

HILL STREET BEVERAGE COMPANY INC.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

(Expressed in Canadian dollars)



Independent Auditor's Report

To the Shareholders of Hill Street Beverage Company Inc.:

Opinion

We have audited the consolidated financial statements of Hill Street Beverage Company Inc. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at June 30, 2021 and June 30, 2020, and the consolidated statements operations and comprehensive loss, changes in Shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at June 30, 2021 and June 30, 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company incurred a net loss during the year ended June 30, 2021 and has an accumulated deficit as at June 30, 2021. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is William E.K. Avery.

Toronto, Ontario
October 28, 2021

MNP **LLP**
Chartered Professional Accountants
Licensed Public Accountants

MNP

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

	Notes	June 30, 2021	June 30, 2020
		\$	\$
ASSETS			
Current			
Cash and cash equivalents		2,722,141	700,431
Accounts receivable	6	361,231	406,851
Due from related parties	13	2,823	2,823
Subscription receivables		6,150	-
Inventory	7	549,442	193,911
Prepaid expenses		161,834	272,775
Total current assets		3,803,621	1,576,791
Intangible assets	9	3,597,709	170,928
Property and equipment	8	208,004	268,954
TOTAL ASSETS		7,609,334	2,016,673
LIABILITIES			
Current			
Accounts payable and accrued liabilities	13	704,956	987,010
Consideration payable	9	746,224	-
Notes payable – current	11	22,466	-
Lease liability – current	10	20,080	18,170
		1,493,726	1,005,180
Lease liability – non-current	10	12,617	32,696
CEBA loan	11	42,908	22,885
Note payable – non-current	11	2,082,923	-
Convertible debenture	11	-	770,485
		3,632,174	1,831,246
SHAREHOLDERS' EQUITY			
Share capital	12	19,052,885	13,844,029
Reserve	12	4,569,911	2,900,803
Deficit		(19,645,636)	(16,559,405)
TOTAL SHAREHOLDERS' EQUITY		3,977,160	185,427
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		7,609,334	2,016,673
Nature of operations and going concern (Note 1)			
Subsequent Events (Note 21)			
	"Jack Fraser"		"Craig Binkley"
	Director		Director

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

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

	Notes	June 30, 2021	June 30, 2020
		\$	\$
Gross revenue	5	2,753,481	2,613,923
Chargebacks & listing fees	5	(558,567)	(883,068)
Net revenue		2,194,914	1,730,855
Cost of sales		(1,071,284)	(1,004,806)
Gross profit		1,123,630	726,049
Expenses			
Accretion expense	11	111,350	19,484
Bad debts		353	-
Bank charges and interest		128,545	6,674
Consulting fees		58,654	7,440
Depreciation	8/9	253,072	112,238
Donations, dues & licenses		(31)	266,501
Filing and transfer agent fees		127,906	78,336
Insurance		115,962	16,601
Interest on convertible loan	11	50,808	10,085
Management fees	13	100,021	66,000
Marketing		251,992	369,086
Office and miscellaneous		158,806	41,987
Professional fees		516,723	1,313,249
Stock-based compensation	12/13	486,112	295,275
Travel and meal allowance		21,890	46,172
Wages and salaries	13	1,064,050	1,241,170
Selling and delivery		625,832	482,360
		4,072,045	4,372,658
Loss before other income (expense)		(2,948,415)	(3,646,609)
Other income (expenses)			
Foreign exchange gain (loss)		(5,393)	(7,975)
Write-off of inventory	7	(17,258)	(80,445)
Write-off of intangibles		-	(8,000)
Loss on fair value of consideration	9	(259,216)	-
Gain on favourable interest rate	11	6,541	17,939
Gain on settlement of liability		137,480	43,217
Other income		30	194
		(137,816)	(35,070)
Net loss and comprehensive loss		(3,086,231)	(3,681,679)
Basic and diluted loss per common share		(0.02)	(0.04)
Weighted average number of common shares outstanding		141,775,866	104,401,665

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

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

	Common Shares				
	Shares	Amount	Reserve	Deficit	Total
		\$	\$	\$	\$
As at June 30, 2019	96,283,331	12,938,115	2,317,379	(12,877,726)	2,377,768
Units issued for cash (Note 12)	8,666,665	436,235	83,765	-	520,000
Units issued for services (Note 12)	4,658,333	234,476	45,024	-	279,500
Share issuance costs	-	(76,914)	-	-	(76,914)
Exercise of stock options	680,000	169,200	(91,000)	-	78,200
Exercise of warrants	187,250	59,350	(21,900)	-	37,450
Shares issued for debt	1,584,801	83,567	-	-	83,567
Convertible debenture warrants	-	-	136,130	-	136,130
Conversion feature – reserve	-	-	136,130	-	136,130
Stock-based compensation	-	-	295,275	-	295,275
Net loss for the year	-	-	-	(3,681,679)	(3,681,679)
As at June 30, 2020	112,060,380	13,844,029	2,900,803	(16,559,405)	185,427
Shares issued for debt (Note 12)	144,229	12,259	-	-	12,259
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	-	-	486,112	-	486,112
Net loss for the year	-	-	-	(3,086,231)	(3,086,231)
As at June 30, 2021	204,718,694	19,052,885	4,569,911	(19,645,636)	3,977,160

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

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

	Year ended June 30, 2021	Year ended June 30, 2020
	\$	\$
OPERATING ACTIVITIES		
Net loss for the year	(3,086,231)	(3,681,679)
Items not affecting cash:		
Bad debt	353	-
Depreciation	253,072	112,238
Shares issued for severance pay	-	139,043
Loss on fair value of consideration payable	259,216	-
Gain on favourable interest	(6,541)	(17,939)
Gain on settlement of liabilities	(137,480)	(43,217)
Professional fees settled with shares	-	279,500
Write-off of inventory	17,258	80,445
Write-off of intangibles	-	8,000
Stock based compensation	486,112	295,275
Accretion expense	111,350	19,484
Accrued interest	114,237	10,085
	(1,988,654)	(2,798,765)
Changes in non-cash working capital items:		
Accounts receivable	45,267	(116,829)
Inventory	(372,789)	399,558
Prepaid expenses	133,282	115,990
Accounts payable and accrued liabilities	(142,650)	385,872
Due from related parties	-	2,823
Cash used in operating activities	(2,325,544)	(1,930,439)
INVESTING ACTIVITIES		
Purchase of equipment	(1,821)	(1,799)
Purchase of intangible assets	(398,495)	(7,698)
Cash used in investing activities	(400,316)	(9,497)
FINANCING ACTIVITIES		
Proceeds from shares issued net of costs	4,158,070	443,086
Proceeds from exercise of warrants	596,518	-
Proceeds from exercise of options	-	78,200
Proceeds from loan	20,000	40,000
Proceeds from convertible loan	-	1,014,000
Lease payments	(21,352)	(3,531)
Repayment of loans	(5,666)	-
Cash provided by financing activities	4,747,570	1,571,755
CHANGE IN CASH AND CASH EQUIVALENTS	2,021,710	(368,181)
CASH AND CASH EQUIVALENTS, END OF YEAR	700,431	1,068,612
CASH AND CASH EQUIVALENTS, END OF YEAR	2,722,141	700,431

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

Hill Street Beverage Company Inc.
Notes to the Consolidated Financial Statements
For the Years Ended June 30, 2021 and 2020
(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 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 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 June 30, 2021, the Company had not yet achieved profitable operations, had a net loss of \$3,086,231 (June 30, 2020: \$3,681,679), accumulated deficit of \$19,645,636 (June 30, 2020: \$16,559,405), and expects to incur further losses in the foreseeable future, all of which indicate the existence of a material uncertainty that may cast significant doubt upon the Company’s ability to continue as a going concern. Realization values may be substantially different from carrying values as shown and these consolidated financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern. Such adjustments could be material.

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

Hill Street Beverage Company Inc.
Notes to the Consolidated Financial Statements
For the Years Ended June 30, 2021 and 2020
(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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the IFRS Interpretations Committee ("IFRIC").

These consolidated financial statements for the years ended June 30, 2021 and June 30, 2020 were authorized for issuance by the Board of Directors on October 28, 2021.

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.

Hill Street Beverage Company Inc.
Notes to the Consolidated Financial Statements
For the Years Ended June 30, 2021 and 2020
(Expressed in Canadian Dollars)

2. BASIS OF PREPARATION (continued)

Use of Estimates and Judgments

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

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

Use of Estimates and Judgments (continued)

Critical Accounting Estimates

- Calculation of the net book value of machinery and equipment requires management to make estimates of the useful economic life of the assets, residual value at the end of the asset's useful economic life, method of depreciation and whether impairment in value has occurred. Residual values of the assets, estimated useful lives and depreciation methodologies are reviewed annually with prospective application of any changes, if deemed appropriate. Changes to estimates could be caused by a variety of factors, including changes to the useful life of the assets. A change in any of the estimates would result in a change in the amount of depreciation and, as a result, a charge to net income recorded in the period in which the change occurs, with a similar change in the carrying value of the asset on the balance sheet.
- The amortization of the Company's intangible assets involves estimates of their useful lives. Such estimates may change as more experience is obtained or as general market conditions change, thereby impacting the value of the Company's intangible assets.
- When valuing options, management uses judgment to determine the inputs to the Black-Scholes option pricing model including the expected plan lives, underlying share price volatility and forfeiture rates. Volatility is estimated by considering peer companies historic share price volatility over similar periods to the expected life of the awards under consideration. Changes in these assumptions will impact the calculation of fair value and the amount of compensation expense recognized in the consolidated statements of loss and comprehensive loss.
- When valuing warrants, similar to other stock-based compensation, management uses judgment to determine the inputs to the Black-Scholes option pricing model including the expected life, and underlying share price volatility. Volatility is estimated by considering peer companies historic share price volatility over similar periods to the expected life of the warrants. Changes in these assumptions will impact the calculation of fair value and the value attributed to the warrants.

Hill Street Beverage Company Inc.
Notes to the Consolidated Financial Statements
For the Years Ended June 30, 2021 and 2020
(Expressed in Canadian Dollars)

2. BASIS OF PREPARATION (continued)

Use of Estimates and Judgments (continued)

- When the Company enters into leases as a lessee and where the interest rate implicit in a lease cannot be readily determined, the Company determines its incremental borrowing rate in order to measure its lease liability. The incremental borrowing rate is the rate of interest that a lessee would have to pay to borrow over a similar term, and with similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. In estimating its incremental borrowing rate, the Company considers the term of the lease, the nature of the leased asset, and its level of indebtedness with reference to market risk-free interest rates.
- When determining the discount rate used to estimate the fair value of the debt component of the convertible debenture and the fair value of the CEBA loan, the Company considers market conditions and other internal and external factors. The Company estimates its credit rating and benchmarks the discount rate to certain fixed income indices.
- In some contracts, the Company transfers control of a product to distributors and grants the distributors the right to return the product for a full or partial refund in the scenario that products are to expire in the hands of the distributor. To account for the transfer of products with a right of return, the Company 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.

Hill Street Beverage Company Inc.
Notes to the Consolidated Financial Statements
For the Years Ended June 30, 2021 and 2020
(Expressed in Canadian Dollars)

2. BASIS OF PREPARATION (continued)

Use of Estimates and Judgments (continued)

- 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.
- The Company regularly reviews inventory quantities on hand and records a provision for those inventories no longer deemed to be fully recoverable. The cost of inventories may no longer be recoverable if those inventories are slow moving, damaged, if they have become obsolete, or if their selling prices or estimated forecast of product demand decline. If actual market conditions are less favorable than previously projected, or if liquidation or the inventory no longer deemed to be fully recoverable is more difficult than anticipated, additional provisions may be required.
- The assessment of the Company's ability to continue as a going concern involves judgement regarding future funding available for its operations and working capital requirements as discussed in Note 1.
- When the Company enters into leases as a lessee, it determines the lease term as the non-cancellable period of the lease together with periods covered by an option to extend the lease if it reasonably expects to exercise such option. In assessing whether it is reasonably certain to exercise an option to extend a lease, the Company considers: the contractual terms and conditions for the optional periods compared with market rates; whether any significant leasehold improvements have been undertaken; the costs of terminating the lease; the importance of the underlying asset to the Company's operations; and any conditionality associated with exercising the option.
- The determination of income tax is inherently complex and requires the use of judgement and assumptions about future events. While income tax filings are subject to audits and reassessments, the Company has adequately provided for all income tax obligations. However, changes in facts and circumstances as a result of income tax audits, reassessments, jurisprudence and any new legislation may result in an increase or decrease in our provision for income taxes.

Hill Street Beverage Company Inc.
Notes to the Consolidated Financial Statements
For the Years Ended June 30, 2021 and 2020
(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES

Foreign currency translation

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

Transactions denominated in currencies other than the Canadian dollar are translated using the exchange rate in effect on the transaction date or at an average rate. At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange in effect at the statement of financial position date. Non-monetary items are translated at historical rates 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 statements of operations and comprehensive loss.

Revenue recognition

IFRS 15 outlines a single comprehensive model to account for revenue arising from contracts with customers. The core principle of the standard is to recognize revenue to depict the transfer of control of goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The standard has prescribed a five-step model to apply the principles. The standard also specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract as well as requiring more informative and relevant disclosures.

Under IFRS 15, revenue is recognized to depict the transfer of goods in an amount that reflects the consideration to which the entity expects to be entitled following five steps:

- (i) Identify the contract with a customer
- (ii) Identify the performance obligations in the contract
- (iii) Determine the transaction price
- (iv) Allocate the transaction price to the performance obligations in the contract
- (v) Recognize revenue when (or as) the entity satisfies a performance obligation.

Revenue from the sale of products is recognized when the product is shipped and received by the customer, and depending on the delivery conditions, title and risk have passed to the customer. For transactions with retail stores and distributors, the Company's terms are primarily "FOB destination point", which designates that the Company will pay shipping costs and remain responsible for the goods until the buyer takes possession. Sales to consumers through the Company's online store are recorded when the product is received by the consumer. Product returns, promotional allowances, chargebacks, money program and discounts provided to consumers are deducted from gross revenue to arrive at net revenue.

Hill Street Beverage Company Inc.
Notes to the Consolidated Financial Statements
For the Years Ended June 30, 2021 and 2020
(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

In some contracts, the Company transfers control of a product to distributors and grants the distributors the right to return the product for a full or partial refund in the scenario that products are to expire in the hands of the distributor. To account for the transfer of products with a right of return, the Company recognises revenue for the transferred products in the amount of consideration to which the Company expects to be entitled to (therefore, revenue would not be recognised for the products expected to be returned). The expected consideration to be received is determined based on a combination of historical, current and forecasted information available to the entity at the end of each reporting period.

Royalty income is recognized over time in gross sales in accordance with the related licensing arrangements and rates determined in the licensing agreement.

Cost of goods sold

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

Inventory

Inventory is comprised of finished goods. Inventory is valued at the lower of cost and net realizable value. Cost is determined on an average cost basis. Net realizable value is the estimated selling price in the ordinary course of business less any applicable selling expenses. The Company utilizes a weighted average cost calculation to determine the value of ending inventory. Average cost is determined separately for domestic and export non-alcohol drinks.

Operating segments

The Company operates in two industry segments, the sale of non-alcoholic drinks products and royalty licensing fees. Most of the Company's sales are within Canada, with a small volume sold in the United States.

Intangible assets

Finite life intangible assets are comprised of Licensing Agreements, which are recorded at cost less accumulated amortization and accumulated impairment losses. Following initial recognition, such intangible assets are carried at cost less any accumulated amortization on a straight-line basis over five years. The estimated useful life and amortization method are reviewed at the end of each reporting period, and the effects of any changes are reported on a prospective basis.

Effective December 9, 2020, the Company changed the useful life over which depreciation expense is record on its licenses from 5 years to 10 years using the straight-line method. The change in estimate has been applied prospectively. This change in estimate is based upon the amended agreement entered with Lexaria Canpharm Corp. (Note 9).

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment

Machinery and equipment are recorded at cost less accumulated depreciation and accumulated impairment losses. Rates and basis of depreciation applied to write off the cost of property and equipment to their residual values over their estimated useful lives are as follows:

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

Impairment of machinery and equipment and intangible assets

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss, or any reversal of a previously recognized impairment loss, is recognized immediately in profit or loss.

Income taxes

Income tax on the profit or loss for the periods presented comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Income taxes (continued)

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

Loss per share

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

Provisions

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Government grants

The Company recognizes government grants when it is reasonably assured that it will comply with the conditions attached to them and the grants will be received. Government grants include wage subsidies under the Canada Emergency Wage Subsidy (“CEWS”) program and the benefit of the below-market interest rate from the Canada Emergency Business Account (“CEBA”) loan. Wage subsidies are included in wages and salaries in the consolidated statements of operations and comprehensive loss. The benefit of the below-market interest rate from the CEBA loan is included in gain on favourable interest rate in the consolidated statements of operations and comprehensive loss. The benefit was initially deferred and was recognized as income as the proceeds of the loan were used to fund operating expenses.

The CEBA loan was initially measured at fair value based on the present value of future cash flows, discounted using a market rate of interest for similar loans. The loan is subsequently measured at amortized cost using the effective interest method. Interest expense related to the CEBA loan is included in accretion expense in the consolidated statements of loss and comprehensive loss.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Convertible debentures

Convertible debentures issued by the Company are comprised of convertible debentures and warrants that can be converted to share capital at the option of the holder. The liability component of the convertible debentures is recognized initially at its fair value, which is equal to the present value of future cash flows, discounted using a market rate of interest for similar non-convertible debt. The equity component, which includes the conversion feature of the debentures and the attached warrants, is initially recognized as the difference between the fair value of the convertible debentures as a whole and the fair value of the liability component. The value of the equity component is allocated between the conversion feature and the warrants based on their relative fair values. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of the convertible debentures is measured at amortized cost using the effective interest method. The equity component of the convertible debentures is not remeasured subsequent to initial recognition. Interest expense, losses and gains relating to the financial liability are recognized in the consolidated statements of operations and comprehensive loss.

Share capital

The Company records proceeds from share issuances net of issue costs and any tax effects in shareholders' equity. Common shares issued for consideration other than cash are valued based on their market value at the date the shares were granted. The proceeds from the issuance of units are allocated between common shares and warrants based on the proportionate fair value of both the common share and warrant on the date of issuance. Consideration received for the exercise of warrants is recorded in share capital, and any related amount recorded in warrants reserve is transferred to share capital.

Stock-based payments

The Company grants stock options to buy common shares of the Company to directors, officers, employees and service providers. The board of directors grants such options for periods of up to five years, with vesting periods determined at its sole discretion and at prices equal to or greater than the closing market price on the day preceding the date the options were granted.

The fair value of the options granted to employees is measured at grant date, using the Black-Scholes option pricing model, and is recognized as the employees earn the options. The fair value is recognized as an expense with a corresponding increase in equity. The amount recognized as expense is adjusted to reflect the number of share options expected to vest.

The fair value of the options granted to non-employees are measured at the fair value of the goods or services received, unless that fair value cannot be estimated reliably, in which case the fair value of the equity instruments issued is used. The value of the goods or services is recorded at the earlier of the vesting date, or the date the goods or services are received. When the stock options are exercised, the applicable amounts of equity reserves are transferred to share capital.

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4. NEW STANDARDS ADOPTED

New accounting standards adopted:

- i) **Amendment to IFRS – Business Combinations.** On October 22, 2018, the IASB issued Definition of a Business (Amendments to IFRS 3: Business Combinations). The amendments to IFRS 3 are applicable for acquisitions occurring on or after January 1, 2020 and are adopted prospectively. These amendments to the implementation guidance of IFRS 3 clarifies the definition of a business to assist entities to determine whether a transaction should be accounted for as business combination or an asset acquisition. The amendments to IFRS 3 – Business Combination may affect whether future acquisitions are accounted for as business combinations or asset acquisitions along with the resulting allocation of the purchase price between the net identifiable assets acquired and goodwill. The Company has adopted this amendment effective July 1, 2020 and has applied it prospectively, resulting in no impact to the consolidated financial statements of the Company for the year ended June 30, 2021.

New accounting standards announced but not yet effective

During the year ended June 30, 2021, there were no new IFRS or IAS accounting standards that became effective that had a material impact on the Company's consolidated financial statements. There are however a number of new standards and amendments to existing standards effective in future periods. The following may impact the reporting and disclosures of the Company:

- 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 Company is currently assessing the impact of this amendment.
- ii) **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 Company is currently assessing the impact of this amendment.
- iii) **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 Company is currently assessing the impact of this amendment.

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5. NET REVENUE

For the year ended		June 30, 2021	June 30, 2020
Beverage sales	\$	2,443,354	2,613,923
Other income		310,127	-
Chargebacks		(558,098)	(835,068)
Listing fees		(469)	(48,000)
	\$	2,194,914	1,730,855

Other income consists of royalty revenue and commissions.

6. ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

As at		June 30, 2021	June 30, 2020
Trade receivables	\$	313,362	406,851
GST receivables		47,869	-
	\$	361,231	406,851

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

7. INVENTORY

As at		June 30, 2021	June 30, 2020
Finished goods	\$	455,605	193,911
Raw materials		93,837	-
	\$	549,442	193,911

Inventory write downs recognized as an expense amounted to \$17,258 (June 30, 2020: \$80,445). The cost of inventory recognized as an expense and included in cost of sales was \$1,071,284 (June 30, 2020: \$971,375).

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8. PROPERTY AND EQUIPMENT

	ROU Asset	Computer Equipment	Computer Software	Equipment	Total
Cost	\$	\$	\$	\$	\$
Balance at June 30, 2019	-	6,104	1,544	277,184	284,832
Additions	53,019	901	443	455	54,818
Balance at June 30, 2020	53,019	7,005	1,987	277,639	339,650
Additions	-	1,694	127	-	1,821
Balance at June 30, 2021	53,019	8,699	2,114	277,639	341,471
Accumulated depreciation					
Balance at June 30, 2019	-	2,897	1,219	4,921	9,037
Depreciation for the year	5,891	1,069	236	54,463	61,659
Balance at June 30, 2020	5,891	3,966	1,455	59,384	70,696
Depreciation for the 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
Carrying amount at June 30, 2020	47,128	3,039	532	218,255	268,954
Carrying amount at June 30, 2021	29,454	3,480	466	174,604	208,004

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9. INTANGIBLE ASSETS

	Canpharm / Lexeria License (i) & (ii)	Standard Processor License (iii)	Trademarks (iv)	Total
Cost	\$	\$	\$	\$
Balance at June 30, 2019	209,250	59,250	-	268,500
Additions	-	-	7,698	7,698
Write-offs	-	(8,000)	-	(8,000)
Balance at June 30, 2020	209,250	51,250	7,698	268,198
Additions	3,607,242	-	9,840	3,617,082
Balance at June 30, 2021	3,816,492	51,250	17,538	3,885,280
Accumulated depreciation				
Balance at June 30, 2019	38,329	8,362	-	46,691
Depreciation for the year	42,002	8,577	-	50,579
Balance at June 30, 2020	80,331	16,939	-	97,270
Depreciation for the year	183,439	6,862	-	190,301
Balance at June 30, 2021	263,770	23,801	-	287,571
Carrying amount at June 30, 2020	128,919	34,311	7,698	170,928
Carrying amount at June 30, 2021	3,552,722	27,449	17,538	3,597,709

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

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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 (note 21).

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 June 30, 2021, consideration payable was revalued at \$746,224 and a loss on fair value of consideration payable totaling \$259,216 was recognized in the consolidated statements of operations and comprehensive loss. 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.

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

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9. INTANGIBLE ASSETS (continued)

- (iii) As of June 30, 2021, the Company has capitalized a total of \$59,250 of costs associated with acquiring a Standard Processor License under the Cannabis act (Canada). These licenses fees are being amortized over their useful life of 5 years.
- (iv) As of June 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.

	Lease liability
Balance, June 30, 2019	-
Additions	53,019
Interest expense	1,378
Lease payments	(3,531)
Balance, June 30, 2020	50,866
Interest expense	3,183
Lease payments	(21,352)
Balance, June 30 2021	32,697
Current portion	20,080
Non-current portion	12,617

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

Fiscal Year	Lease Payments
2022	\$21,845
2023	\$12,935
TOTAL	\$34,780

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11. LOANS PAYABLE

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

As at	June 30, 2021	June 30, 2020
	\$	\$
CEBA loan	42,908	22,885
Convertible debenture	-	770,485
Promissory note	2,105,389	-
Total long term debt	2,148,297	793,370

Canada Emergency Business Account

	CEBA loan
Proceeds	\$40,000
Benefit from favorable interest rate	(\$17,939)
Accretion Expense	\$824
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

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 year ended June 30, 2021, \$6,564 (June 30, 2020: \$824) of interest expense related to the CEBA loan was recognized and included in accretion expense in the consolidated statements of operations and comprehensive loss.

During the year ended June 30, 2021, an interest benefit of \$6,541 (June 30, 2020: \$17,939) was included in the consolidated statements of operations and comprehensive loss due to the below-market interest rate on the CEBA loan. This benefit was initially recognized as a deferred gain and was recognized as income as the Company used the proceeds from the loan to fund its operational expenditures.

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11. LOANS PAYABLE (continued)

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.

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).

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11. LOANS PAYABLE (continued)

Convertible debenture (continued)

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 year ended June 30, 2021, the Company recognized interest expenses totaling \$111,055 (June 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 June 30, 2021 and June 30, 2020, the issued and outstanding share capital is comprised of 204,718,694 and 112,060,380 common shares, respectively.

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.

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12. SHARE CAPITAL (continued)

b) Issued and outstanding

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.

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

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

On December 19, 2019, the Company issued 13,324,998 units at a price of \$0.06 per unit. Each unit consisted of one common share and one common share purchase warrant, with each whole warrant exercisable into one common share of the Company at an exercise price of \$0.13 per share, exercisable for a period of 24 months from the date of issuance. The December 19, 2019 issuance of units is split into two components:

- 1) The Company issued 8,666,665 units for cash proceeds as part of a private placement. Proceeds of \$520,000 were allocated as follows: \$436,235 to share capital and \$83,765 to warrant reserves. The Company paid \$76,914 in transaction costs in connection with the private placement.
- 2) The Company issued 4,658,333 units for services valued at \$279,500. The Company allocated \$234,476 to share capital and \$45,024 to warrant reserves.

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12. SHARE CAPITAL (continued)

b) Issued and outstanding

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

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

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

c) Stock options

The continuity of options for the year ended June 30, 2021 is summarized below:

Granted	Expiry	Exercise Price	June 30, 2020	Granted	Expired / Forfeited	June 30, 2021	Exercisable
July 31, 2018	July 31, 2023	\$ 0.075	3,357,474	-	(265,354)	3,092,120	2,834,443
July 31, 2018	July 17, 2020	\$ 0.175	690,702	-	(690,702)	-	-
July 31, 2018	Dec. 19, 2020	\$ 0.175	195,815	-	(195,815)	-	-
July 31, 2018	Jan. 31, 2021	\$ 0.175	518,027	-	(518,027)	-	-
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
May 23, 2019	May 23, 2024	\$ 0.075	215,000	-	-	215,000	143,333
May 1, 2020	May 1, 2025	\$ 0.05	3,346,250	-	(756,250)	2,590,000	1,295,000
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
Mar. 1, 2021	Mar. 1, 2026	\$ 0.095	-	4,800,000	-	4,800,000	1,662,500
Apr. 30, 2021	Apr. 30, 2026	\$ 0.09	-	3,778,500	-	3,778,500	1,930,583
Total			11,037,341	8,578,500	(2,426,148)	17,189,693	10,579,932
Weighted average exercise price				\$0.09	\$ 0.13	\$ 0.08	\$ 0.08
Weighted average remaining contractual life						3.45 years	

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12. SHARE CAPITAL (continued)

c) Stock options (continued)

The continuity of options for the year June 30, 2020 is summarized below:

Granted	Expiry	Exercise Price	June 30, 2019	Granted	Exercised	Expired / Cancelled	Jun 30, 2020	Exercisable
July 24, 2018	July 24, 2019	\$ 0.15	204,000	-	(204,000)	-	-	-
July 31, 2018	July 31, 2023	\$ 0.175	7,884,510	-	-	(802,169)	7,082,341	4,716,593
July 24, 2018	March 22, 2027	\$ 0.10	476,000	-	(476,000)	-	-	-
May 23, 2019	May 23, 2024	\$ 0.21	215,000	-	-	-	215,000	89,583
May 1, 2020	May 1, 2020	\$ 0.05	-	3,740,000	-	-	3,740,000	-
Total			8,779,510	3,740,000	(680,000)	(802,169)	11,037,341	4,806,176
Weighted average exercise price				\$ 0.05	\$ 0.12	\$ 0.18	\$ 0.13	\$ 0.13
Weighted average remaining contractual life							3.50 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.

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.

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12. SHARE CAPITAL (continued)

c) Stock options (continued)

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.

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.

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

On May 1, 2020, 3,740,000 options were granted to officers, directors, and consultants at an exercise price of \$0.05 per share. The options shall vest equally 12.50% quarterly over a two-year term. The fair value of the options at grant date was \$122,100.

On January 31, 2020, the expected life of 518,027 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 518,027 of unvested options were forfeited during the year ended June 30, 2020. Previously recorded stock-based compensation of \$69,090 during the year ended June 30, 2020.

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12. SHARE CAPITAL (continued)

c) Stock options (continued)

In December 2019, the expected life of 195,815 fully vested options held by a former Director of the Company, previously granted on July 31, 2018, were reduced to one year from the date of resignation and a total of 274,142 of unvested options were forfeited during the year ended June 30, 2020. Previously recorded stock-based compensation of \$37,702 related to the forfeited options was reversed during the year ended June 30, 2020.

On July 17, 2019, 690,702 options held by a former employee of the Company, previously granted on July 31, 2018, were vested immediately during the period and the expected life were reduced to one year from the date of employment termination. Due to the accelerated vesting of the options as a result of the employee's termination, additional stock-based compensation of \$10,045 was recorded during the year ended June 30, 2020.

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 year ended June 30, 2021 share-based compensation of \$486,112 (June 30, 2020: \$295,275) 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 years ended June 30, 2021 and June 30, 2020:

	June 30, 2021	June 30, 2020
Share price	\$0.085-\$0.09	\$0.045
Risk-free interest rate	0.81% - 0.93%	0.43%
Expected life	5 years	5 years
Expected volatility	110% - 111%	100%
Expected dividends	Nil	Nil

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

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12. SHARE CAPITAL (continued)

d) Warrants

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

Granted	Expiry	Exercise Price	June 30, 2020	Granted	Expired / Cancelled	Exercised	June 30, 2021
July 24, 2018	Dec 31, 2020	\$ 0.10	8,560,800	-	(8,560,800)	-	-
July 24, 2018	July 24, 2020	\$ 0.175	1,194,210	-	(1,194,210)	-	-
July 24, 2018	Dec 31, 2020	\$ 0.10	13,454,249	-	(7,989,071)	(5,465,178)	-
Sept 18, 2018	Dec 31, 2020	\$ 0.10	16,775	-	(16,775)	-	-
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	20,450,000	-	-	(1,000,000)	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			63,742,686	59,619,544	(17,760,856)	(6,465,178)	99,136,196
Weighted average exercise price				0.12	0.11	0.09	0.12
Weighted average remaining contractual life						1.70 years	

The continuity of warrants for the year ended June 30, 2020 is summarized below:

Granted	Expiry	Exercise Price	June 30, 2019	Granted	Exercised	June 30, 2020	Exercisable
July 24, 2018	July 24, 2020	\$ 0.30	8,560,800	-	-	8,560,800	8,560,800
July 24, 2018	July 24, 2020	\$ 0.175	1,194,210	-	-	1,194,210	1,194,210
July 24, 2018	July 24, 2020	\$ 0.35	13,454,249	-	-	13,454,249	13,454,249
Sept 18, 2018	July 24, 2020	\$ 0.35	16,775	-	-	16,775	16,775
June 5, 2019	June 5, 2022	\$ 0.20	2,500,000	-	-	2,500,000	2,500,000
June 7, 2019	June 7, 2021	\$ 0.40	4,241,654	-	-	4,241,654	4,241,654
June 7, 2019	June 7, 2021	\$ 0.20	187,250	-	(187,250)	-	-
Dec 19, 2019	Dec 19, 2021	\$ 0.13	-	13,324,998	-	13,324,998	13,324,998
May 1, 2020	May 1, 2022	\$ 0.05	-	20,450,000	-	20,450,000	20,450,000
Total			30,154,938	33,774,998	(187,250)	63,742,686	63,742,686
Weighted average exercise price				\$ 0.32	0.08	0.20	0.20
Weighted average remaining contractual life						1.06 years	

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12. SHARE CAPITAL (continued)

c) Warrants (continued)

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).

The following weighted-average assumptions used in the option-pricing model of warrants issued during the period June 30, 2021 and June 30, 2020:

	June 30, 2021	June 30, 2020
Share price	\$0.085 - \$0.09	\$0.045
Risk-free interest rate	0.27% - 0.48%	1.69%
Expected life	2 – 3 years	2 years
Expected volatility	109% - 111%	84%
Expected dividends	Nil	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.

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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 year ended June 30,	\$	\$
	2021	2020
Total salaries, benefits and management fees	1,010,815	856,646
Stock-based compensation	480,744	283,735
Total salaries and other short-term benefits	1,491,559	1,140,381

Included in accounts payable and accrued liabilities as at June 30, 2021 is \$294,287 (June 30, 2020: \$337,682) payable to Directors and Officers of the Company for management wages. The amount is non-interest bearing and unsecured.

On 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.

On December 19, 2019, management and board members participated in a non-brokered private placement financing of units (“Units”) for gross proceeds of \$250,000 at a price of \$0.06 per Unit. Each Unit consists of one common shares and one warrant, with each warrant entitling the holder thereof to purchase one common share in the capital of the Company at a price of \$0.13 per share for a period of two years from closing, subject to acceleration.

As at June 30, 2020, the company had \$770,485 of related party convertible debt related to a private placement financing on May 4, 2020 for gross proceeds of \$1,022,500 at a price of \$1.00 per Unit. Each Unit is comprised of \$1.00 principal amount of secured convertible debentures and convertible into 20 common shares of the Company up until the date of maturity.

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).

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 amounts totaling \$51,096 during the year ended June 30, 2020.

During the year ended June 30, 2021, the Company received an additional \$83,727 as a result of an extension on this program.

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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
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.

FVTPL

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

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15. FINANCIAL INSTRUMENTS (continued)

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.

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.

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15. FINANCIAL INSTRUMENTS (continued)

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.

During the year ended June 30, 2021, the Company recognized \$353 (June 30, 2021 - \$nil) of bad debts in the consolidated statements of operation and comprehensive loss

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 June 30, 2021 and 2020, the Company believes that the carrying values of cash and cash equivalents approximate the fair values because of their nature and relatively short maturity dates or durations.

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 June 30, 2021, the Company had \$370,204 (June 30, 2020 - \$409,674) 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 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 June 30, 2021, the Company held \$1,451,180 (June 30, 2020 - \$987,010) in current liabilities.

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16. FINANCIAL RISK EXPOSURE AND RISK MANAGEMENT (continued)

Liquidity risk (continued)

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	\$	704,956	704,956	-	-	-
Lease liability		32,697	20,080	12,617	-	-
CEBA loan		60,000	-	-	60,000	-
Note payable		2,105,389	22,466	256,650	440,030	1,386,243
Consideration payable		746,224	746,224	-	-	-
	\$	3,649,226	1,493,726	269,267	500,030	1,386,243

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 June 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.

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.

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18. SEGMENTED REPORTING

The Company operates primary in one business segment, the sale of alcohol-free wine and beer. Revenues from external customers are derived from customers located as follows:

During the year ended June 30,		2021	2020
Canada	\$	1,804,290	1,679,963
United States		285,582	50,892
Other		105,042	-
	\$	2,194,914	1,730,855

During the year ended June 30, 2021, one of the Company's customers accounted for 70% of net revenue and another customer accounted for 8% of net revenue (June 30, 2020: 62% and 19%, respectively).

Disaggregation of non-current assets by geographic area:

As at		June 30, 2021	June 30, 2020
Canada	\$	3,805,713	439,882
United States		-	-
Other		-	-
	\$	3,805,713	439,882

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 year ended June 30, 2021:

Financing activities

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

During the year ended June 30, 2021, the Company issued 20,450,000 common shares pursuant to the full conversion of \$1,001,066 principal amount of the convertible debt. In relation to the conversion of convertible debt, \$136,130 was reclassified from reserves to share capital (Note 11 & 12).

During the year ended June 30, 2021, the Company recognized interest expenses totaling \$111,055 in connection with the promissory note (Note 11).

During the year ended June 30, 2021, the Company made principal payment totaling \$5,666 of its promissory note (Note 11).

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19. SUPPLEMENTAL CASH FLOW INFORMATION (continued)

During the year ended June 30, 2021, the Company made interest payment totaling \$50,808 of its convertible debenture (Note 11).

Investing activities

On December 9, 2020, the Company issued 6,031,363 units valued to \$753,920 pursuant to licensing agreement entered with Lexaria Canpharm UCL. (Note 9 & 12).

During the year ended June 30, 2020:

Financing activities

On December 19, 2019, two unrelated parties participated in the unbrokered private placement and offered investor relations services. No cash was exchanged in these transactions totaling \$279,500.

20. INCOME TAXES

The reconciliation of the combined Canadian federal and provincial statutory income tax rate of 26.5% (2020 26.5%) to the effective tax rate is as follows:

(a) Current Income

	June 30, 2021	June 30, 2020
	\$	\$
Net loss for the year	(3,086,231)	(3,681,679)
Expected income tax (recovery) expense:	(817,851)	(975,645)
Share-based compensation	128,820	78,248
Non-deductible items	29,378	203,625
Convertible debenture	(41,689)	51,767
Other adjustments	(23,995)	(13,211)
Change in tax benefits not recognized	725,337	655,216
Income tax (recovery) expense	-	-

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20. INCOME TAXES (continued)

(b) Deferred Income Taxes – The following table summarizes the components of deferred tax:

	June 30, 2021	June 30, 2020
	\$	\$
Deferred tax assets		
Share issuance costs – 20(1)(e)	-	69,457
Non-capital losses carried forward	10,901	13,236
Lease liabilities	7,805	12,489
Consideration payable	178,757	-
Deferred tax liabilities		
Property and equipment	(10,901)	(13,236)
Intangible assets	(178,757)	-
Convertible debenture	-	(69,457)
Right-of-use asset	(7,805)	(12,489)
Net Deferred tax asset	-	-

(c) Unrecognized Deferred Income Taxes

Deferred taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

	June 30, 2021	June 30, 2020
	\$	\$
Property and equipment	-	-
Intangible assets	-	36,030
Lease liabilities	3,243	3,738
Consideration payable	71,671	-
General reserve	-	246,374
Share issuance costs – 20(1)(e)	349,527	156,337
Non-capital losses carried forward	15,047,415	12,292,257
Total unrecognized deferred income tax assets	15,471,856	12,734,736

The Canadian non-capital loss carry forwards expire as noted in the table below.

Share issue and financing costs will be fully amortized in 2025.

The remaining deductible temporary differences may be carried forward indefinitely.

Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the group can utilize the benefits therefrom.

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20. INCOME TAXES (continued)

The Company's Canadian non-capital income tax losses, the benefit of which has not been recognized on the consolidated financial statements, expire as follows:

2031	49,995
2032	210,019
2033	-
2034	1,344,758
2035	617,450
2036	618,695
2037	2,649,494
2038	168,759
2039	4,127,650
2040	2,514,251
2041	2,746,344
	<u>\$ 15,047,415</u>

21. SUBSEQUENT EVENTS

Subsequent to year end, the Company amended the payment terms of its consideration payable to Lexaria CanPharm ULC. Under the revised payment terms, \$643,939 of the face value of consideration payable shall be settled 8 months from the date of closing, with the remaining \$356,061 payable 16 months from the date of closing. The form of settlement and conversion rate on the consideration payable as described in note 9 remained unchanged.

On August 9, 2021, the Company issued 7,575,758 shares to Lexaria CanPharm ULC as full payment in settlement of the first tranche of the consideration payable.

On August 18, 2021, 1,415,000 unvested options held by a former Officer were forfeited. Additionally, the expiry date of 1,888,378 fully vested options with an average exercise price of \$0.077 and original set to expire on dates ranging from July 31, 2023 to March 1, 2026 were reduced to August 18, 2022.

Subsequent to year end, 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.