HILL STREET BEVERAGE COMPANY INC.

UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE- AND SIX-MONTH PERIOD ENDED DECEMBER 31, 2022 AND 2021

(Expressed in Canadian dollars)

NOTICE TO READER

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

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

TORONTO, ON
February 28, 2023

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

	Notes	December 31, 2022	June 30, 2022
		$	$
ASSETS			
Current			
Cash and cash equivalents		1,983,083	1,153,195
Accounts receivable	5	403,621	1,343,994
Due from related parties	13	-	2,823
Subscription receivables		-	6,150
Inventory	6	14,166	20,433
Prepaid expenses		-	70,891
Assets held for sale	7/8	103,089	103,089
Total current assets		2,503,959	2,700,575
Intangible assets	9	3,156,971	3,308,072
Property and equipment	8	145,335	149,194
TOTAL ASSETS		5,806,265	6,157,841
LIABILITIES			
Current			
Accounts payable and accrued liabilities	13	607,827	987,646
Note payable – current	11	80,627	113,359
Lease liability – current	10	17,297	15,941
CEBA loan	11	60,000	53,623
		765,751	1,170,569
Lease liability – non-current	10	45,635	54,560
Note payable – non-current	11	2,314,859	2,176,408
		3,126,245	3,401,537
SHAREHOLDERS' EQUITY			
Share capital	12	20,714,145	20,095,633
Reserve	12	5,050,334	4,884,242
Deficit		(23,084,459)	(22,223,571)
TOTAL SHAREHOLDERS' EQUITY		2,680,020	2,756,304
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		5,806,265	6,157,841

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

"Jack Fraser"	"Craig Binkley"
Director	Director

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

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

	Notes	Three-Month Periods Ended December 31, 2022	2021	Six-Month Periods Ended December 31, 2022	2021
		$	$	$	$
Gross Revenue	4	1,826,912	576,622	2,207,414	1,237,105
Chargebacks & listing fees	4	(249,079)	(67,885)	(275,931)	(123,629)
Net Revenue		1,577,833	508,737	1,931,483	1,113,476
Direct Costs		(738,156)	(252,280)	(851,253)	(522,597)
Gross profit		839,677	256,457	1,080,230	590,879
Expenses					
Accretion expense	11	3,277	2,623	6,377	5,103
Bad debt expense	5/15	500	-	118,651	-
Bank charges and interest	9	4,312	2,613	7,541	5,216
Consulting fees		-	19,100	22,163	32,121
Depreciation	8/9	80,499	89,069	160,997	178,111
Donations, dues & licenses		-	(829)	-	528
Filing and transfer agent fees		11,900	13,352	17,928	15,324
Insurance		75,591	39,952	134,981	79,674
Interest on promissory note	11	62,655	49,466	116,884	96,335
Management fees	13	27,750	60,890	63,986	98,057
Corporate marketing and IR		26,322	54,231	46,298	104,543
Office and miscellaneous		53,102	30,440	123,247	70,647
Professional fees		115,989	150,322	176,392	266,026
Stock-based compensation	12/13	53,097	45,057	89,829	101,140
Travel and meal allowance		20,780	9,089	30,877	24,023
Wages and salaries	13	264,707	319,249	515,624	591,145
Selling and delivery		230,257	97,605	305,380	199,700
		(1,030,738)	(982,229)	(1,937,155)	(1,867,693)
Foreign exchange (loss) gain		(26,583)	7,872	(8,287)	9,114
(Loss) on settlement of liability		-	(2,933)	-	(2,720)
Gain (loss) on fair value of consideration	9	-	20,945	-	(14,471)
Write-off of inventory	6	-	(2,522)	-	(20,579)
Other income		2,627	2,934	4,324	6,434
		(23,956)	26,296	(3,963)	(22,222)
Loss and comprehensive loss for the period		(215,017)	(699,476)	(860,888)	(1,299,036)
Basic and diluted loss per common share		(0.00)	(0.00)	(0.00)	(0.01)
Weighted average number of common shares outstanding		226,170,835	212,294,452	225,303,987	210,647,548

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

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

	Common Shares				
	Shares	**Amount**	**Reserve**	**Deficit**	**Total**
		$	$	$	$
As at June 30, 2021	204,718,694	19,052,885	4,569,911	(19,645,636)	3,977,160
Units issued pursuant to licensing (Note 12)	7,575,758	530,303	-	-	530,303
Stock-based compensation	-	-	101,140	-	101,140
Net loss for the period	-	-	-	(1,299,036)	(1,299,036)
As at December 31, 2021	212,294,452	19,583,188	4,671,051	(20,944,672)	3,309,567
As at June 30, 2022	222,940,400	20,095,633	4,884,242	(22,223,571)	2,756,304
Exercise of RSUs (Note 12)	2,200,000	80,500	(80,500)	-	-
Shares issued for cash (Note 12)	17,500,000	543,237	156,763	-	700,000
Share issuance costs	-	(5,225)	-	-	(5,225)
Stock-based compensation	-	-	89,829	-	89,829
Net loss for the period	-	-	-	(860,888)	(860,888)
As at December 31, 2022	242,640,400	20,714,145	5,050,334	(23,084,459)	2,680,020

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

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

For the Six-Month Period Ended	December 31, 2022	December 31, 2021
	$	$
OPERATING ACTIVITIES		
Net loss for the period	(860,888)	(1,299,036)
Items not affecting cash:		
Depreciation	160,997	178,111
Loss on fair value of consideration payable	-	14,471
Loss on settlement of liabilities	-	2,720
Write-off of inventory	-	20,579
Stock-based compensation	89,829	101,140
Bad debt expense	118,651	-
Accretion expense	6,377	5,103
Accrued interest	120,402	97,411
	(364,632)	(879,501)
Changes in non-cash working capital items:		
Accounts receivable	821,722	(81,262)
Due from related parties	2,823	-
Subscription receivables	6,150	-
Inventory	6,267	(61,840)
Prepaid expenses	70,891	74,804
Accounts payable and accrued liabilities	(379,819)	39,647
Cash provided by (used in) operating activities	163,402	(908,152)
INVESTING ACTIVITIES		
Purchase of property and equipment	(6,037)	(132,322)
Purchase of intangible assets	-	(11,119)
Cash used in investing activities	(6,037)	(143,441)
FINANCING ACTIVITIES		
Proceeds from shares issued net of costs	694,775	-
Lease payments	(11,087)	(10,841)
Repayment of loans	(11,165)	(8,501)
Cash provided by (used in) financing activities	672,523	(19,342)
CHANGE IN CASH AND CASH EQUIVALENTS	829,888	(1,070,935)
CASH AND CASH EQUIVALENTS, END OF YEAR	1,153,195	2,722,141
CASH AND CASH EQUIVALENTS, END OF PERIOD	1,983,083	1,651,206

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

1. NATURE OF OPERATIONS AND GOING CONCERN

Hill Street Beverage Company Inc., formerly Avanco Capital Corp. (the "Company") was incorporated on April 6, 2016 in British Columbia under the Business Corporations Act (British Columbia) and was continued to Ontario under the Business Corporations Act (Ontario) on November 30, 2018. The Company commenced trading on the TSX Venture Exchange (the "TSX V") under the symbol "AAA.P" on March 24, 2017. The Company is engaged in supplying alcohol free drinks. The Company sells its products online, in retail stores and to distributors in Canada. The Company is also engaged in cannabis technology licensing.

The Company changed its name from Avanco Capital Corp. to Hill Street Beverage Company Inc. on July 24, 2018 in conjunction with a reverse takeover transaction (the "RTO"). The Company resumed trading on the TSX V at the opening of the market on July 24, 2018 under the new symbol "BEER". The Company subsequently changed to its current symbol of "HILL" on March 2, 2022. In addition to trading on the TSX V (located in Canada), the Company also commenced trading on the OTCQB Venture Market (located in the United States), on February 21, 2023, under the symbol "HSEEF".

The Company's registered address and the records are held at Suite 300 – 1055 West Hastings Street, Vancouver, BC, V6E 2E9.

These condensed interim consolidated financial statements are prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future and that management does not intend to liquidate the entity, or has no realistic alternative but to do so. As at December 31, 2022, the Company had not yet achieved profitable operations, had a net loss of $860,888 (December 31, 2021: $1,299,036), accumulated deficit of $23,084,459 (June 30, 2022: $22,223,571), and expects to incur further losses in the foreseeable future, all of which indicate the existence of a material uncertainty that may cast significant doubt upon the Company's ability to continue as a going concern. Realization values may be substantially different from carrying values as shown and these condensed interim consolidated financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern. Such adjustments could be material.

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

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

1. NATURE OF OPERATIONS AND GOING CONCERN (continued)

During the past year, there was the 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. At this time, it is unknown the extent of the impact the prior COVID-19 outbreak may have on the Company as this will depend on future developments that are highly uncertain and that cannot be predicted with confidence. These uncertainties arise from the inability to predict the ultimate geographic spread of the disease, and the duration of the outbreak, including the duration of travel restrictions, business closures or disruptions, and quarantine/isolation measures that are currently, or may be put, in place by Canada and other countries to fight the virus. While the extent of the impact is unknown, we anticipate this outbreak may cause reduced customer demand, supply chain disruptions, staff shortages, and increased government regulations, all of which may negatively impact the Company's business and financial condition.

2. BASIS OF PREPARATION

Statement of compliance

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and IAS 34 – Interim Financial Reporting as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"). As such, these interim financial statements do not contain all the disclosures required by IFRS for annual financial statements and should be read in conjunction with the Company's audited annual consolidated financial statements for the years ended June 30, 2022 and 2021 (the "Annual Financial Statements").

These condensed interim consolidated financial statements for the three- and six-month period ended December 31, 2022 were approved and authorized for issuance by the Board of Directors on February 28, 2023.

Basis of Presentation

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

Basis of Consolidation

These condensed interim consolidated financial statements incorporate the financial statements of the Company and its wholly owned subsidiaries, Hill Street Marketing Inc. and Hill Avenue Cannabis Inc., companies incorporated in Ontario and Hill Avenue Marketing US, a company incorporated in the USA. 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.

2. BASIS OF PREPARATION (continued)

All intercompany transactions and balances have been eliminated on consolidation.

Foreign currency translation

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

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

Use of Estimates and Judgments

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

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

Critical Accounting Estimates and Judgements

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

- The amortization of the Company's intangible assets involves estimates of their useful lives. Such estimates may change as more experience is obtained or as general market conditions change, thereby impacting the value of the Company's intangible assets.

2. BASIS OF PREPARATION (continued)

Use of Estimates and Judgments (continued)

- When valuing options, estimates are required to be made by management when determining the inputs to the Black-Scholes option pricing model including the expected plan lives, underlying share price volatility and forfeiture rates. Volatility is estimated by considering the Company's own historical share price volatility, as well as peer companies historic share price volatility over similar periods to the expected life of the awards under consideration. Changes in these assumptions will impact the calculation of fair value and the amount of compensation expense recognized in the consolidated statements of loss and comprehensive loss.

- When valuing warrants, similar to other stock-based compensation, management uses judgment to determine the inputs to the Black-Scholes option pricing model including the expected life, and underlying share price volatility. Volatility is estimated by considering peer companies historic share price volatility over similar periods to the expected life of the warrants. Changes in these assumptions will impact the calculation of fair value and the value attributed to the warrants.

- When determining the discount rate used to estimate the fair value of the debt component of the convertible debenture and the fair value of the CEBA loan, the Company considers market conditions and other internal and external factors. The Company estimates its credit rating and benchmarks the discount rate to certain fixed income indices.

- When valuing restricted share units subject to market based vesting terms, similar to other stock-based compensation, management uses judgment to determine the inputs to the Barrier option pricing model including the expected life, and underlying share price volatility. Volatility is estimated by considering the Company's own historical share price volatility. Management is also required to apply judgment in assessing the timing and success rate for which non-market based vesting terms will be achieved. Changes in these assumptions will impact the calculation of fair value and the amount of compensation expense recognized in the consolidated statements of loss and comprehensive loss.

- When the Company enters into leases as a lessee and where the interest rate implicit in a lease cannot be readily determined, the Company determines its incremental borrowing rate in order to measure its lease liability. The incremental borrowing rate is the rate of interest that a lessee would have to pay to borrow over a similar term, and with similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. In estimating its incremental borrowing rate, the Company considers the term of the lease, the nature of the leased asset, and its level of indebtedness with reference to market risk-free interest rates.

2. BASIS OF PREPARATION (continued)

Use of Estimates and Judgments (continued)

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

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

- Consideration payable is measured at fair value on initial recognition and at subsequent reporting dates with the corresponding gain or loss recognized in profit or loss. The fair value of consideration payable is subject to the limitation of the Monte Carlo simulation that incorporates market data and involves uncertainty in estimates used by management in the assumptions. Because the Monte Carlo simulation requires the input of highly subjective assumptions, changes in subjective input assumptions can materially affect the fair value estimate.

- The Company performs impairment testing at the end of each reporting period for accounts receivable in accordance with IFRS 9. The ECL model requires considerable judgment, including consideration of how changes in economic factors affect ECLs, which are determined on a probability-weighted basis. IFRS 9 outlines a three-stage approach to recognizing ECLs which is intended to reflect the increase in credit risks of a financial instrument based on 1) 12-month expected credit losses or 2) lifetime expected credit losses. The Company measures provision for ECLs at an amount equal to lifetime ECLs. The Company applies the simplified approach to determine ECLs on trade receivables by using a provision matrix based on historical credit loss experiences. The historical results were used to calculate the run rates of default which were then applied over the expected life of the trade receivables, adjusted for forward looking estimate.

- Impairment indicators include a significant decline in an asset's market value, significant changes in the technologies, market, economic or legal environment in which the assets are operated, evidence of obsolescence or physical damage of an asset, significant changes in the planned use of an asset, or ongoing under-performance of an asset. Application of these factors to the facts and circumstances of a particular asset requires a significant amount of judgment.

2. BASIS OF PREPARATION (continued)

Use of Estimates and Judgments (continued)

- The Company regularly reviews inventory quantities on hand and records a provision for those inventories no longer deemed to be fully recoverable. The cost of inventories may no longer be recoverable if those inventories are slow moving, damaged, if they have become obsolete, or if their selling prices or estimated forecast of product demand decline. Accordingly, management is required to estimate the future selling price of inventory, less the expected costs to complete the sale based on the current available market data when determining the net realizable value of inventory. If actual market conditions are less favorable than previously projected, or if liquidation or the inventory no longer deemed to be fully recoverable is more difficult than anticipated, additional provisions may be required.

- The assessment of the Company’s ability to continue as a going concern involves judgement regarding future funding available for its operations and working capital requirements as discussed in Note 1.

- Upon reclassification of non-current assets as held for sale, assets are required to be measured at the lower of their carrying value and fair value, less costs to sell. Accordingly, estimates are required to be made by management in assessing the fair market value of the assets held for sale, less the expected costs to complete the sale based on the current available market data. If actual market conditions are more or less favorable than previously projected, this can materially affect the fair value estimate.

- When the Company enters into leases as a lessee, it determines the lease term as the non-cancellable period of the lease together with periods covered by an option to extend the lease if it reasonably expects to exercise such option. In assessing whether it is reasonably certain to exercise an option to extend a lease, the Company considers: the contractual terms and conditions for the optional periods compared with market rates; whether any significant leasehold improvements have been undertaken; the costs of terminating the lease; the importance of the underlying asset to the Company’s operations; and any conditionality associated with exercising the option.

- Provisions are recognized when the Company has a present obligation, legal or constructive as a result of a previous event, if it is probable that the Company will be required to settle the obligation and a reliable estimate can be made of the obligation. The amount recognized is the best estimate of the expenditure required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligations. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate of the expected future cash flows.

3. NEW STANDARDS ADOPTED

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

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

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

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

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

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

(Expressed in Canadian Dollars)

4. NET REVENUE

For the Six-Month Period Ended		December 31, 2022	December 31, 2021
Non-alcoholic beverage sales	$	1,674,603	1,002,398
Licensing income		497,534	189,204
Other income		35,278	45,503
Chargebacks and listing fees		(275,932)	(123,629)
	$	1,931,483	1,113,476

Other income consists of commissions. Chargebacks and listing fees are charged by retailers and distributors for marketing programs and discounts.

5. ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

As at		December 31, 2022	June 30, 2022
Trade receivables	$	376,345	1,320,010
GST receivables		27,276	23,984
	$	403,621	1,343,994

During the six-month period ended December 31, 2022, the Company wrote-off $118,651 (December 31, 2021: $nil) to Bad debt expense as the result of a customer amount owing being deemed uncollectible. This amount is included on the condensed interim consolidated statements of operations and comprehensive loss.

6. INVENTORY

As at		December 31, 2022	June 30, 2022
Finished goods	$	14,166	20,433
	$	14,166	20,433

Inventory write downs recognized in write-off of inventory under other income during the six-month period ended December 31, 2022 amounted to $nil (December 31, 2021: $20,579). The cost of inventory recognized as an expense and included in cost of sales during the six-month period ended December 31, 2022 was $851,253 (December 31, 2021: $522,597).

7. ASSETS HELD FOR SALE

During the year ended June 30, 2022, the Company listed the equipment from its bottling and canning line for sale, resulting in the reclassification of equipment as assets held for sale. Prior to their reclassification, the equipment was reported under property and equipment at a carrying value of $157,144. Upon reclassification and as at June 30, 2022 and December 31, 2022, the assets held for sale were revalued at the lower of their carrying value and their net realizable value, determined to be $103,089.

(Expressed in Canadian Dollars)

8. PROPERTY AND EQUIPMENT

	ROU Asset	Computer Equipment	Computer Software	Equipment	Assets in progress	Total
Cost	$	$	$	$	$	$
Balance at June 30, 2021	53,019	8,699	2,114	277,639	-	341,471
Additions	52,091	2,494	901	-	79,450	134,936
Reclassification (note 7)	-	-	-	(277,639)	-	(277,639)
Balance at June 30, 2022	105,110	11,193	3,015	-	79,450	198,768
Additions	-	1,275	-	-	4,762	6,037
Balance at December 31, 2022	105,110	12,468	3,015	-	84,212	204,805
Accumulated depreciation						
Balance at June 30, 2021	23,565	5,219	1,648	103,035	-	133,467
Depreciation for the year	17,487	1,372	283	17,460	-	36,602
Reclassification (note 7)	-	-	-	(120,495)	-	(120,495)
Balance at June 30, 2022	41,052	6,591	1,931	-	-	49,574
Depreciation for the period	8,736	980	180	-	-	9,896
Balance at December 31, 2022	49,788	7,571	2,111	-	-	59,470
Carrying amount at June 30, 2022	64,058	4,602	1,084	-	79,450	149,194
Carrying amount at December 31, 2022	55,322	4,897	904	-	84,212	145,335

During the period ended December 31, 2022, the assets in progress were for the cannabis production facility in Mississauga, Canada. As the assets in progress are not yet available for use as at December 31, 2022, no depreciation expense has been recognized.

(Expressed in Canadian Dollars)

9. INTANGIBLE ASSETS

	Canpharm / Lexaria License (i) & (ii)	Other License (iii)	Trademarks (iv)	Total
Cost	$	$	$	$
Balance at June 30, 2021	3,816,492	51,250	17,538	3,885,280
Additions	-	17,854	204	18,058
Impairment	-	-	(5,629)	(5,629)
Balance at June 30 and December 31, 2022	3,816,492	69,104	12,113	3,897,709
Accumulated depreciation				
Balance at June 30, 2021	263,770	23,801	-	287,571
Depreciation for the year	296,715	5,351	-	302,066
Balance at June 30, 2022	560,485	29,152	-	589,637
Depreciation for the period	148,359	2,742	-	151,101
Balance at December 31, 2022	708,844	31,894	-	740,738
Carrying amount at June 30, 2022	3,256,007	39,952	12,113	3,308,072
Carrying amount at December 31, 2022	3,107,648	37,210	12,113	3,156,971

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

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

9. INTANGIBLE ASSETS (continued)

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

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

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

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

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

As at June 30, 2022 and December 31, 2022, consideration payable was considered to be settled in full and a loss on fair value of consideration payable totaling $nil (December 31, 2021: $14,471) was recognized in the consolidated statements of operations and comprehensive loss.

(Expressed in Canadian Dollars)

9. INTANGIBLE ASSETS (continued)

The following table summarizes the price allocation:

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

(iii) As of December 31, 2022, the Company has capitalized a total of $69,104 of costs associated with acquiring a Standard Processor License under the Cannabis act (Canada), and a Standard Processing License application under Health Canada. These licenses fees are being amortized over their useful life of 5 years.

(iv) As of December 31, 2022, the Company has capitalized a total of $17,742 for trademarks, of which $5,629 was deemed to be impaired and recognized as a loss on impairment of intangible assets during the year ended June 30, 2022.

(Expressed in Canadian Dollars)

10. LEASES

The Company has a lease for industrial commercial space. The Company's lease commenced on February 25, 2020 and extends to February 28, 2023. The Company has an option to extend the lease beyond the three-year non-cancellable term for an additional term of three years. The Company has recognized a right-of-use asset in respect of this lease, which is included in property and equipment on the consolidated statements of financial position (note 8).

The Company has also recognized a lease liability for this lease, which was initially measured at the present value of the future lease payments, discounted using the Company's incremental borrowing rate of 6%. Interest expense on the lease liability is included in bank charges and interest in the consolidated statements of operations and comprehensive loss. The carrying amount of the Company's lease liability is summarized in the table below.

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

	Lease liability
Balance, June 30, 2021	**32,697**
Extension of lease	52,091
Interest expense	7,560
Lease payments	(21,847)
Balance, June 30, 2022	70,501
Interest expense	3,518
Lease payments	(11,087)
Balance, December 31, 2022	62,932
Current portion	17,297
Non-current portion	45,635

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

Fiscal Year	**Lease Payments**
2023	$11,257
2024	$22,857
2025	$23,383
2026	$15,826
TOTAL	$73,323

(Expressed in Canadian Dollars)

11. LOANS PAYABLE

The Company has the following loans payable as at December 31, 2022 and June 30, 2022:

As at	December 31, 2022	June 30, 2022
	$	$
CEBA loan	60,000	53,623
Promissory note	2,395,486	2,289,767
Total loans payable	2,455,486	2,343,390

Canada Emergency Business Account

	CEBA loan
Balance at June 30, 2021	**$42,908**
Accretion Expense	$10,715
Balance at June 30, 2022	**$53,623**
Accretion Expense	$6,377
Balance at December 31, 2022	**$60,000**

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 six-month period ended December 31, 2022, $6,377 (December 31, 2021: $5,103) of interest expense related to the CEBA loan was recognized and included in accretion expense in the consolidated statements of operations and comprehensive loss.

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

11. LOANS PAYABLE (continued)

Notes payable

On December 9, 2020, in consideration of the value received in connection with the Lexaria Asset Acquisition, the Company agreed to pay the principal sum of $2,000,000 in the form of a promissory note. On initial recognition the principal amount shall bear interest at the rate of 10% per annum and shall accrue and be calculated quarterly-annually. The principal amount and any accrued interest shall be repayable by the Company in quarterly installments in an amount equal to 5% of the gross sales realized from cannabis infused product sold by the Company or its licenses utilizing the acquired technology. This promissory note and any accrued interest may be prepaid by the Company at any time in its sole and absolute discretion without penalty. On December 9, 2021, the principal balance on the promissory note was amended to $2,180,082, comprising the original principal balance of $2,000,000 and $180,082 of accrued and unpaid interest. Under the amended terms of the promissory note, interest shall now be compounded and calculated annually. During the six-month period ended December 31, 2022, the Company recognized interest expenses totaling $116,884 (December 31, 2021: $96,335) in the condensed consolidated interim statements of operations and comprehensive loss. During the six-month period ended December 31, 2022, total principal repayment was $11,165 (December 31, 2021: $8,501)

12. SHARE CAPITAL

a) Authorized

Unlimited number of common shares with no par value.

b) Issued and outstanding

At December 31, 2022 and June 30, 2022, the issued and outstanding share capital is comprised of 242,640,400 and 222,940,400 common shares, respectively.

During the period ended December 31, 2022 the Company issued the following shares:

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

On November 22, 2022, 500,000 of the RSUs previously granted were exercised by an employee for common shares of the Company. The fair value of RSUs exercised $12,500 was reclassified to share capital from reserves.

(Expressed in Canadian Dollars)

12. SHARE CAPITAL (continued)

b) Issued and outstanding

On December 23, 2022, the Company issued 17,500,000 units at a price of $0.04 per unit for gross proceeds of $700,000. 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 $0.05 per share, exercisable for a period of 24 months from the date of issuance. The warrants were assigned a value of $156,763. In connection to the private placement, the Company paid $5,225 in cash for share issuance costs.

The fair value of the warrants was determined using the Black-Scholes pricing model using the following assumptions: a volatility of 149.61%; risk-free interest rate of 3.93%; expected life of 2 years; and a dividend rate of 0%.

During the period ended December 31, 2021 the Company issued the following shares:

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

c) Stock options

The continuity of options for the period ended December 31, 2022 is summarized below:

Granted	Expiry	Exercise Price	June 30, 2022	Granted	Expired / Forfeited	Dec. 31, 2022	Exercisable
July 31, 2018	July 31, 2023	$ 0.075	2,228,742	-	(690,702)	1,538,040	1,538,040
July 31, 2018	Aug. 18, 2022	$ 0.075	863,378	-	-	863,378	863,378
May 23, 2019	May 23, 2024	$ 0.075	215,000	-	-	215,000	215,000
May 1, 2020	May 1, 2025	$ 0.05	1,650,000	-	(1,100,000)	550,000	550,000
May 1, 2020	Aug. 18, 2022	$ 0.05	587,500	-	-	-	-
Mar. 1, 2021	Mar. 1, 2026	$ 0.095	2,200,000	-	(1,500,000)	700,000	700,000
Mar. 1, 2021	Aug. 18, 2022	$ 0.095	437,500	-	-	437,500	437,500
Mar. 1, 2021	May 27, 2023	$ 0.095	33,333	-	-	33,333	33,333
Mar. 1, 2021	Aug. 31, 2023	$ 0.095	1,000,000	-	-	1,000,000	1,000,000
Apr. 30, 2021	Apr. 30, 2026	$ 0.09	3,778,500	-	(690,702)	3,087,798	3,087,798
Mar. 28, 2022	Mar. 28, 2027	$ 0.04	750,000	-	-	750,000	750,000
	Total		13,743,953	-	(3,981,404)	10,512,549	10,512,549
	Weighted average exercise price			-	(0.08)	$ 0.08	$ 0.08
	Weighted average remaining contractual life					2.40 years	

(Expressed in Canadian Dollars)

12. SHARE CAPITAL (continued)

c) Stock options (continued)

The continuity of options for the year period December 31, 2021 is summarized below:

Granted	Expiry	Exercise Price	June 30, 2021	Granted	Expired / Forfeited	Dec. 31, 2021	Exercisable
July 31, 2018	July 31, 2023	$ 0.075	2,228,742	-	-	2,228,742	2,228,742
July 31, 2018	Dec 31, 2021	$ 0.075	1,036,054	-	(1,036,054)	-	-
July 31, 2018	Dec. 17, 2021	$ 0.075	63,750	-	(63,750)	-	-
July 31, 2018	Feb. 8, 2022	$ 0.075	1,220,519	-	-	1,220,519	1,220,519
July 31, 2018	Aug. 18, 2022	$ 0.075	863,378	-	-	863,378	863,378
May 23, 2019	May 23, 2024	$ 0.075	215,000	-	-	215,000	179,167
May 1, 2020	May 1, 2025	$ 0.05	2,002,500	-	(352,500)	1,650,000	1,237,500
May 1, 2020	Dec. 17, 2021	$ 0.05	75,000	-	(75,000)	-	-
May 1, 2020	Feb. 8, 2022	$ 0.05	318,750	-	-	318,750	318,750
May 1, 2020	Aug. 18, 2022	$ 0.05	587,500	-	-	587,500	587,500
Mar. 1, 2021	Mar. 1, 2026	$ 0.095	4,362,500	-	(1,062,500)	3,300,000	1,750,000
Mar. 1, 2021	Aug. 18, 2022	$ 0.095	437,500	-	-	437,500	437,500
Apr. 30, 2021	Apr. 30, 2026	$ 0.09	3,778,500	-	-	3,778,500	3,038,667
	Total		17,189,693	-	(2,589,804)	14,599,889	11,861,723
	Weighted average exercise price			-	(0.08)	$ 0.08	$ 0.08
	Weighted average remaining contractual life					2.81 years	

During the six-month period ended December 31, 2022 the Company had:

- 3,981,404 options forfeited, initially held by a former officer of the Company. Previously recorded stock-based compensation of $20,118 related to the forfeited options was reversed and is included in Stock-based compensation on the Condensed Interim Consolidated Statements of Operations and Comprehensive Loss.

During the six-month period ended December 31, 2021 the Company:

- Had 1,415,000 options forfeited and 1,174,804 expired unexercised.

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 six-month period ended December 31, 2022 share-based compensation deficiency of ($15,294) (December 31, 2021: $101,140) was recognized in the consolidated statement of operations and comprehensive loss.

(Expressed in Canadian Dollars)

12. SHARE CAPITAL (continued)

d) Warrants

The continuity of warrants for the period ended December 31, 2022 is summarized below:

Granted	Expiry	Exercise Price	June 30, 2022	Granted	Expired / Cancelled	Exercised	Dec. 31, 2022
Nov 18, 2020	Nov. 18, 2022	$ 0.13	17,019,000	-	(17,019,000)	-	-
Nov. 18, 2022	Mar. 17, 2023	$ 0.05	-	11,250,900	-	-	11,250,900
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
Dec. 23, 2022	Dec. 23, 2024	$ 0.05	-	17,500,000	-	-	17,500,000
	Total		59,619,544	28,750,900	(17,019,000)	-	71,351,444
	Weighted average exercise price			0.05	(0.13)	-	0.09
Weighted average remaining contractual life						1.28 years	

The continuity of warrants for the period ended December 31, 2021 is summarized below:

Granted	Expiry	Exercise Price	June 30, 2021	Granted	Expired / Cancelled	Exercised	Dec. 31, 2021
June 5, 2019	June 5, 2022	$ 0.20	2,500,000	-	-	-	2,500,000
June 7, 2019	Dec. 31, 2021	$ 0.40	4,241,654	-	(4,241,654)	-	-
Dec 19, 2019	Dec 19, 2021	$ 0.13	13,324,998	-	(13,324,998)	-	-
May 1, 2020	May 1, 2022	$ 0.05	19,450,000	-	-	-	19,450,000
Nov 18, 2020	Nov. 18, 2022	$ 0.13	17,019,000	-	-	-	17,019,000
April 9, 2021	April 9, 2024	$ 0.11	42,548,544	-	-	-	42,548,544
April 9, 2021	April 9, 2023	$ 0.08	52,000	-	-	-	52,000
	Total		99,136,196	-	(17,566,652)	-	81,569,544
	Weighted average exercise price			-	(0.20)	-	0.10
Weighted average remaining contractual life						1.46 years	

On November 18, 2022, the Company received approval from the TSXV Exchange to modify the exercise price and extend the expiry date of 11,250,900 warrants, at the discretion of the Board of Directors. These warrants, previously set to expire on November 18, 2022, will now have an extended expiry date of March 17, 2023. The exercise price has been reduced from $0.13 to $0.05.

(Expressed in Canadian Dollars)

12. SHARE CAPITAL (continued)

e) Restricted share unit plan

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

During the six-month period ended December 31, 2022 the Company granted the following RSUs:

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

On October 12, 2022, the Company granted 1,000,000 RSUs to an officer of the Company. The RSUs are to vest on October 12, 2023. The fair value of these RSUs was determined to be $40,000 by reference to the fair value of the Company's common shares on the date of grant.

During the six -month period ended December 31, 2021 the Company did not grant any RSUs

Pursuant to the vesting schedule of RSUs granted during the six-month period ended December 31, 2022 share-based compensation of $105,123 (December 31, 2021: $Nil) and is included in Stock-based compensation in the Condensed Interim Consolidated Statement of Operations and Comprehensive Loss.

The continuity of RSUs for the years ended June 30, 2022 and December 31, 2022 are summarized below:

	Number of RSUs
Balance as at June 30, 2022	11,671,223
RSUs granted	1,500,000
Redeemed into common shares	(2,200,000)
Balance as at December 31, 2022	10,971,223

As at December 31, 2022, a total of 1,393,778 RSUs have vested and are exercisable.

(Expressed in Canadian Dollars)

13. RELATED PARTY TRANSACTIONS

The Company considers its executive officers and directors to be key management personnel. The Company incurred the following amounts to related parties during the respective periods for key management personnel compensation:

During the Six-Month Period ended December 31,	$ 2022	$ 2021
Total salaries, benefits and management fees	330,917	496,483
Stock-based compensation	92,476	98,875
Total salaries and other short-term benefits	423,393	595,358

Included in accounts payable and accrued liabilities as at December 31, 2022 is $196,275 (June 30, 2022: $504,665) payable to Directors and Officers of the Company for officer bonuses and director fees. The amount is non-interest bearing and unsecured.

On December 23, 2022, management and board members participated in a non-brokered private placement financing of units (“Units”) for gross proceeds of $232,000 at a price of $0.04 per Unit (Note 12). Each Unit consists of one common share 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 $0.05 per share for a period of two years from closing, subject to acceleration.

14. FINANCIAL INSTRUMENTS

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

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

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

14. FINANCIAL INSTRUMENTS (continued)

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.

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.

14. FINANCIAL INSTRUMENTS (continued)

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.

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

The fair value hierarchy that prioritizes the inputs used to measure fair value is as follows:

Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 - Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3 - Inputs that are not based on observable market data.

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

(Expressed in Canadian Dollars)

14. FINANCIAL INSTRUMENTS (continued)

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

15. FINANCIAL RISK EXPOSURE AND RISK MANAGEMENT

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

Credit Risk

Credit risk is the risk of potential loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations. The Company is exposed to credit risk from its cash and cash equivalents, accounts receivable, due from related parties, and subscription receivables. The risk exposure is limited to their carrying amounts reflected on the consolidated statements of financial position. The risk for cash and cash equivalents is mitigated by holding most of these instruments with highly rated Canadian financial institutions. The carrying value of these financial assets represents the Company's maximum exposure to credit risk. During the six-month period ended December 31, 2022, the Company wrote-off $118,651 to Bad debt expense as the result of a customer amount owing being deemed uncollectible. This amount is included on the condensed interim consolidated statements of operations and comprehensive loss. As at December 31, 2022, the Company had $403,621 (June 30, 2022 - $1,352,967) financial assets that may be subject to credit risk defaults.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations with respect to financial liabilities as they fall due. The Company's financial liabilities consist of its accounts payable and accrued liabilities, CEBA loan, consideration payable, note payable and convertible debentures. The Company manages its liquidity risk through the management of its capital structure as described in Note 16. The Company's accounts payable and accrued liabilities have contractual maturities of 30 days or are due on demand, do not generally bear interest and are subject to normal trade terms. As at December 31, 2022, the Company held $765,751 (June 30, 2022 - $1,170,569) in current liabilities.

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

		Total	1 year	2-3 years	4-5 years	Over 5 years
Accounts payable and accrued liabilities	$	607,827	607,827	-	-	-
Lease liability		73,323	22,599	46,768	3,956	-
CEBA loan		60,000	60,000	-	-	-
Note payable		2,395,486	80,627	460,233	564,610	1,290,016
	$	3,136,636	771,053	507,001	568,566	1,290,016

15. FINANCIAL RISK EXPOSURE AND RISK MANAGEMENT (continued)

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 December 31, 2022, the Company holds $2,395,486 (June 30, 2022 - $2,289,767) of interest-bearing debt, however there is no cash flow interest rate risk because the interest rate is fixed at 10%.

Foreign exchange risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the foreign currency exchange rates. Revenue and expenses are mostly denominated in Canadian dollar, US dollar or Euro. A significant change in the currency exchange rates between the Canadian dollar, US dollar and Euro could have an effect on the Company's results of operations, financial position or cash flows. The Company has not hedged its exposure to currency fluctuations.

As at December 31, 2022, a plus or minus 5% change in foreign exchange rates would affect the consolidated statements of operations and comprehensive loss by $43,356 (June 30, 2022 - $19,022).

16. CAPITAL MANAGEMENT

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

17. SEGMENTED REPORTING

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

During the Six-Month Period Ended December 31,		2022	2021
Canada	$	1,433,949	780,847
United States		497,534	264,626
Other		-	68,003
	$	1,931,483	1,113,476

(Expressed in Canadian Dollars)

17. SEGMENTED REPORTING (continued)

During the six-month period ended December 31, 2022, one of the Company's customers accounted for 78% of net revenue and another customer accounted for 18% of net revenue (December 31, 2021: 71% and 15%, respectively).

Disaggregation of non-current assets by geographic area:

As at		December 31, 2022	June 30, 2022
Canada	$	3,302,306	3,457,266
United States		-	-
Other		-	-
	$	3,302,306	3,457,266

Reportable business segment information is as follows:

	December 31, 2022		December 31, 2021	
	Beverages	Licensing	Beverages	Licensing
	$	$	$	$
Revenue	1,433,949	497,534	924,272	189,204
Interest and accretion	(6,377)	(120,402)	(5,103)	(97,411)
Depreciation	(1,160)	(159,837)	(18,241)	(159,870)
Total assets	2,249,762	3,556,503	3,027,324	3,524,124
Total liabilities	(667,827)	(2,458,418)	(795,334)	(2,446,547)

18. SUBSEQUENT EVENTS

On January 10, 2023, the Company successfully sold its bottling and canning line (Note 7) for net proceeds of $143,601 (US$107,165). The Company recorded a gain on sale of assets held for sale of $40,512.

On February 28, 2023, the Company decided not to exercise the option to extend the lease term for the industrial commercial space (Note 10).