



HILL STREET BEVERAGE COMPANY INC.

UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE-MONTH PERIOD ENDED SEPTEMBER 30, 2022 AND 2021

(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
November 29, 2022

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

| | Notes | September 30, 2022 | June 30, 2022 |
|---|-------|-----------------------|------------------|
| | | \$ | \$ |
| ASSETS | | | |
| Current | | | |
| Cash and cash equivalents | | 718,357 | 1,153,195 |
| Accounts receivable | 5 | 628,576 | 1,343,994 |
| Due from related parties | 13 | 2,823 | 2,823 |
| Subscription receivables | | - | 6,150 |
| Inventory | 6 | 12,484 | 20,433 |
| Prepaid expenses | | 586,606 | 70,891 |
| Assets held for sale | 7/8 | 103,089 | 103,089 |
| Total current assets | | 2,051,935 | 2,700,575 |
| Intangible assets | 9 | 3,232,522 | 3,308,072 |
| Property and equipment | 8 | 150,283 | 149,194 |
| TOTAL ASSETS | | 5,434,740 | 6,157,841 |
| LIABILITIES | | | |
| Current | | | |
| Accounts payable and accrued liabilities | 13 | 820,832 | 987,646 |
| Note payable – current | 11 | 169,643 | 113,359 |
| Lease liability – current | 10 | 16,616 | 15,941 |
| CEBA loan | 11 | 56,723 | 53,623 |
| | | 1,063,814 | 1,170,569 |
| Lease liability – non-current | 10 | 50,150 | 54,560 |
| Note payable – non-current | 11 | 2,173,611 | 2,176,408 |
| | | 3,287,575 | 3,401,537 |
| SHAREHOLDERS' EQUITY | | | |
| Share capital | 12 | 20,163,633 | 20,095,633 |
| Reserve | 12 | 4,852,974 | 4,884,242 |
| Deficit | | (22,869,442) | (22,223,571) |
| TOTAL SHAREHOLDERS' EQUITY | | 2,147,165 | 2,756,304 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | | 5,434,740 | 6,157,841 |

Nature of operations and going concern (Note 1)

Subsequent Events (Note 18)

“Jack Fraser”

Director

“Craig Binkley”

Director

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

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

| For the Three-Month Period Ended | Notes | September 30, 2022 | September 30, 2021 |
|---|-------|--------------------|--------------------|
| | | \$ | \$ |
| Gross revenue | 4 | 380,502 | 660,483 |
| Chargebacks & listing fees | 4 | (26,852) | (55,744) |
| Net revenue | | 353,650 | 604,739 |
| Cost of sales | | (113,097) | (270,317) |
| Gross profit | | 240,553 | 334,422 |
| Expenses | | | |
| Accretion expense | 11 | 3,100 | 2,480 |
| Bad debt expense | 5/15 | 118,151 | - |
| Bank charges and interest | | 3,229 | 2,603 |
| Consulting fees | | 22,163 | 13,021 |
| Depreciation | 8/9 | 80,498 | 89,042 |
| Donations, dues & licenses | | - | 1,357 |
| Filing and transfer agent fees | | 6,028 | 1,972 |
| Insurance | | 59,390 | 39,722 |
| Interest on promissory note | 11 | 54,229 | 46,869 |
| Management fees | 13 | 36,236 | 37,167 |
| Marketing | | 19,976 | 50,312 |
| Office and miscellaneous | | 70,145 | 40,207 |
| Professional fees | | 60,403 | 115,704 |
| Stock-based compensation | 12/13 | 36,732 | 56,083 |
| Travel and meal allowance | | 10,097 | 14,934 |
| Wages and salaries | 13 | 250,917 | 271,896 |
| Selling and delivery | | 75,123 | 102,095 |
| | | 906,417 | 885,464 |
| Loss before other income (expense) | | (665,864) | (551,042) |
| Other income (expenses) | | | |
| Foreign exchange gain | | 18,296 | 1,242 |
| Write-off of inventory | 6 | - | (18,057) |
| Loss on fair value of consideration | 9 | - | (35,416) |
| Gain on settlement of liability | | - | 213 |
| Other income | | 1,697 | 3,500 |
| | | 19,993 | (48,518) |
| Net loss and comprehensive loss | | (645,871) | (599,560) |
| Basic and diluted loss per common share | | (0.00) | (0.00) |
| Weighted average number of common shares outstanding | | 224,233,878 | 209,000,644 |

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)

| | <u>Common Shares</u> | | | | |
|--|----------------------|------------|-----------|--------------|-----------|
| | Shares | Amount | Reserve | Deficit | Total |
| | | \$ | \$ | \$ | \$ |
| 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 |
| As at June 30, 2022 | 222,940,400 | 20,095,633 | 4,884,242 | (22,223,571) | 2,756,304 |
| Exercise of RSUs (Note 12) | 1,700,000 | 68,000 | (68,000) | - | - |
| Stock-based compensation | - | - | 36,732 | - | 36,732 |
| Net loss for the period | - | - | - | (645,871) | (645,871) |
| As at September 30, 2022 | 224,640,400 | 20,163,633 | 4,852,974 | (22,869,442) | 2,147,165 |

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

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

| For the Three-Month Period Ended | September 30, 2022 | September 30, 2021 |
|---|---------------------------|---------------------------|
| | \$ | \$ |
| OPERATING ACTIVITIES | | |
| Net loss for the period | (645,871) | (599,560) |
| Items not affecting cash: | | |
| Depreciation | 80,498 | 89,042 |
| Loss on fair value of consideration payable | - | 35,416 |
| Gain on settlement of liabilities | - | (213) |
| Write-off of inventory | - | 18,057 |
| Stock-based compensation | 36,732 | 56,083 |
| Bad debt expense | 118,151 | - |
| Accretion expense | 3,100 | 2,480 |
| Accrued interest | 56,038 | 47,453 |
| | (351,352) | (351,242) |
| Changes in non-cash working capital items: | | |
| Accounts receivable | 597,267 | (53,026) |
| Subscription receivables | 6,150 | - |
| Inventory | 7,949 | 49,327 |
| Prepaid expenses | (515,715) | (27,325) |
| Accounts payable and accrued liabilities | (167,556) | (20,571) |
| Cash used in operating activities | (423,257) | (402,837) |
| INVESTING ACTIVITIES | | |
| Purchase of property and equipment | (6,037) | (349) |
| Purchase of intangible assets | - | (9,119) |
| Cash used in investing activities | (6,037) | (9,468) |
| FINANCING ACTIVITIES | | |
| Lease payments | (5,544) | (5,421) |
| Cash used in financing activities | (5,544) | (5,421) |
| CHANGE IN CASH AND CASH EQUIVALENTS | (434,838) | (417,726) |
| CASH AND CASH EQUIVALENTS, END OF YEAR | 1,153,195 | 2,722,141 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | 718,357 | 2,304,415 |

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

Hill Street Beverage Company Inc.
Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the Three-Month Period Ended September 30, 2022 and 2021
(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 is also engaged in cannabis technology licensing.

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

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

These 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, 2022, the Company had not yet achieved profitable operations, had a net loss of \$645,871 (September 30, 2021: \$599,560), accumulated deficit of \$22,869,442 (June 30, 2022: \$22,223,571), 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 condensed interim consolidated financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern. Such adjustments could be material.

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

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

Hill Street Beverage Company Inc.
Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the Three-Month Period Ended September 30, 2022 and 2021
(Expressed in Canadian Dollars)

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, 2022 and 2021 (the "Annual Financial Statements").

These condensed interim consolidated financial statements for the three-month period ended September 30, 2022 were approved and authorized for issuance by the Board of Directors on November 29, 2022.

Basis of Presentation

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

Basis of Consolidation

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

Hill Street Beverage Company Inc.
Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the Three-Month Period Ended September 30, 2022 and 2021
(Expressed in Canadian Dollars)

2. BASIS OF PREPARATION (continued)

Foreign currency translation

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

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

Use of Estimates and Judgments

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

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

Critical Accounting Estimates and Judgements

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

Hill Street Beverage Company Inc.
Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the Three-Month Period Ended September 30, 2022 and 2021
(Expressed in Canadian Dollars)

2. BASIS OF PREPARATION (continued)

Use of Estimates and Judgments (continued)

- When valuing options, estimates are required to be made by management when determining the inputs to the Black-Scholes option pricing model including the expected plan lives, underlying share price volatility and forfeiture rates. Volatility is estimated by considering the Company's own historical share price volatility, as well as peer companies historic share price volatility over similar periods to the expected life of the awards under consideration. Changes in these assumptions will impact the calculation of fair value and the amount of compensation expense recognized in the consolidated statements of loss and comprehensive loss.
- When valuing warrants, similar to other stock-based compensation, management uses judgment to determine the inputs to the Black-Scholes option pricing model including the expected life, and underlying share price volatility. Volatility is estimated by considering peer companies historic share price volatility over similar periods to the expected life of the warrants. Changes in these assumptions will impact the calculation of fair value and the value attributed to the warrants.
- When determining the discount rate used to estimate the fair value of the debt component of the convertible debenture and the fair value of the CEBA loan, the Company considers market conditions and other internal and external factors. The Company estimates its credit rating and benchmarks the discount rate to certain fixed income indices.
- When valuing restricted share units subject to market based vesting terms, similar to other stock-based compensation, management uses judgment to determine the inputs to the Barrier option pricing model including the expected life, and underlying share price volatility. Volatility is estimated by considering the Company's own historical share price volatility. Management is also required to apply judgment in assessing the timing and success rate for which non-market based vesting terms will be achieved. Changes in these assumptions will impact the calculation of fair value and the amount of compensation expense recognized in the consolidated statements of loss and comprehensive loss.
- When the Company enters into leases as a lessee and where the interest rate implicit in a lease cannot be readily determined, the Company determines its incremental borrowing rate in order to measure its lease liability. The incremental borrowing rate is the rate of interest that a lessee would have to pay to borrow over a similar term, and with similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. In estimating its incremental borrowing rate, the Company considers the term of the lease, the nature of the leased asset, and its level of indebtedness with reference to market risk-free interest rates.

Hill Street Beverage Company Inc.
Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the Three-Month Period Ended September 30, 2022 and 2021
(Expressed in Canadian Dollars)

2. BASIS OF PREPARATION (continued)

Use of Estimates and Judgments (continued)

- In some contracts, the Company transfers control of a product to distributors and grants the distributors the right to return the product for a full or partial refund in the scenario that products are to expire in the hands of the distributor. To account for the transfer of products with a right of return, the Company recognizes revenue for the transferred products in the amount of consideration to which the Company expects to be entitled to (therefore, revenue would not be recognized for the products expected to be returned). The expected consideration to be received is determined based on a combination of historical, current and forecasted information available to the entity at the end of each reporting period.
- The recoverable amount of intangible asset is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss, or any reversal of a previously recognized impairment loss, is recognized immediately in profit or loss.
- Consideration payable is measured at fair value on initial recognition and at subsequent reporting dates with the corresponding gain or loss recognized in profit or loss. The fair value of consideration payable is subject to the limitation of the Monte Carlo simulation that incorporates market data and involves uncertainty in estimates used by management in the assumptions. Because the Monte Carlo simulation requires the input of highly subjective assumptions, changes in subjective input assumptions can materially affect the fair value estimate.
- The Company performs impairment testing at the end of each reporting period for accounts receivable in accordance with IFRS 9. The ECL model requires considerable judgment, including consideration of how changes in economic factors affect ECLs, which are determined on a probability-weighted basis. IFRS 9 outlines a three-stage approach to recognizing ECLs which is intended to reflect the increase in credit risks of a financial instrument based on 1) 12-month expected credit losses or 2) lifetime expected credit losses. The Company measures provision for ECLs at an amount equal to lifetime ECLs. The Company applies the simplified approach to determine ECLs on trade receivables by using a provision matrix based on historical credit loss experiences. The historical results were used to calculate the run rates of default which were then applied over the expected life of the trade receivables, adjusted for forward looking estimate.
- Impairment indicators include a significant decline in an asset's market value, significant changes in the technologies, market, economic or legal environment in which the assets are operated, evidence of obsolescence or physical damage of an asset, significant changes in the planned use of an asset, or ongoing under-performance of an asset. Application of these factors to the facts and circumstances of a particular asset requires a significant amount of judgment.

Hill Street Beverage Company Inc.
Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the Three-Month Period Ended September 30, 2022 and 2021
(Expressed in Canadian Dollars)

2. BASIS OF PREPARATION (continued)

Use of Estimates and Judgments (continued)

- The Company regularly reviews inventory quantities on hand and records a provision for those inventories no longer deemed to be fully recoverable. The cost of inventories may no longer be recoverable if those inventories are slow moving, damaged, if they have become obsolete, or if their selling prices or estimated forecast of product demand decline. Accordingly, management is required to estimate the future selling price of inventory, less the expected costs to complete the sale based on the current available market data when determining the net realizable value of inventory. If actual market conditions are less favorable than previously projected, or if liquidation or the inventory no longer deemed to be fully recoverable is more difficult than anticipated, additional provisions may be required.
- The assessment of the Company's ability to continue as a going concern involves judgement regarding future funding available for its operations and working capital requirements as discussed in Note 1.
- Upon reclassification of non-current assets as held for sale, assets are required to be measured at the lower of their carrying value and fair value, less costs to sell. Accordingly, estimates are required to be made by management in assessing the fair market value of the assets held for sale, less the expected costs to complete the sale based on the current available market data. If actual market conditions are more or less favorable than previously projected, this can materially affect the fair value estimate.
- When the Company enters into leases as a lessee, it determines the lease term as the non-cancellable period of the lease together with periods covered by an option to extend the lease if it reasonably expects to exercise such option. In assessing whether it is reasonably certain to exercise an option to extend a lease, the Company considers: the contractual terms and conditions for the optional periods compared with market rates; whether any significant leasehold improvements have been undertaken; the costs of terminating the lease; the importance of the underlying asset to the Company's operations; and any conditionality associated with exercising the option.
- Provisions are recognized when the Company has a present obligation, legal or constructive as a result of a previous event, if it is probable that the Company will be required to settle the obligation and a reliable estimate can be made of the obligation. The amount recognized is the best estimate of the expenditure required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligations. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate of the expected future cash flows.

Hill Street Beverage Company Inc.
Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the Three-Month Period Ended September 30, 2022 and 2021
(Expressed in Canadian Dollars)

3. NEW STANDARDS ADOPTED

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

The adoption of the above standard did not have any significant impact on the consolidated financial statements of the Company upon adoption on July 1, 2022.

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

The adoption of the above standard did not have any significant impact on the consolidated financial statements of the Company upon adoption on July 1, 2022.

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

The adoption of the above standard did not have any significant impact on the consolidated financial statements of the Company upon adoption on July 1, 2022.

Hill Street Beverage Company Inc.
Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the Three-Month Period Ended September 30, 2022 and 2021
(Expressed in Canadian Dollars)

4. NET REVENUE

| For the Three-Month Period Ended | | September 30, 2022 | September 30, 2021 |
|---|----|---------------------------|---------------------------|
| Non-alcoholic beverage sales | \$ | 187,581 | 508,215 |
| Licensing income | | 174,835 | 133,935 |
| Other income | | 18,086 | 18,333 |
| Chargebacks and listing fees | | (26,852) | (55,744) |
| | \$ | 353,650 | 604,739 |

Other income consists of commissions.

5. ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

| As at | | September 30, 2022 | June 30, 2022 |
|-------------------|----|---------------------------|----------------------|
| Trade receivables | \$ | 559,052 | 1,320,010 |
| GST receivables | | 69,524 | 23,984 |
| | \$ | 628,576 | 1,343,994 |

During the three-month period ended September 30, 2022, the Company wrote-off \$118,151 (September 30, 2021: \$nil) to Bad debt expense as the result of a customer amount owing being deemed uncollectible. This amount is included on the condensed interim consolidated statements of operations and comprehensive loss.

6. INVENTORY

| As at | | June 30, 2022 | June 30, 2021 |
|----------------|----|----------------------|----------------------|
| Finished goods | \$ | 12,484 | 20,433 |
| | \$ | 12,484 | 20,433 |

Inventory write downs recognized in write-off of inventory under other income during the three-month period ended September 30, 2022 amounted to \$nil (September 30, 2021: \$18,057). The cost of inventory recognized as an expense and included in cost of sales during the three-month period ended September 30, 2022 was \$113,097 (September 30, 2021: \$263,296).

7. ASSETS HELD FOR SALE

During the year ended June 30, 2022, the Company listed the equipment from its bottling and canning line for sale, resulting in the reclassification of equipment as assets held for sale. Prior to their reclassification, the equipment was reported under property and equipment at a carrying value of \$157,144. Upon reclassification and as at June 30, 2022 and September 30, 2022, the assets held for sale were revalued at the lower of their carrying value and their net realizable value, determined to be \$103,089.

Hill Street Beverage Company Inc.
Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the Three-Month Period Ended September 30, 2022 and 2021
(Expressed in Canadian Dollars)

8. PROPERTY AND EQUIPMENT

| | ROU Asset | Computer Equipment | Computer Software | Equipment | Assets in progress | Total |
|--|-----------|-----------------------|----------------------|-----------|-----------------------|-----------|
| Cost | \$ | \$ | \$ | \$ | \$ | \$ |
| Balance at June 30, 2021 | 53,019 | 8,699 | 2,114 | 277,639 | - | 341,471 |
| Additions | 52,091 | 2,494 | 901 | - | 79,450 | 134,936 |
| Reclassification (note 8) | - | - | - | (277,639) | - | (277,639) |
| Balance at June 30, 2022 | 105,110 | 11,193 | 3,015 | - | 79,450 | 198,768 |
| Additions | - | 1,275 | - | - | 4,762 | 6,037 |
| Balance at September 30, 2022 | 105,110 | 12,468 | 3,015 | - | 84,212 | 204,805 |
| Accumulated depreciation | | | | | | |
| Balance at June 30, 2021 | 23,565 | 5,219 | 1,648 | 103,035 | - | 133,467 |
| Depreciation for the year | 17,487 | 1,372 | 283 | 17,460 | - | 36,602 |
| Reclassification (note 8) | - | - | - | (120,495) | - | (120,495) |
| Balance at June 30, 2022 | 41,052 | 6,591 | 1,931 | - | - | 49,574 |
| Depreciation for the period | 4,368 | 490 | 90 | - | - | 4,948 |
| Balance at September 30, 2022 | 45,420 | 7,081 | 2,021 | - | - | 54,522 |
| Carrying amount at June 30, 2022 | 64,058 | 4,602 | 1,084 | - | 79,450 | 149,194 |
| Carrying amount at September 30, 2022 | 59,690 | 5,387 | 994 | - | 84,212 | 150,283 |

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

Hill Street Beverage Company Inc.
Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the Three-Month Period Ended September 30, 2022 and 2021
(Expressed in Canadian Dollars)

9. INTANGIBLE ASSETS

| | Canpharm / Lexaria License (i) & (ii) | Other License (iii) | Trademarks (iv) | Total |
|--|--|------------------------|--------------------|------------------|
| Cost | \$ | \$ | \$ | \$ |
| Balance at June 30, 2021 | 3,816,492 | 51,250 | 17,538 | 3,885,280 |
| Additions | - | 17,854 | 204 | 18,058 |
| Impairment | - | - | (5,629) | (5,629) |
| Balance at June 30 and September 30, 2022 | 3,816,492 | 69,104 | 12,113 | 3,897,709 |
| Accumulated depreciation | | | | |
| Balance at June 30, 2021 | 263,770 | 23,801 | - | 287,571 |
| Depreciation for the year | 296,715 | 5,351 | - | 302,066 |
| Balance at June 30, 2022 | 560,485 | 29,152 | - | 589,637 |
| Depreciation for the period | 74,179 | 1,371 | - | 75,550 |
| Balance at September 30, 2022 | 634,664 | 30,523 | - | 665,187 |
| Carrying amount at June 30, 2022 | 3,256,007 | 39,952 | 12,113 | 3,308,072 |
| Carrying amount at September 30, 2022 | 3,181,828 | 38,581 | 12,113 | 3,232,522 |

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

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

Hill Street Beverage Company Inc.
Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the Three-Month Period Ended September 30, 2022 and 2021
(Expressed in Canadian Dollars)

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, a total of 6,031,363 common shares valued at \$753,920 issued on closing 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.

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

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

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

As at June 30, 2022 and September 30, 2022, consideration payable was considered to be settled in full and a loss on fair value of consideration payable totaling \$nil (September 30, 2021: \$35,416) was recognized in the consolidated statements of operations and comprehensive loss.

Hill Street Beverage Company Inc.
Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the Three-Month Period Ended September 30, 2022 and 2021
(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, 2022, the Company has capitalized a total of \$69,104 of costs associated with acquiring a Standard Processor License under the Cannabis act (Canada), and a Standard Processing License application under Health Canada. These licenses fees are being amortized over their useful life of 5 years.
- (iv) As of September 30, 2022, the Company has capitalized a total of \$17,742 for trademarks, of which \$5,629 was deemed to be impaired and recognized as a loss on impairment of intangible assets during the year ended June 30, 2022.

Hill Street Beverage Company Inc.
Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the Three-Month Period Ended September 30, 2022 and 2021
(Expressed in Canadian Dollars)

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.

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

| | Lease liability |
|-----------------------------------|------------------------|
| Balance, June 30, 2021 | 32,697 |
| Extension of lease | 52,091 |
| Interest expense | 7,560 |
| Lease payments | (21,847) |
| Balance, June 30, 2022 | 70,501 |
| Interest expense | 1,809 |
| Lease payments | (5,544) |
| Balance, September 30 2022 | 66,766 |
| Current portion | 16,616 |
| Non-current portion | 50,150 |

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

| Fiscal Year | Lease Payments |
|--------------------|-----------------------|
| 2023 | \$16,800 |
| 2024 | \$22,857 |
| 2025 | \$23,383 |
| 2026 | \$15,826 |
| TOTAL | \$78,866 |

Hill Street Beverage Company Inc.
Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the Three-Month Period Ended September 30, 2022 and 2021
(Expressed in Canadian Dollars)

11. LOANS PAYABLE

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

| As at | September 30, 2022 | June 30, 2022 |
|---------------------|--------------------|---------------|
| | \$ | \$ |
| CEBA loan | 56,723 | 53,623 |
| Promissory note | 2,343,254 | 2,289,767 |
| Total loans payable | 2,399,977 | 2,343,390 |

Canada Emergency Business Account

| | CEBA loan |
|--------------------------------------|-----------------|
| Balance at June 30, 2021 | \$42,908 |
| Accretion Expense | \$10,715 |
| Balance at June 30, 2022 | \$53,623 |
| Accretion Expense | \$3,100 |
| Balance at September 30, 2022 | \$56,723 |

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 three-month period ended September 30, 2022, \$3,100 (September 30, 2021: \$2,480) of interest expense related to the CEBA loan was recognized and included in accretion expense in the consolidated statements of operations and comprehensive loss.

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

Hill Street Beverage Company Inc.
Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the Three-Month Period Ended September 30, 2022 and 2021
(Expressed in Canadian Dollars)

11. LOANS PAYABLE (continued)

Notes payable

On December 9, 2020, in consideration of the value received in connection with the Lexaria Asset Acquisition, the Company agreed to pay the principal sum of \$2,000,000 in the form of a promissory note. On initial recognition the principal amount shall bear interest at the rate of 10% per annum and shall accrue and be calculated quarterly-annually. The principal amount and any accrued interest shall be repayable by the Company in quarterly installments in an amount equal to 5% of the gross sales realized from cannabis infused product sold by the Company or its licenses utilizing the acquired technology. This promissory note and any accrued interest may be prepaid by the Company at any time in its sole and absolute discretion without penalty. On December 9, 2021, the principal balance on the promissory note was amended to \$2,180,082, comprising the original principal balance of \$2,000,000 and \$180,082 of accrued and unpaid interest. Under the amended terms of the promissory note, interest shall now be compounded and calculated annually. During the three-month period ended September 30, 2022, the Company recognized interest expenses totaling \$54,229 (September 30, 2021: \$46,869) in the condensed consolidated interim statements of operations and comprehensive loss.

12. SHARE CAPITAL

a) Authorized

Unlimited number of common shares with no par value.

b) Issued and outstanding

At September 30, 2022 and June 30, 2022, the issued and outstanding share capital is comprised of 224,640,400 and 222,940,400 common shares, respectively.

During the period ended September 30, 2022 the Company issued the following shares:

On July 22, 2022, 1,700,000 of the RSUs previously granted were exercised by employees for common shares of the Company. The fair value of RSUs exercised \$68,000 was reclassified to share capital from reserves.

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).

Hill Street Beverage Company Inc.
Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the Three-Month Period Ended September 30, 2022 and 2021
(Expressed in Canadian Dollars)

12. SHARE CAPITAL (continued)

c) Stock options

The continuity of options for the period ended September 30, 2022 is summarized below:

| Granted | Expiry | Exercise Price | June 30, 2022 | Granted | Expired / Forfeited | Sept. 30, 2022 | Exercisable |
|---|---------------|----------------|---------------|---------|---------------------|----------------|-------------|
| July 31, 2018 | July 31, 2023 | \$ 0.075 | 2,228,742 | - | - | 2,228,742 | 2,228,742 |
| July 31, 2018 | Aug. 18, 2022 | \$ 0.075 | 863,378 | - | (863,378) | - | - |
| May 23, 2019 | May 23, 2024 | \$ 0.075 | 215,000 | - | - | 215,000 | 215,000 |
| May 1, 2020 | May 1, 2025 | \$ 0.05 | 1,650,000 | - | - | 1,650,000 | 1,650,000 |
| May 1, 2020 | Aug. 18, 2022 | \$ 0.05 | 587,500 | - | (587,500) | - | - |
| Mar. 1, 2021 | Mar. 1, 2026 | \$ 0.095 | 2,200,000 | - | (500,000) | 1,700,000 | 1,383,333 |
| Mar. 1, 2021 | Aug. 18, 2022 | \$ 0.095 | 437,500 | - | (437,500) | - | - |
| Mar. 1, 2021 | May 27, 2023 | \$ 0.095 | 33,333 | - | - | 33,333 | 33,333 |
| Mar. 1, 2021 | Aug. 31, 2023 | \$ 0.095 | 1,000,000 | - | - | 1,000,000 | 1,000,000 |
| Apr. 30, 2021 | Apr. 30, 2026 | \$ 0.09 | 3,778,500 | - | - | 3,778,500 | 3,778,500 |
| Mar. 28, 2022 | Mar. 28, 2027 | \$ 0.04 | 750,000 | - | - | 750,000 | 750,000 |
| Total | | | 13,743,953 | - | (2,388,378) | 11,355,575 | 11,038,908 |
| Weighted average exercise price | | | | - | (0.08) | \$ 0.08 | \$ 0.08 |
| Weighted average remaining contractual life | | | | | | 2.65 years | |

The continuity of options for the year period September 30, 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 | |

Hill Street Beverage Company Inc.
Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the Three-Month Period Ended September 30, 2022 and 2021
(Expressed in Canadian Dollars)

12. SHARE CAPITAL (continued)

c) Stock options (continued)

During the three-month period ended September 30, 2022 the Company had:

- 1,500,000 options forfeited, initially held by a former officer of the Company. Previously recorded stock-based compensation of \$20,118 related to the forfeited options was reversed and is included in Stock-based compensation on the Condensed Interim Consolidated Statements of Operations and Comprehensive Loss
- 2,388,378 options expire unexercised

During the three-month period ended September 30, 2021 the Company:

- Had 1,415,000 options forfeited

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, 2022 share-based compensation deficiency of (\$17,706) (September 30, 2021: \$56,083) was recognized in the consolidated statement of operations and comprehensive loss.

Hill Street Beverage Company Inc.
Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the Three-Month Period Ended September 30, 2022 and 2021
(Expressed in Canadian Dollars)

12. SHARE CAPITAL (continued)

d) Warrants

The continuity of warrants for the period ended September 30, 2022 is summarized below:

| Granted | Expiry | Exercise Price | June 30, 2022 | Granted | Expired / Cancelled | Exercised | Sept 30, 2022 |
|---|---------------|----------------|---------------|---------|---------------------|------------|---------------|
| 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 | | | 59,619,544 | - | - | - | 59,619,544 |
| Weighted average exercise price | | | | - | - | - | 0.12 |
| Weighted average remaining contractual life | | | | | | 1.13 years | |

The continuity of warrants for the period 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 | |

e) Restricted share unit plan

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

Hill Street Beverage Company Inc.
Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the Three-Month Period Ended September 30, 2022 and 2021
(Expressed in Canadian Dollars)

12. SHARE CAPITAL (continued)

e) Restricted share unit plan (continued)

During the three-month period ended September 30, 2022 the Company granted the following RSUs:

On July 1, 2022, the Company granted 500,000 RSUs to an employee of the Company. Each RSU entitles the holder to receive one common share of the Company upon the vesting of such RSU. The RSUs are to vest immediately. The fair value of these RSUs was determined to be \$12,500 by reference to the fair value of the Company's common shares on the date of grant and will be recognized immediately as an expense.

During the three-month period ended September 30, 2021 the Company did not grant any RSUs

Pursuant to the vesting schedule of RSUs granted during the three-month period ended September 30, 2022 share-based compensation of \$54,438 (September 30, 2021: \$Nil) and is included in Stock-based compensation in the Condensed Interim Consolidated Statement of Operations and Comprehensive Loss.

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

| | Number of RSUs |
|----------------------------------|-----------------------|
| Balance as at June 30, 2022 | 11,671,223 |
| RSUs granted | 500,000 |
| Redeemed into common shares | (1,700,000) |
| Balance as at September 30, 2022 | 10,471,223 |

As at September 30, 2022, a total of 1,893,778 RSUs have vested and are exercisable.

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, | \$ | \$ |
|--|-------------|-------------|
| | 2022 | 2021 |
| Total salaries, benefits and management fees | 158,375 | 260,137 |
| Stock-based compensation | 45,599 | 54,932 |
| Total salaries and other short-term benefits | 203,974 | 315,069 |

Included in accounts payable and accrued liabilities as at September 30, 2022 is \$170,525 (June 30, 2022: \$504,665) payable to Directors and Officers of the Company for management wages. The amount is non-interest bearing and unsecured.

Hill Street Beverage Company Inc.
Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the Three-Month Period Ended September 30, 2022 and 2021
(Expressed in Canadian Dollars)

14. FINANCIAL INSTRUMENTS

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

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

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

Financial assets

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

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.

Hill Street Beverage Company Inc.
Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the Three-Month Period Ended September 30, 2022 and 2021
(Expressed in Canadian Dollars)

14. 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.

Hill Street Beverage Company Inc.
Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the Three-Month Period Ended September 30, 2022 and 2021
(Expressed in Canadian Dollars)

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

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

15. FINANCIAL RISK EXPOSURE AND RISK MANAGEMENT

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

Credit Risk

Credit risk is the risk of potential loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations. The Company is exposed to credit risk from its cash and cash equivalents, accounts receivable, due from related parties, and subscription receivables. The risk exposure is limited to their carrying amounts reflected on the consolidated statements of financial position. The risk for cash and cash equivalents is mitigated by holding most of these instruments with highly rated Canadian financial institutions. The carrying value of these financial assets represents the Company's maximum exposure to credit risk. During the three-month period ended September 30, 2022, the Company wrote-off \$118,151 to Bad debt expense as the result of a customer amount owing being deemed uncollectible. This amount is included on the condensed interim consolidated statements of operations and

Hill Street Beverage Company Inc.
Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the Three-Month Period Ended September 30, 2022 and 2021
(Expressed in Canadian Dollars)

15. FINANCIAL RISK EXPOSURE AND RISK MANAGEMENT (continued)

Credit Risk (continued)

comprehensive loss. As at September 30, 2022, the Company had \$631,399 (June 30, 2022 - \$1,352,967) financial assets that may be subject to credit risk defaults.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations with respect to financial liabilities as they fall due. The Company's financial liabilities consist of its accounts payable and accrued liabilities, CEBA loan, consideration payable, note payable and convertible debentures. The Company manages its liquidity risk through the management of its capital structure as described in Note 16. The Company's accounts payable and accrued liabilities have contractual maturities of 30 days or are due on demand, do not generally bear interest and are subject to normal trade terms. As at September 30, 2022, the Company held \$1,063,814 (June 30, 2022 - \$1,170,569) 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 | \$ | 820,832 | 820,832 | - | - | - |
| Lease liability | | 78,866 | 22,471 | 46,504 | 9,891 | - |
| CEBA loan | | 60,000 | 60,000 | - | - | - |
| Note payable | | 2,343,254 | 169,643 | 460,233 | 564,610 | 1,148,768 |
| | \$ | 3,302,952 | 1,072,946 | 506,737 | 574,501 | 1,148,768 |

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, 2022, the Company holds \$2,343,254 (June 30, 2022 - \$2,289,767) 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. The Company has not hedged its exposure to currency fluctuations.

Hill Street Beverage Company Inc.
Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the Three-Month Period Ended September 30, 2022 and 2021
(Expressed in Canadian Dollars)

15. FINANCIAL RISK EXPOSURE AND RISK MANAGEMENT (continued)

Foreign exchange risk (continued)

As at September 30, 2022, a plus or minus 5% change in foreign exchange rates would affect the consolidated statements of operations and comprehensive loss by \$21,788 (June 30, 2022 - \$19,022).

16. CAPITAL MANAGEMENT

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

17. SEGMENTED REPORTING

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

| During the Three-Month Period Ended September 30, | 2022 | 2021 |
|--|-------------|-------------|
| Canada | \$ 178,815 | 420,181 |
| United States | 174,835 | 143,725 |
| Other | - | 40,833 |
| | \$ 353,650 | 604,739 |

During the three-month period ended September 30, 2022, one of the Company's customers accounted for 44% of net revenue and another customer accounted for 29% of net revenue (September 30, 2021: 58% and 20%, respectively).

Disaggregation of non-current assets by geographic area:

| As at | September 30, 2022 | June 30, 2022 |
|---------------|---------------------------|----------------------|
| Canada | \$ 3,382,805 | 3,457,266 |
| United States | - | - |
| Other | - | - |
| | \$ 3,382,805 | 3,457,266 |

Hill Street Beverage Company Inc.
Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the Three-Month Period Ended September 30, 2022 and 2021
(Expressed in Canadian Dollars)

17. SEGMENTED REPORTING (continued)

Reportable business segment information is as follows:

| | September 30, 2022 | | September 30, 2021 | |
|------------------------|---------------------------|------------------|---------------------------|------------------|
| | Beverages | Licensing | Beverages | Licensing |
| | \$ | \$ | \$ | \$ |
| Revenue | (178,815) | (174,835) | (470,804) | (133,935) |
| Interest and accretion | 3,100 | 56,038 | 2,480 | 47,453 |
| Depreciation | 580 | 79,918 | 9,073 | 79,969 |
| Total assets | 1,866,496 | 3,568,244 | 3,491,602 | 3,633,399 |
| Total liabilities | (877,555) | (2,410,020) | (729,560) | (2,431,455) |

18. SUBSEQUENT EVENTS

On October 12, 2022, the Company granted 1,000,000 restricted share units (“RSUs”) to an officer of the Company. The RSUs are to vest on October 12, 2023.

On November 18, 2022:

- the Company received approval from the TSXV Exchange to reduce the exercise price and extend the expiry date of 11,250,900 warrants of the Company which were originally set to expire on November 18, 2022. The new expiry date of the amended warrants is March 17, 2023 and the reduced exercise price is \$0.05.
- 5,768,100 warrants exercisable at price of \$0.13 expired unexercised.

On November 22, 2022, 500,000 RSUs previously granted were redeemed for common shares by an employee of the Company.