HILL STREET BEVERAGE COMPANY INC.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

FOR THE YEARS THREE-MONTH PERIOD ENDED SEPTEMBER 30, 2021 AND 2020

(Expressed in Canadian dollars)

NOTICE TO READER

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

The accompanying unaudited condensed interim consolidated financial statements have been prepared by and are the responsibility of management. The Company's independent auditor has not performed a review of these condensed interim consolidated financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

TORONTO, ON
March 1, 2022

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

	Notes	September 30, 2021	June 30, 2021
		$	$
ASSETS			
Current			
Cash and cash equivalents		2,304,415	2,722,141
Accounts receivable	6	414,257	361,231
Due from related parties	13	2,823	2,823
Subscription receivables		6,150	6,150
Inventory	7	482,058	549,442
Prepaid expenses		189,159	161,834
Total current assets		3,398,862	3,803,621
Intangible assets	9	3,531,277	3,597,709
Property and equipment	8	194,862	208,004
TOTAL ASSETS		7,125,001	7,609,334
LIABILITIES			
Current			
Accounts payable and accrued liabilities	13	684,172	704,956
Consideration payable	9	251,337	746,224
Notes payable – current	11	27,028	22,466
Lease liability – current	10	20,583	20,080
		983,120	1,493,726
Lease liability – non-current	10	7,277	12,617
CEBA loan	11	45,388	42,908
Note payable – non-current	11	2,125,230	2,082,923
		3,161,015	3,632,174
SHAREHOLDERS' EQUITY			
Share capital	12	19,583,188	19,052,885
Reserve	12	4,625,994	4,569,911
Deficit		(20,245,196)	(19,645,636)
TOTAL SHAREHOLDERS' EQUITY		3,963,986	3,977,160
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		7,125,001	7,609,334

Nature of operations and going concern (Note 1)
Contingencies (Note 20)

"Jack Fraser"	"Lori Senecal"
Director	Director

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

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

For the Three-Month Period Ended	Notes	September 30, 2021	September 30, 2020
		$	$
Gross revenue	5	660,483	384,450
Chargebacks & listing fees	5	(55,744)	(109,738)
Net revenue		604,739	274,712
Cost of sales		(270,317)	(128,706)
Gross profit		334,422	146,006
Expenses			
Accretion expense	11	2,480	31,794
Bank charges and interest		49,472	2,383
Consulting fees		13,021	7,829
Depreciation	8/9	89,042	27,921
Donations, dues & licenses		1,357	6,482
Filing and transfer agent fees		1,972	17,638
Insurance		39,722	2,648
Interest on convertible loan	11	-	15,464
Management fees	13	37,167	15,000
Marketing		50,312	57,432
Office and miscellaneous		40,207	16,605
Professional fees		115,704	56,112
Stock-based compensation	12/13	56,083	46,619
Travel and meal allowance		14,934	536
Wages and salaries	13	271,896	204,139
Selling and delivery		102,095	113,239
		885,464	621,841
Loss before other income (expense)		(551,042)	(475,835)
Other income (expenses)			
Foreign exchange gain (loss)		1,242	1,517
Write-off of inventory	7	(18,057)	(1,535)
Loss on fair value of consideration		(35,416)	-
Gain on settlement of liability		213	-
Interest income		3,500	-
		(48,518)	(18)
Net loss and comprehensive loss		(599,560)	(475,853)
Basic and diluted loss per common share		(0.00)	(0.01)
Weighted average number of common shares outstanding		212,294,452	112,085,463

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 Shareholders' Equity
(Expressed in Canadian Dollars)

	Common Shares				
	Shares	**Amount**	**Reserve**	**Deficit**	**Total**
		$	$	$	$
As at June 30, 2020	112,060,380	13,844,029	2,900,803	(16,559,405)	185,427
Units issued for debt (Note 12)	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)
Units issued for cash (Note 12)	59,567,544	2,661,364	1,593,470	-	4,254,834
Share issuance costs	-	(93,357)	2,743	-	(90,614)
Units issued pursuant to licensing (Note 12)	6,031,363	753,920	-	-	753,920
Exercise of warrants (Note 12)	6,465,178	873,604	(277,087)	-	596,517
Conversion of convertible debt (Note 12)	20,450,000	1,001,066	(136,130)	-	864,936
Stock-based compensation	-	-	439,493	-	439,493
Net loss for the period	-	-	-	(2,610,378)	(2,610,378)
As at June 30, 2021	204,718,694	19,052,885	4,569,911	(19,645,636)	3,977,160
Units issued pursuant to licensing (Note 12)	7,575,758	530,303	-	-	530,303
Stock-based compensation	-	-	56,083	-	56,083
Net loss for the period	-	-	-	(599,560)	(599,560)
As at September 30, 2021	212,294,452	19,583,188	4,625,994	(20,245,196)	3,963,986

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

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

For the Three-Month Period Ended	September 30, 2021	September 30, 2020
	$	$
OPERATING ACTIVITIES		
Net loss for the year	(599,560)	(475,853)
Items not affecting cash:		
Depreciation	89,042	27,921
Loss on fair value of consideration payable	35,416	-
Gain on settlement of liabilities	(213)	-
Write-off of inventory	18,057	1,535
Stock based compensation	56,083	46,619
Accretion expense	2,480	31,794
Accrued interest	47,453	16,392
	(351,242)	(351,592)
Changes in non-cash working capital items:		
Accounts receivable	(53,026)	266,848
Inventory	49,327	64,228
Prepaid expenses	(27,325)	(187,978)
Accounts payable and accrued liabilities	(20,571)	(261,488)
Due from related parties	-	(300)
Cash used in operating activities	(402,837)	(470,282)
INVESTING ACTIVITIES		
Purchase of equipment	(349)	(819)
Purchase of intangible assets	(9,119)	(9,840)
Cash used in investing activities	(9,468)	(10,659)
FINANCING ACTIVITIES		
Lease payments	(5,421)	(5,297)
Cash used in financing activities	(5,421)	(5,297)
CHANGE IN CASH AND CASH EQUIVALENTS	(417,726)	(486,238)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,722,141	700,431
CASH AND CASH EQUIVALENTS, END OF PERIOD	2,304,415	214,193

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 is also engaged in cannabis beverage sales and cannabis technology licensing.

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

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

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, 2021, the Company had not yet achieved profitable operations, had a net loss of $599,560 (September 30, 2020: $475,853), accumulated deficit of $20,245,196 (June 30, 2021: $19,645,636), and expects to incur further losses in the foreseeable future, all of which indicate the existence of a material uncertainty that may cast significant doubt upon the Company's ability to continue as a going concern. Realization values may be substantially different from carrying values as shown and these consolidated financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern. Such adjustments could be material.

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

1. NATURE OF OPERATIONS AND GOING CONCERN (continued)

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

2. BASIS OF PREPARATION

Statement of compliance

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and IAS 34 – Interim Financial Reporting as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"). As such, these interim financial statements do not contain all the disclosures required by IFRS for annual financial statements and should be read in conjunction with the Company's audited annual consolidated financial statements for the years ended June 30, 2021 and 2020 (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 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.

(Expressed in Canadian Dollars)

5. NET REVENUE

For the three-month period ended		**September 30, 2021**	**September 30, 2020**
Beverage sales	$	508,215	384,450
Other income		152,268	-
Chargebacks		(55,744)	(109,738)
	$	604,739	274,712

Other income consists of royalty revenue and commissions.

6. ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

As at		**September 30, 2021**	**June 30, 2021**
Trade receivables	$	344,322	313,362
GST receivables		69,935	47,869
	$	414,257	361,231

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.

7. INVENTORY

As at		**September 30, 2021**	**June 30, 2021**
Finished goods	$	408,534	455,605
Raw materials		73,524	93,837
	$	482,058	549,442

Inventory write downs recognized as an expense amounted to $18,057 (September 30, 2021: $1,535).

(Expressed in Canadian Dollars)

8. PROPERTY AND EQUIPMENT

	ROU Asset	Computer Equipment	Computer Software	Equipment	Total
Cost	$	$	$	$	$
Balance at June 30, 2020	53,019	7,005	1,987	277,639	339,650
Additions	-	1,694	127	-	1,821
Balance at June 30, 2021	53,019	8,699	2,114	277,639	341,471
Additions	-	-	349	-	349
Balance at September 30, 2021	53,019	8,699	2,463	277,639	341,820
Accumulated depreciation					
Balance at June 30, 2020	5,891	3,966	1,455	59,384	70,696
Depreciation for the year	17,674	1,253	193	43,651	62,771
Balance at June 30, 2021	23,565	5,219	1,648	103,035	133,467
Depreciation for the period	4,418	290	53	8,730	13,491
Balance at September 30, 2021	27,983	5,509	1,701	111,765	146,958
Carrying amount at June 30, 2021	29,454	3,480	466	174,604	208,004
Carrying amount at September 30, 2021	25,036	3,190	762	165,874	194,862

(Expressed in Canadian Dollars)

9. INTANGIBLE ASSETS

	Canpharm / Lexeria License (i) & (ii)	Standard Processor License (iii)	Trademarks (iv)	Total
Cost	$	$	$	$
Balance at June 30, 2020	209,250	51,250	7,698	268,198
Additions	3,607,242	-	9,840	3,617,082
Balance at June 30, 2021	3,816,492	51,250	17,538	3,885,280
Additions	-	9,119	-	9,119
Balance at September 30, 2021	3,816,492	60,369	17,538	3,894,399
Accumulated depreciation				
Balance at June 30, 2020	80,331	16,939	-	97,270
Depreciation for the year	183,439	6,862	-	190,301
Balance at June 30, 2021	263,770	23,801	-	287,571
Depreciation for the year	74,179	1,372	-	75,551
Balance at September 30, 2021	337,949	25,173	-	363,122
Carrying amount at June 30, 2021	3,552,722	27,449	17,538	3,597,709
Carrying amount at September 30, 2021	3,478,543	35,196	17,538	3,531,277

(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 was required to pay a licensing fee of USD$93,750 payable over 274 days and an initial share issuance equal to USD$56,250. As of June 30, 2019, all amounts have been paid and the Company has capitalized a total of $209,250 related to this agreement. These licenses fees are being amortized over their useful life of five years (the effective term of the license agreement).

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

9. INTANGIBLE ASSETS (continued)

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

Aggregate consideration included an upfront cash payment of $350,000 on closing (paid), $2,000,000 payable in the form of a promissory note bearing 10% interest per annum (note 11), a total of 6,031,363 common shares valued at $753,920 issued on closing (note 12) and $1,000,000 of consideration payable to be settled in the form of common shares, payable in two equal tranches 8 months and 16 months from the date of closing.

On August 9, 2021, the Company issued 7,575,758 shares to Lexaria CanPharm ULC valued at $643,939 as full payment in settlement of the second tranche of the consideration payable. In connection with the issuance, the Company issued 1,693,405 shares in excess valued of $143,939 and the overpayment will reduce the third tranche liability that will be issued 16 months on the anniversary of the closing date at the greater of $0.085 or the 10 weighted average closing of the purchaser's shares.

Consideration payable shall be settled in common shares at a price per share equal to the greater of the 10-day volume weighted average closing price on such payment date and the closing price on the date the Lexaria Asset Acquisition was executed. The fair value of the contingent consideration on the date of closing amounted to $487,008 determined using a Monte Carlo Simulation. As at September 30, 2021, consideration payable was revalued at $251,337 (June 30, 2021: $746,224) and a loss on fair value of consideration payable totaling $149,052 was recognized in the consolidated statements of operations and comprehensive loss during the three-month period ended September 30, 2021. The intangible assets acquired included a license and sublicenses. The value of each was proportionately allocated based on their fair value. The license is being amortized over the useful life of the patents it gives the right to which are 20 years. The sublicenses are being amortized over their remaining useful life which is between 4 and 9 years.

(Expressed in Canadian Dollars)

9. INTANGIBLE ASSETS (continued)

The following table summarizes the price allocation:

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

(iii) As of September 30, 2021, the Company has capitalized a total of $60,369 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.

(iv) As of September 30, 2021, the Company has capitalized a total of $17,538 for trademarks.

10. 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 8).

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.

(Expressed in Canadian Dollars)

10. LEASES (continued)

	Lease liability
Balance, June 30, 2020	50,866
Interest expense	3,183
Lease payments	(21,352)
Balance, June 30, 2021	32,697
Interest expense	584
Lease payments	(5,421)
Balance, September 30 2021	27,860
Current portion	20,583
Non-current portion	7,277

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

Fiscal Year	**Lease Payments**
2022	$16,425
2023	$12,935
TOTAL	$29,360

11. LOANS PAYABLE

The Company has the following loans payable as at September 30, 2021 and June 30, 2020:

As at	**September 30, 2021**	**June 30, 2021**
	$	$
CEBA loan	45,388	42,908
Promissory note	2,152,258	2,105,389
Total long-term debt	2,197,646	2,148,297

<u>Canada Emergency Business Account</u>

	CEBA loan
Balance at June 30, 2020	**$22,885**
Proceeds	$20,000
Benefit from favorable interest rate	($6,541)
Accretion Expense	$6,564
Balance at June 30, 2021	**$42,908**
Accretion Expense	$2,480
Balance at September 30, 2021	**$45,388**

(Expressed in Canadian Dollars)

11. LOANS PAYABLE (continued)

Canada Emergency Business Account (continued)

The Company received a loan in the aggregate amount of $60,000 pursuant to the Canada Emergency Business Account ("CEBA"). The CEBA provides zero-interest, partially forgivable loans of up to $60,000 to small businesses that have experienced diminished revenues due to COVID-19 but face ongoing non-deferrable costs, such as rent, utilities, insurance, taxes and employment costs. If the balance of the loan is repaid on or before December 31, 2022, 25% on the first $40,000, plus 50% percent on the additional $20,000 will be forgiven. The loan bears no interest until December 31, 2022, at which point if unpaid, it will convert to a three-year term loan bearing interest at 5% per annum. On recognition, the initial $40,000 and additional $20,000 were recognized at their respective fair values totaling $22,061 and $13,459, and the subsequently measured at amortized cost, using an effective interest rate of 23%. During the period ended September 30, 2021, $2,480 (September 30, 2020: $1,786) of interest expense related to the CEBA loan was recognized and included in accretion expense in the consolidated statements of operations and comprehensive loss.

Convertible debenture

Proceeds	$1,022,500
Transaction costs	($8,500)
Net proceeds	$1,014,000
Conversion feature	($136,130)
Warrants	($136,130)
Debenture liability	$741,740
Initial measurement of debenture liability	$741,740
Interest Expense	$10,085
Accretion Expense	$18,660
Balance, June 30, 2020	**$770,485**
Interest Expense	$50,808
Accretion Expense	$104,786
Conversion of convertible debt into shares	($864,936)
Interest paid	($61,143)
Balance, June 30, 2021	**$ -**

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.

(Expressed in Canadian Dollars)

11. LOANS PAYABLE (continued)

Convertible debenture (continued)

The loan was initially measured at its fair value of $741,740, calculated by discounting the future cash flows using a market interest rate of 25%. The loan is subsequently measured at amortized cost using the effective interest method, at an effective interest rate of 23%. During the year ended June 30, 2021, the Company recognized $50,808 (June 30, 2020: $10,085) in interest expense and $104,786 (June 30, 2020: $18,660) in non-cash accretion expense, which are included in the consolidated statements of operations and comprehensive loss.

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

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

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

Promissory note

On December 9, 2020, in consideration of the value received in connection with the Lexaria Asset Acquisition, the Company agreed to pay the principal sum of $2,000,000 in the form of a promissory note. On initial recognition the principal amount shall bear interest at the rate of 10% per annum and shall accrue and be calculated quarterly-annually. The principal amount and any accrued interest shall be repayable by the Company in quarterly installments in an amount equal to 5% of the Gross Sales realized from cannabis infused product sold by the Company or its licenses utilizing the acquired technology. This promissory note and any accrued interest may be prepaid by the Company at any time in its sole and absolute discretion without penalty. During the period ended September 30, 2201, the Company recognized interest expenses totaling $46,869 (September 30, 2020: $Nil) in the consolidated statements of operations and loss. As at June 30, 2021, total principal repayment was $5,666.

12. SHARE CAPITAL

a) Authorized

Unlimited number of common shares with no par value.

b) Issued and outstanding

At September 30, 2021 and June 30, 2021, the issued and outstanding share capital is comprised of 212,294,452 and 204,718,694 common shares, respectively.

During the period ended September 30, 2021 the Company issued the following shares:

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

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

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

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

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

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

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

(Expressed in Canadian Dollars)

12. SHARE CAPITAL (continued)

b) Issued and outstanding

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

c) Stock options

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

Granted	Expiry	Exercise Price	June 30, 2021	Granted	Expired / Forfeited	Sept. 30, 2021	Exercisable
July 31, 2018	July 31, 2023	$ 0.075	2,228,742	-	-	2,228,742	2,228,742
July 31, 2018	Dec 31, 2021	$ 0.075	1,036,054	-	-	1,036,054	1,036,054
July 31, 2018	Dec. 17, 2021	$ 0.075	63,750	-	-	63,750	63,750
July 31, 2018	Feb. 8, 2022	$ 0.075	1,220,519	-	-	1,220,519	1,220,519
July 31, 2018	Aug. 18, 2022	$ 0.075	863,378	-	-	863,378	863,378
May 23, 2019	May 23, 2024	$ 0.075	215,000	-	-	215,000	161,250
May 1, 2020	May 1, 2025	$ 0.05	2,002,500	-	(352,500)	1,650,000	825,000
May 1, 2020	Dec. 17, 2021	$ 0.05	75,000	-	-	75,000	75,000
May 1, 2020	Feb. 8, 2022	$ 0.05	318,750	-	-	318,750	318,750
May 1, 2020	Aug. 18, 2022	$ 0.05	587,500	-	-	587,500	587,500
Mar. 1, 2021	Mar. 1, 2026	$ 0.095	4,362,500	-	(1,062,500)	3,300,000	1,600,000
Mar. 1, 2021	Aug. 18, 2022	$ 0.095	437,500	-	-	437,500	437,500
Apr. 30, 2021	Apr. 30, 2026	$ 0.09	3,778,500	-	-	3,778,500	2,484,958
	Total		17,189,693	-	(1,415,000)	15,774,693	11,902,401
	Weighted average exercise price			-	-	$ 0.08	$ 0.08
	Weighted average remaining contractual life					2.85 years	

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

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

12. SHARE CAPITAL (continued)

c) Stock options (continued)

During the three-month period ended September 30, 2021 the Company granted the following stock options:

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

On August 18, 2021, the expected life of 587,500 fully vested options held by a former Officer of the Company, previously granted on May 1, 2020, were reduced to one year from the date of employment termination and a total of 352,500 of unvested options were forfeited during the three-month period ended September 30, 2021. Previously recorded stock-based compensation of $7,746 related to the forfeited options was reversed during the period ended September 30, 2021.

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

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

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

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

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

(Expressed in Canadian Dollars)

12. SHARE CAPITAL (continued)

c) Stock options (continued)

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

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

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

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

All options are recorded at fair value using the Black-Scholes option pricing model. Volatility is based on peer companies and the historical trading prices of the Company's shares. Pursuant to the vesting schedule of options granted during the three-month period ended September 30, 2021 share-based compensation of $56,083 (September 30, 2020: $46,619) was recognized in the consolidated statement of operations and comprehensive loss.

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

	June 30, 2021
Share price	$0.085-$0.09
Risk-free interest rate	0.81% - 0.93%
Expected life	5 years
Expected volatility	110% - 111%
Expected dividends	Nil

(Expressed in Canadian Dollars)

12. SHARE CAPITAL (continued)

c) Stock options (continued)

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

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

d) Warrants

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

Granted	Expiry	Exercise Price	June 30, 2021	Granted	Expired / Cancelled	Exercised	Sept 30, 2021
June 5, 2019	June 5, 2022	$ 0.20	2,500,000	-	-	-	2,500,000
June 7, 2019	Dec. 31, 2021	$ 0.40	4,241,654	-	-	-	4,241,654
Dec 19, 2019	Dec 19, 2021	$ 0.13	13,324,998	-	-	-	13,324,998
May 1, 2020	May 1, 2022	$ 0.05	19,450,000	-	-	-	19,450,000
Nov 18, 2020	Nov. 18, 2022	$ 0.13	17,019,000	-	-	-	17,019,000
April 9, 2021	April 9, 2024	$ 0.11	42,548,544	-	-	-	42,548,544
April 9, 2021	April 9, 2023	$ 0.08	52,000	-	-	-	52,000
	Total		99,136,196	-	-	-	99,136,196
	Weighted average exercise price			-	-	-	0.12
Weighted average remaining contractual life						1.70 years	

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

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

For details on warrants granted in the current year, refer to Note 12(b).

(Expressed in Canadian Dollars)

12. SHARE CAPITAL (continued)

e) Warrants

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

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

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

13. 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,	\$ 2021	\$ 2020
Total salaries, benefits and management fees	260,137	184,137
Stock-based compensation	54,932	43,696
Total salaries and other short-term benefits	315,069	227,833

Included in accounts payable and accrued liabilities as at September 30, 2021 is \$276,181 (June 30, 2021: \$294,287) payable to Directors and Officers of the Company for management wages. The amount is non-interest bearing and unsecured.

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

During the year ended June 30, 2021, the principal amount of \$1,022,500 were converted into 20,450,000 common shares at conversion price of \$0.05 per share (note 11).

(Expressed in Canadian Dollars)

14. CANADA EMERGENCY WAGE SUBSIDY

The Company applied for and received the Canada Emergency Wage Subsidy ("CEWS"), which provides up to 75% of an employee's wages, up to a maximum of $847 per week. The initial program was in place for a 12-week period, from March 15, 2020 to June 6, 2020 and included three distinct claiming periods. In connection with the program, the Company received an additional $83,727 during the year ended June 30, 2021.

As at September 30, 2021, the Company continues to monitor the program and apply for subsidies as applicable.

15. FINANCIAL INSTRUMENTS

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

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

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

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.

15. FINANCIAL INSTRUMENTS (continued)

FVTPL

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

Financial liabilities

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

Amortized cost

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

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

Financial liabilities recorded FVTPL

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

Transaction costs

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

Subsequent measurement

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

Derecognition

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

15. FINANCIAL INSTRUMENTS (continued)

Expected credit loss impairment model

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

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

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. The fair value of consideration payable is determined based on level 2 inputs which consists of inputs other than quoted prices that are observable for the liability. As at September 30, 2021 and June 30, 2021, 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.

16. FINANCIAL RISK EXPOSURE AND RISK MANAGEMENT

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

Credit Risk
Credit risk is the risk of potential loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations. The Company is exposed to credit risk from its cash and cash equivalents, accounts receivable, due from related parties, and subscription receivables. The risk exposure is limited to their carrying amounts reflected on the statement of financial position. The risk for cash and cash equivalents is mitigated by holding most of these instruments with highly rated Canadian financial institutions. The carrying value of these financial assets represents the Company's maximum exposure to credit risk. As at September 30, 2021, the Company had $423,230 (June 30, 2021 - $370,204) financial assets that may be subject to credit risk defaults.

16. 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 17. 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, 2021, the Company held $935,509 (June 30, 2021 - $1,451,180) in current liabilities.

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

		Total	1 year	2-3 years	4-5 years	Over 5 years
Accounts payable and accrued liabilities	$	684,172	684,172	-	-	-
Lease liability		27,860	20,583	7,277	-	-
CEBA loan		60,000	-	-	60,000	-
Note payable		2,152,258	27,028	252,088	440,030	1,433,112
Consideration payable		251,337	251,337	-	-	-
	$	3,175,627	983,120	259,365	500,030	1,433,112

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, 2021, the Company holds $2,000,000 of interest-bearing debt, however there is no cash flow interest rate risk because the interest rate is fixed at 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.

(Expressed in Canadian Dollars)

17. CAPITAL MANAGEMENT

The Company considers capital to consist of CEBA loan, note payable, convertible debenture 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.

18. SEGMENTED REPORTING

The Company operates primary in three business segment, the sale of alcohol-free beverages and cannabis beverages/licencing.

The following table summarizes the Company's revenue by operating segments:

During the Three-Month Period Ended		September 30, 2021	September 30, 2020
Alcohol-free beverages	$	467,143	274,712
Cannabis beverages/licencing		137,596	-
	$	604,739	274,712

Revenues from external customers are derived from customers located as follows:

During the Three-Month Period Ended		September 30, 2021	September 30, 2020
Canada	$	420,181	223,829
United States		143,725	26,675
Other		40,833	24,208
	$	604,739	274,712

During the period ended September 30, 2021, one of the Company's customers accounted for 58% of net revenue and another customer accounted for 20% of net revenue (September 30, 2020: 57% and 9%, respectively).

Disaggregation of non-current assets by geographic area:

As at		September 30, 2021	June 30, 2021
Canada	$	3,726,139	3,805,713
United States		-	-
Other		-	-
	$	3,726,139	3,805,713

19. 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, 2021:

Financing activities

During the year ended September 30, 2021, the Company recognized interest expenses totaling $46,869 in connection with the promissory note (Note 11).

Investing activities

On August 9, 2021, the Company issued 7,575,758 shares to Lexaria CanPharm ULC valued at $530,303 as full payment in settlement of the second tranche of the consideration payable (Note 9 & 12).

During the three-month period ended September 30, 2020:

There were no significant non-cash transactions during the three-month period ended September 30, 2020.

20. CONTINGENCIES

During the three-month period ended September 30, 2021, a former employee filed a claim against the Company in the amount of $500,000 for employment-related compensation. The Company has assessed the merits of the claim, has filed a defence, and denies any liability in connection with this claim.