

## **Hill Street Beverage Company Inc.**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

#### **For the three and six-month period ending December 31, 2020**

The following management's discussion and analysis ("MD&A") provides a review of the activities, results of operations and financial condition of Hill Street Beverage Company Inc. (the "Company" or "Hill Street") for the three and six months ended December 31, 2020 in comparison with the three and six months ended December 31, 2019. These comments should be read in conjunction with the audited financial statements for the years ended June 30, 2020 and June 30, 2019 and accompanying notes included therein, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). This MD&A has been prepared as of March 1st, 2021. Additional information relating to Hill Street is available on SEDAR.

All amounts are stated in Canadian dollars unless otherwise identified.

#### **FORWARD-LOOKING STATEMENTS**

Except for the historical information contained herein, the discussion in this MD&A contains certain forward-looking statements that involve risks and uncertainties, such as statements of Hill Street's plans, objectives, strategies, expectations and intentions. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "may", "will", "expect", "intend", "anticipate", "seek", "plan", "believe" or "continue" or the negatives of these terms or variations of them or similar terminology. Although Hill Street believes that the expectations and assumptions reflected in these forward-looking statements are reasonable, undue reliance should not be placed on these forward-looking statements. These forward-looking statements are not guarantees and reflect Hill Street's views as March 1st, 2021 with respect to future events. Future events are subject to certain risks, uncertainties and assumptions, which may cause actual performance and financial results to differ materially from such forward-looking statements. The forward-looking statements, including the statements regarding expected volumes, operating efficiencies, and costs are based on, among other things, the following material factors and assumptions: sales volumes in the quarter will increase; no material changes in consumer preferences; brewing, blending, and packaging efficiencies will improve; the cost of input materials for brewing and blending will increase; competitive activity from other manufacturers will continue; foreign currency exchange rates will change; no material change to the regulatory environment in which Hill Street operates and no material supply, cost or quality control issues with vendors. Readers are urged to consider the foregoing factors and assumptions when reading the forward-looking statements and for more information regarding the risks, uncertainties and assumptions that could cause Hill Street's actual financial results to differ from the forward-looking statements, to also refer to the remainder of the discussion in this MD&A, Hill Street's various other public filings as and when released by Hill Street. The forward-looking statements included in this MD&A are made only as of March 1st, 2021 and, except as required by applicable securities laws, Hill Street does not undertake to publicly update such forward-looking statements to reflect new information, future events or otherwise.

## **DESCRIPTION OF THE BUSINESS**

On December 9, 2020, The Company announced the closing of the transaction of substantially all of the assets of Lexaria Canpharm (“**Canpharm**”), the cannabis products division of Lexaria Biosciences (CSE:LXX). This transformative transaction has resulted in a wholly new operating line, in addition to its current alcohol free and cannabis infused beverage lines. The combination of these three businesses creates a vertically integrated product value chain that will leverage knowledge from our consumer lines with our new, patented ingredient line, spanning consumer to enterprise.

The Company lines of business now include:

### **1. Hill Street Alcohol Free Beverages**

This line represents the legacy consumer marketing and distribution business. It includes alcohol free beer and wine in Canada, and on a smaller scale, in the United States. It is sold in thousands of branded retail chain stores through Canadian distributors, and direct to consumer online at [www.hillstreetbeverages.com](http://www.hillstreetbeverages.com)

### **2. Hill Avenue Cannabis infused beverages**

At present, this line is focused on the imminent launch of cannabis infused consumer beverages under the Hill Avenue Cannabis brand. Formal notice with Health Canada has been filed.

### **3. Hill Avenue Cannabis Technologies**

This new B2B business line focuses on the licensing of patented Global Intellectual Property (“IP”) for the DehydraTECH™ technology acquired from Lexaria Biosciences in December 2020.

With the Lexaria Biosciences transaction the Company acquired existing contracts to provide licenses for use of these patents by companies in Canada and the USA. Additionally, The Company will begin to develop new licensing relationships with companies already licensed by Health Canada to manufacture cannabis products under the Cannabis Act. It will also pursue licensing opportunities on the global market to supply manufacturers of consumer goods whose products are infused with cannabis and or hemp extracts.

## **Q2 HIGHLIGHTS**

### **The Company Closed the transaction acquiring Assets of Lexaria Canpharm**

This quarter the Company closed the transaction for substantially all of the assets of Lexaria Canpharm (“**Canpharm**”), the cannabis products division of Lexaria Biosciences (CSE:LXX). This transaction included a global, exclusive and perpetual license to the entire patent portfolio developed by Lexaria Biosciences (CSE:LXX), and marketed as DehydraTECH. It covers cannabis products containing greater than 0.3% THC, and provides for a ten year global license for use of the same patent portfolio with products containing CBD and hemp extracts containing less than 0.3% THC.

### **The Company Created A New B2B Line of Business and Recorded its First Cannabis Revenues**

In a transformative move, The Company created a new B2B business line focused on the licensing of patented Global IP for the DehydraTECH™ technology acquired from Lexaria Biosciences in December 2020.

With the Lexaria Biosciences transaction the Company acquired existing contracts to provide licenses for use of these patents by companies in Canada and the USA. With these contracts The Company recorded its first cannabis revenues. The Company will begin to develop new licensing relationships with companies already licensed by Health Canada to manufacture cannabis products under the Cannabis Act. It will also pursue licensing opportunities on the global market to supply manufacturers of consumer goods whose products are infused with cannabis and or hemp extracts.

### **Hill Avenue Cannabis Beverages Continued Launch Preparations**

The Company worked closely with its licensed production partner to address the regulatory requirements in order to launch its first cannabis infused beverages. The Notice of New Product Introduction to Health Canada was filed on December 31, 2020 beginning the sixty-day notice period. The Company anticipates its cannabis beverages will launch toward the end of the third quarter of fiscal 2021.

### **Progress Continued on Securing Cannabis License for Hill Avenue Through the Lucknow Facility**

The Company continued planning for its licensed cannabis operations at the Lucknow facility which is strategically located near Pearson Airport in Mississauga, Ontario. The Company worked to confirm the evolving regulatory and operational requirements for the facility as it sought to incorporate its new strategies and line of business, post-transaction.

### **Alcohol Free Business Increased Net Revenues Year Over Year**

Coincident with driving its cannabis initiatives, Hill Street’s legacy alcohol free business showed momentum in the quarter. Net Revenue increased by 8% versus the same quarter year ago, to \$745,748 from \$689,276. This was driven in part by increased online sales revenues of 166% versus the prior fiscal year quarter. The increase in revenues from online shopping is consistent with consumer purchasing patterns that have been reshaped by the pandemic across retail and foodservice channels. The online segment is now an important and measurable segment of the company’s total business. It

provides higher margins than the traditional retail channel when consumers order a case of six bottles of wine or more.

Hill Street's Gross revenue was down 10% during the quarter to \$875,529 from \$973,710 versus a year ago. This was due in part to COVID-19 related manufacturing delays that impacted overseas supply partners and are expected to continue into the third quarter. In addition, Hill Street eliminated the holiday gift pack promotion which typically provides a seasonal lift due to these same supply chain challenges.

Regarding Alcohol free beer, the Company launched a new recipe for Hill Street Craft Lager, in line with its commitment to continuously improve the taste profile of its award winning alcohol free beer.

## RESULTS OF OPERATIONS

The following table summarizes certain financial information of the Company for the three months ended December 31, 2020 and December 31, 2019. It also summarizes certain financial information for the six months ended December 31, 2020 December 31, 2019.

Results for the Period Ended	Quarter Ended December 31, 2020	Quarter Ended December 31, 2019	Six Months Ended December 31, 2020	Six Months Ended December 31, 2019
Gross Revenue	\$875,529	\$973,710	\$1,259,979	\$1,487,476
Chargebacks, finance fees, and listing fees	-\$129,780	-\$284,434	-\$239,518	-\$468,761
Net Revenue	\$745,749	\$689,276	\$1,020,461	\$1,018,715
Direct Costs	\$363,840	\$395,228	\$492,546	\$547,264
Gross profit	\$381,909	\$294,048	\$527,915	\$471,451
Operating Expenses (excl. One-time & Non Cash)	\$757,466	\$698,337	\$1,208,186	\$2,069,752
Other One-time Expenses	\$19,337	\$345,870	\$23,837	\$522,463
Non Cash Expenses	\$88,891	\$107,600	\$255,513	\$262,582
Loss before other Income (Expense)	-\$483,785	-\$857,759	-\$959,620	-\$2,383,346
Other income (Expenses)				
Foreign exchange gain (loss)	-\$3,497	-\$1,433	-\$1,980	-\$13,757
Gain on Settlement of liability	\$6,730		\$6,730	
Write-off of intangibles				-\$8,000
Write-off of inventory	-	-\$23,466	-\$1,535	-\$23,466
Other Income	\$30	-	\$30	-
Loss and comprehensive loss for the period	\$480,522	\$882,658	\$956,375	\$2,428,569
Basic and diluted loss per common share	(\$0.00)	\$0.01	(\$0.01)	\$0.02
Weighted average number of common shares outstanding	122,399,917	98,754,081	117,289,721	97,858,706

## REVENUES

During the three months ended December 31, 2020, gross revenues were \$875,529 compared to \$973,710 for the three months December 31, 2019. The decrease of 10% compared to the three months ended December 31, 2019 was due in part to COVID-19 related manufacturing delays caused by lock-down at the overseas manufacturer. This contributed to significant out of stock positions at major grocery retail for much of the period. Additionally, the Company undertook the strategic decision to discontinue the holiday gift pack program which would have had sales reflected in this quarter within 2019. This decision reflects the underperformance of the product against sell through expectations on-shelf in years prior. These decreases were partially offset by significant increases in online sales quarter over quarter by 166%.

Net revenues for the three months ended December 31, 2020 were \$745,749 compared to \$698,276 in the three months ended December 31, 2019, representing an increase of 8% driven by lower chargebacks and listing fees. For the three months ended December 31, 2020, chargebacks and listing fees represented 15% of gross revenues down from 29% for the three months ended December 31, 2019. Chargebacks are fees charged by retailers and distributors for program money and discounts. Chargebacks for the quarter were \$129,780 and \$278,434 for the prior year. Listing fees were \$nil, for the three months ended December 31, 2020 and \$6,000 for the three months ended December 31, 2019.

#### **COST OF SALES/DIRECT COSTS**

Direct costs were \$363,840 or 42% of gross revenue for the three months ended December 31, 2020 and \$395,228 or 41% of gross revenue for the three months ended December 31, 2019. This is a 1% percentage point increase over the three months ended December 31, 2019, driven by higher import freight costs offset by favorable inventory adjustments.

#### **OPERATING EXPENSES (EXCLUDING ONE-TIME & NON CASH)**

Ordinary operating expenses include selling & marketing expenses, employee expenses, donations, dues & licenses, professional fees, and other general and administrative expenses. For the three months ended December 31, 2020, operating expenses totaled \$757,466 compared to \$698,337 for the three months ended December 31, 2019. The principal drivers of the \$59,129 increase in operating expenses were: salaries and wages, donations and professional fees. Donations, Dues and Licenses decreased by \$39,645 to (\$8,704) from \$30,941 in prior year's quarter primarily due to the termination of a licensing agreement related to the Lexaria as a result of the CanPharm asset acquisition. Professional fees increased by \$114,818 for accounting, legal and audit, for the three months ended December 31, 2020. Wages and Salaries decreased by \$81,289 due to lower headcount compared to the same quarter in prior year. Interest increased by \$15,464 related to the convertible debt. Insurance expenses increased by \$28,535 due to cannabis industry risk.

#### **OPERATING EXPENSES – ONE TIME**

In addition to ordinary operating expenses, for the three months ended December 31, 2020, one-time expenses were \$19,337 relating to \$103,064 for recruiting, investor fees, severance payments, offset by reduced salaries and wages due the Canada Emergency Wage Subsidy for \$83,727. For the three months ended December 31, 2019 one-time expenses were \$345,870 primarily for investor relations costs.

#### **OPERATING EXPENSES - NON-CASH**

For the three months ended December 31, 2020 the Company incurred non-cash expenses totaled \$88,891, which includes expense related to the stock options, depreciation, the expense of warrants issued in exchange for marketing services, accretion expense on convertible debentures and interest free CEBA loan and lease interest expenses. For the three months ended December 31, 2019 the Company incurred non-cash expenses of \$107,600 for expense for depreciation, stock options and warrants.

## OTHER EXPENSES

For the three months ended December 31, 2020, the Company incurred other income and expenses totaling \$3,263. These includes \$3,497 for loss on foreign exchange and \$6,730 for a gain on settlement of a liability. For the three months ended December 31, 2019, the Company incurred other expenses totaling \$24,899. This included losses for foreign exchange that totaled \$1,433 and \$23,466 for the inventory write off.

## NET EARNINGS

The Company recorded a net loss of \$480,522 for the three months ended December 31, 2020 compared to a loss of \$882,658 in the three months ended December 31, 2019. The improvement in net earnings of 54% was driven by and improvement in gross margin and cost reduction strategies.

The basic and diluted loss per share for the three months ended December 31, 2020 was \$0.00 per share. The basic and diluted loss per share for the three months ended December 31, 2019 was \$0.01 per share.

## SELECTED QUARTERLY INFORMATION

The following table summarizes certain financial information of the Company for the quarters indicated below:

	Dec 31, 2020	Sept 30, 2020	June 30, 2020	Mar 31, 2020	Dec 31, 2019	Sep 30, 2019	June 30, 2019	Mar 31, 2019
Gross Revenue	\$875,529	\$384,450	\$623,450	\$502,997	\$973,710	\$513,766	\$506,721	\$603,854
Net Revenue	\$745,749	\$274,712	\$323,604	\$388,536	\$689,276	\$329,439	\$55,100	\$428,355
Direct Costs	\$363,840	\$128,706	\$231,176	\$226,366	\$395,228	\$152,036	\$164,193	\$219,736
Gross Profit	\$381,909	\$146,006	\$92,428	\$162,710	\$294,048	\$177,403	\$219,293	\$208,619
Net Loss (gain)	\$480,522	\$475,853	\$456,685	\$796,425	\$882,658	\$1,509,913	(\$6,711,371 )	\$1,074,283
Total Assets	\$6,438,534	\$1,368,840	\$2,016,673	\$1,594,737	\$2,225,062	\$1,908,157	\$3,004,909	\$2, 216,288
Total Liabilities	\$4,941,526	\$1,600,388	\$1,831,246	\$1,242,007	\$1,198,761	\$882,662	\$627,141	\$829,799
Shareholder Equity	\$1,497,008	(\$231,548)	\$185,427	\$352,730	\$1,026,301	\$1,025,495	\$2,377,768	\$1,386,489

## LIQUIDITY AND CAPITAL RESOURCES

### FINANCIAL POSITION

The Corporation's principal capital needs are for operating expenses related to inventory, employee and marketing expenses. Additional investments are being made to support the cannabis infused powder and license business to monetize the Lexaria acquisition. In addition, the company will need to continue to invest in building its cannabis license facility. Since its formation, the Company has financed its additional cash requirements through revenues generated from operations, issuance of securities and borrowing from shareholders and other lenders.

The Company has positive working capital and will continue to focus on cost management and revenue growth. During the quarter, the Company completed a non-brokered private placement of units, for gross proceeds of \$850,950. Subsequent to the quarter end, the Company announced an additional non-brokered private placement of units at a price of \$0.08, comprising of one common share and one warrant of the company.

#### **WORKING CAPITAL**

Working capital represents current assets less current liabilities. As of December 31, 2020, the Company had a positive working capital of \$291,838 compared to a working capital of \$581,293 for December 31, 2019.

#### **CASH FLOWS**

During the three months ended December 31, 2020, Hill Street had negative cash flows from operations of \$971,156 compared to negative cash flow of \$1,258,667 during the three months ended December 31, 2019. The amount of cash (used) in investing activities in the three months ended December 31, 2020 was \$364,553 compared to \$3,255 in the three months ended December 31, 2019. The increase was primary due to the company's acquisition of Lexaria's CanPharm assets. The amount of cash generated in financing activities during the three months ended December 31, 2020 was \$1,409,790 compared to \$575,420 in the three months ended December 31, 2019.

#### **CONTRACTUAL OBLIGATIONS**

A summary of the Corporation's contractual obligations for future periods is as follows:

Contractual Obligations	Payments due by Period					Total
	FY2021	FY2022	FY2023	FY2024	FY2025	
Operating Leases	\$15,124	\$30,656	\$20,656	\$0	\$0	\$66,436
Purchase Obligations	\$242,944	\$98,833	\$15,882	\$0	\$0	\$357,659
Total	\$258,068	\$129,489	\$36,538	\$0	\$0	\$424,095

#### **SHARE CAPITAL**

The Company is authorized to issue an unlimited number of Common Shares of which 141,720,150 Common Shares are issued and outstanding as of the date hereof.

#### **CAPITAL RESOURCES**

As of December 31, 2020, the Company did not have commitments for capital expenditures.

#### **OFF BALANCE SHEET ARRANGEMENTS**

Hill Street does not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the financial performance or financial condition of the Company.



## TRANSACTIONS WITH RELATED PARTIES

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.

<u>During three-month period ended December 31,</u>	<u>2020</u>	<u>2019</u>
Total salaries, benefits and management fees	\$272,497	\$157,245
Stock-Based compensation	\$79,459	\$89,518
Management and Director Compensation	351,956	\$246,763

Included in accounts payable as of December 31, 2020 is \$449,175 (June 30, 2020: \$337,682) payable to Directors and Officers of the Company for management compensation. The amount is non-interest bearing, unsecured and due on demand.

As of December 31, 2020, the company had a fair value of \$832,249 (June 30, 2020: \$770,485) of related party convertible debt related to a private placement financing on May 4, 2020 for gross proceeds of \$1,022,500. The fair value was calculated as per IFRS 9 (Financial Instruments) whereby the fair value of the financial instrument considers that the loan bears an off-market interest rate and as such can be measured as the present value of all future cash receipts discounted at prevailing market rate of interest for a similar instrument. The principal balance on the convertible debentures is convertible into common shares of the Company at a price of \$0.05 per share until May 4, 2021, and thereafter at a price of \$0.10 per share. The principal balance accrues interest at the rate of 6% per annum, calculated and payable semi-annually. All principal and accrued but unpaid interest is due in full on May 4, 2022. In connection with the issuance of the convertible debentures, the Company also issued 20,450,000 warrants, 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 2 years from the date of closing.

On November 18, 2020, management and board members participated in a non-brokered private placement financing of units (“2020 Units”) for gross proceeds of \$373,500 at a price of \$0.05 per 2020 Unit. Each 2020 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 \$0.13 per share for a period of two years from closing, subject to acceleration.

On December 23, 2019, management and board members participated in a non-brokered private placement financing of units (“2019 Units”) for gross proceeds of \$250,000 at a price of \$0.06 per Unit. 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 \$0.13 per share for a period of two years from closing, subject to acceleration.