nil

In addition, the Company incurred \$152,940 in legal and filing fees relating to the completion of the reverse takeover transaction during the year ended June 30, 2019.

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

6. NET REVENUE

For the six-month period ended		December 31, 2019	December 31, 2018
Gross revenue	\$	1,487,476	1,321,519
Chargebacks		(444,761)	(408,171)
Listing fees		(24,000)	(6,403)
	\$	1,018,715	906,945

7. ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

As at		December 31, 2019	June 30, 2019
Trade receivables	\$	319,881	231,997
GST receivables		51,263	58,025
	\$	371,144	290,022

An allowance for doubtful accounts of \$Nil (June 30, 2019: \$Nil) has been provided against these accounts receivable amounts, which the Company has determined represents a reasonable estimate of amounts that may be uncollectible.

8. INVENTORY

As at		December 31, 2019	June 30, 2019
Finished goods	\$	690,120	673,914

Inventory write downs recognized as an expense amounted to \$23,466 (December 31, 2018: \$67,456).

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

9. MACHINERY AND EQUIPMENT

	Computer Equipment	Computer Software	Equipment	Total
Cost				
Balance at June 30, 2018	\$ 3,965	\$ 1,544	\$ 3,195	\$ 8,704
Additions	2,139	-	273,989	276,128
Balance at June 30, 2019	6,104	1,544	277,184	284,832
Additions	-	105	3,150	3,255
Balance at December 31, 2019	\$ 6,104	\$ 1,649	\$ 280,334	\$ 288,087
Accumulated depreciation				
Balance at June 30, 2018	\$ 2,039	\$ 1,084	\$ 1,887	\$ 5,010
Depreciation for the year	858	135	3,034	4,027
Balance at June 30, 2019	2,897	1,219	4,921	9,037
Depreciation for the period	512	52	26,546	27,110
Balance at December 31, 2019	\$ 3,409	\$ 1,271	\$ 31,467	\$ 36,147
Carrying amount at June 30, 2019	\$ 3,207	\$ 325	\$ 272,263	\$ 275,795
Carrying amount at December 31, 2019	\$ 2,695	\$ 378	\$ 248,867	\$ 251,940

10. INTANGIBLE ASSETS

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 December 31, 2019, all amounts have been paid and the Company has capitalized a total of \$209,250 related to this agreement. These license fees are being amortized over their useful life of 5 years (the effective term of the license agreement).

Cost	License \$
Balance at June 30, 2018	-
Additions	-
Depreciation	-
Balance at December 31, 2018	-
Additions	209,250
Depreciation	(38,329)
Balance at June 30, 2019	170,921
Additions	-
Depreciation	(16,560)
Balance at December 31, 2019	154,361

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

10. INTANGIBLE ASSETS (continued)

As of December 31, 2019, the Company has capitalized a total of \$59,250 of costs associated with acquiring a Standard Processor License under the Cannabis act (Canada). These licenses fees are being amortized over their useful life of 5 years.

Cost	License \$
Balance at June 30, 2018	-
Additions	-
Depreciation	-
Balance at December 31, 2018	-
Additions	59,250
Depreciation	(8,362)
Balance at June 30, 2019	50,888
Additions	-
Depreciation	(4,181)
Write-offs	(8,000)
Balance at December 31, 2019	38,707

11. SHARE CAPITAL

a) Authorized

Unlimited number of common shares with no par value.

b) Issued and outstanding

At December 31, 2019 and June 30, 2019, the issued and outstanding share capital is comprised of 110,475,579 and 96,283,331, respectively.

During the period ended December 31, 2019 the Company issued the following shares:

The Company issued 680,000 shares for the exercise of option for gross proceeds of \$78,200.

The Company issued 187,250 shares for the exercise of warrants for gross proceeds of \$37,450.

On December 19, 2019, The Company issued 13,324,998 units at a price of \$0.06 per unit for gross proceeds of \$799,500. 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 \$91,200. In connection to the private placement, the Company paid \$37,780 cash as finder's fees.

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

11. SHARE CAPITAL (continued)

b) Issued and outstanding (continued)

During the period ended June 30, 2019 the Company issued the following shares:

On July 24, 2018, the Company issued 27,242,061 units at a price of \$0.175 per unit for gross proceeds of \$4,767,361. Each unit consisted of one common share and one-half common share purchase warrant, with each whole warrant exercisable into one common share of the Company at an exercise price of \$0.35 per share, exercisable for a period of 24 months from the date of issuance. The warrants were assigned a value of \$674,000. In connection to the private placement, 468,000 shares valued at \$70,200 were issued to a consultant as finder's fees. The Company paid \$273,346 in cash and issued 1,227,760 full share warrants as finder's fees, with each whole warrant exercisable into one unit of the Company at an exercise price of \$0.175 per share, exercisable for a period of 24 months from the date of issuance. Each finders unit is made up of one common share and one-half common share purchase warrant, with each whole warrant exercisable into one common share of the Company at an exercise price of \$0.35 per share, exercisable for a period of 24 months from the date of issuance. The finder's warrants were valued at \$113,900 using the Black-Scholes option pricing model.

The Company issued 419,982 shares at a price of \$0.205 per share for a total of \$86,096 pursuant to a licensing agreement (Note 10). Shares issued have been valued based on their respective fair value as of the date of issuance.

The Company issued 520,562 shares at a price of \$0.19 per share for a total of \$100,000 pursuant to a sale and distribution agreement. Shares issued have been valued based on their respective fair value as of the date of issuance.

The Company issued 680,775 shares for the exercise of warrants for gross proceeds of \$132,572.

The Company issued 33,550 units for the exercise of brokers warrants for gross proceeds of \$5,872. Each unit consisted of one common share and one-half common share purchase warrant, with each whole warrant exercisable into one common share of the Company at an exercise price of \$0.35 per share, exercisable for a period of 24 months from the date of issuance. The warrants were assigned a value of \$1,300.

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

11. SHARE CAPITAL (continued)

b) Issued and outstanding (continued)

On June 7, 2019, The Company issued 8,483,308 units at a price of \$0.20 per unit for gross proceeds of \$1,696,660. Each unit consisted of one common share and one-half common share purchase warrant, with each whole warrant exercisable into one common share of the Company at an exercise price of \$0.40 per share, exercisable for a period of 24 months from the date of issuance. The warrants were assigned a value of \$270,300. In connection to the private placement, the Company issued 187,250 full share warrants as finder's fees, with each whole warrant exercisable into one unit of the Company at an exercise price of \$0.20 per share, exercisable for a period of 24 months from the date of issuance. Each finders unit is made up of one common share and one-half common share purchase warrant, with each whole warrant exercisable into one common share of the Company at an exercise price of \$0.40 per share, exercisable for a period of 24 months from the date of issuance. The finder's warrants were valued at \$21,900 using the Black-Scholes option pricing model.

c) Stock options

The continuity of options for the period ended December 31, 2019 is summarized below:

Granted	Expiry	Exercise Price	June 30, 2019	Granted	Exercised	Expired / Cancelled	Dec 31, 2019	Exercisable
July 24, 2018	July 24, 2019	\$ 0.15	204,000	-	(204,000)	-	-	-
July 31, 2018	July 31, 2023	\$ 0.175	7,884,510	-	-	(700,702)	7,183,808	2,993,253
July 24, 2018	March 22, 2027	\$ 0.10	476,000	-	(476,000)	-	-	-
May 23, 2019	May 23, 2024	\$ 0.21	215,000	-	-	-	215,000	35,833
May 13, 2019	May 13, 2020	\$ 0.175	-	10,000	-	-	10,000	10,000
July 17, 2019	July 17, 2020	\$ 0.175	-	690,702	-	-	690,702	690,702
Total			8,779,510	700,702	(680,000)	(700,702)	8,099,510	3,729,788
Weighted average exercise price				\$ 0.175	\$ 0.12	\$ 0.175	\$ 0.18	\$ 0.18
Weighted average remaining contractual life							3.34 years	

Pursuant to the amalgamation agreement, the Company granted 680,000 stock options at July 24, 2018. The 680,000 stock options were fair valued using the Black-Scholes Pricing Model for a fair value of \$91,000.

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 \$175,018 (December 31, 2018: \$483,136) was recorded during the six-month period ended December 31, 2019 based on vesting periods.

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

11. SHARE CAPITAL (continued)

c) Stock options (continued)

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 \$12,019 (December 31, 2018: \$Nil) was recorded during the six-month period ended December 31, 2019 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 \$2,877 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.

Weighted-average assumptions used in the option-pricing model are as follows:

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.

d) Warrants

Warrants transactions are summarized as follows:

Granted	Expiry	Exercise Price	June 30, 2019	Granted	Exercised	Dec 31, 2019	Exercisable
July 24, 2018	July 24, 2020	\$ 0.30	8,560,800	-	-	8,560,800	8,560,800
July 24, 2018	July 24, 2020	\$ 0.175	1,194,210	-	-	1,194,210	1,194,210
July 24, 2018	July 24, 2020	\$ 0.35	13,454,249	-	-	13,454,249	13,454,249
Sept 18, 2018	July 24, 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
June 7, 2019	June 7, 2021	\$ 0.20	187,250	-	(187,250)	-	-
Dec 19, 2019	Dec 19, 2021	\$ 0.13	-	13,324,998	-	13,324,998	13,324,998
Total			30,154,938	13,324,998	(187,250)	43,292,686	43,292,686
Weighted average exercise price			\$ 0.32	0.13	0.20	0.26	0.26
Weighted average remaining contractual life						1.19 years	

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

11. SHARE CAPITAL (continued)

d) Warrants (continued)

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 \$91,482 during the year ended June 30, 2019.

Weighted-average assumptions used in the warrant-pricing model are as follows:

Share price	\$0.04 - \$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.

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:

Six-Month Period Ended December 31,	\$ 2019	\$ 2018
Total salaries, benefits and management fees	427,834	517,742
Stock-based compensation	178,247	474,306
Total salaries and other short-term benefits	606,081	992,048

Included in accounts payable as at December 31, 2019 is \$1,671 (June 30, 2019: \$86,438) payable to Directors and Officers of the Company for management wages. The amount is non-interest bearing and unsecured.

As at December 31, 2019, the Company had outstanding advances payable to Directors in the amount of \$24,920 (June 30, 2019: receivable \$5,080) for tax deductions. The advances for tax deductions are non-interest bearing and is repayable on demand.

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

13. FINANCIAL INSTRUMENTS

The Company adopted IFRS 9 in its consolidated financial statements on July 1, 2018. Due to the nature of its financial instruments, the adoption of IFRS 9 had no impact on the opening deficit balance on July 1, 2018. The impact on the classification and measurement of its financial instruments is set out below.

The following table summarizes the classification and measurement changes under IFRS 9 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
Due from related party	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Loans payable	Other liabilities	Amortized cost

The original carrying value of the Company's financial instruments under IAS 39 has not changed under IFRS 9.

Financial instruments are initially recognized at fair value on the consolidated statement 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 statement of loss and comprehensive loss for the year. Financial assets 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

Amortized cost are those assets which are held within a business whose objective is to hold financial assets to collect contractual cash flows; and the terms of the financial assets must provide on specified dates cashflows solely through the collection of principal and interest.

Fair value through other comprehensive income ("FVOCI")

FVOCI assets are those assets which are held within a business whose objective is achieved by both collecting contractual cash flows and selling financial assets; and the contractual terms of the financial asset give rise on specified dates to cash flows solely through the collection of principal and interest.

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

13. FINANCIAL INSTRUMENTS (continued)

Financial assets (continued)

FVTPL

A financial asset shall be measured at fair value through profit or loss unless it is measured at amortized cost or FVOCI. The Company may however make the irrevocable option to classify particular investments as FVTPL.

Financial liabilities

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

Amortized cost

The Company classifies all financial liabilities as subsequently measured at amortized cost using the effective interest method, except for financial liabilities carried at FVTPL and other certain exceptions.

Financial liabilities (continued)

FVTPL

A financial liability shall be measured at fair value through profit or loss unless it is measured at amortized cost or FVOCI. The Company may however make the irrevocable option to classify particular investments as FVTPL.

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, 2019 and June 30, 2019 the Company believes that the carrying values of cash and cash equivalents, accounts receivable, due from related party, accounts payable and accrued liabilities approximate the fair values because of their nature and relatively short maturity dates or durations.

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

14. 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 counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its trade receivables held during the year. The carrying value of these financial assets represents the Company's maximum exposure to credit risk. As at December 31, 2019, the Company had \$371,144 (June 30, 2019 - \$290,022) financial assets that may subject to credit risk defaults.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations with respect to financial liabilities as they fall due. The Company's financial liabilities consist of its accounts payable and loans payable. The Company manages its liquidity risk through the management of its capital structure as described in Note 15. 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, 2019, the Company held \$1,198,761 (June 30, 2019 - \$627,141) in current 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 classified as held-to-maturity, loans or receivables and other financial liabilities. As at December 31, 2019, the Company holds no interest bearing debt and would therefore not be subject to any interest rate cash flow risk.

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, 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.

15. CAPITAL MANAGEMENT

The Company considers capital to be the elements of 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

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

16. 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, 2019:

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

During the six-month period ended December 31, 2018:

The Company issued 419,982 units at a deemed price of \$0.175 per unit for a total of \$73,497 in exchange for consulting services with unrelated parties.

The Company issued 1,906,944 finder's fees purchase warrants at a fair value of \$214,253.

17. COMMITMENTS AND CONTINGENCIES

Weight Watchers International Inc.

The Company entered into an endorsement agreement dated November 1, 2017, whereas the endorser permitted the use by the Company of the Weight Watchers trademarks for use in connection with the sales, distribution, and marketing of the Company's product for a period of 3 years, effective June 30, 2018.

According to the agreement, in consideration for the rights granted under the endorsement agreement, the Company agrees to pay to Weight Watchers International, Inc. the greater of the following:

- a) 4% of earned revenue from endorsed products, less applicable expenses
- b) The minimum guarantee per year of \$100,000

The Company's minimum payments over the next fiscal year total \$100,000 in the 2020 fiscal year.

18. LETTER OF INTENT

Acquisition of OneLeaf

During the year ended June 30, 2019, The Company signed a binding letter of intent to acquire OneLeaf Holding Corp. ("OneLeaf"), the parent company of OneLeaf Cannabis Corp., an "evidence package" stage applicant to become a licensed cannabis cultivator and processor, in an all share transaction.

On October 1, 2019, the Company announced the due diligence period for its proposed acquisition of OneLeaf has expired, and the parties have determined not to proceed with the proposed transaction. Hill Street instead announced it would return to its co-packing strategy to secure licensed product, thereby reducing the capital investment required to build a facility.