

HILL STREET BEVERAGE COMPANY INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE THREE MONTH PERIOD ENDING DECEMBER 31, 2019

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 months ended December 31, 2019 in comparison with the three months ended December 31, 2018. These comments should be read in conjunction with the audited financial statements for the years ended June 30, 2019 and June 30, 2018 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 February 28, 2020. 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 of February 28, 2020 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 February 28, 2020 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

The Company presently has one business segment, the marketing and distribution of alcoholic free beer and wine in Canada and, to a much lesser extent, the United States. Hill Street sells its products online and in thousands of branded retail chain stores through licensed distributors in Canada. It also provides direct to consumer sales and a monthly subscription service at www.hillstreetbeverages.com. In addition, the Company is focusing on expanding its business segments to include Cannabis infused beverages in 2020.

Q2 HIGHLIGHTS

Hill Street reports strong revenue increases in the second quarter as well as year over year results. Within the period, the increased year over year sales of the popular Entertainer's Pack helped to contribute to a solid increase in business. Gross sales were up 85%, which helped to offset the lower performance in the first quarter. The increase in revenue for the quarter was driven by increased sales for the Entertainer's Pack and a shift in revenue from Q1 to Q2. 2019 revenues for this Entertainer's Pack were recognized Q1 last year.

The Company closed its calendar year with the announcement of a successful promotional program with major retailers, featuring the Entertainer's Pack, a value priced offering in a gift box for the holidays. The Entertainer's Pack contained three Vin (Zero) bottles, a Chardonnay, Merlot and Brut Blanc. The trio of products represented a nice cross section of products to appeal to most palates. The Entertainer's Pack, recalibrated to be more of a "year-round" appeal with updated graphics and visuals was distributed during the period to a complete sell out on its offering. Hill Street expects to see the Entertainer's Pack on retail shelves more often based on feedback from major retailers, including during summer sales and other holiday periods. The on-shelf presence was impactful and attracted great sell through.

Overall, for the six months ended December 31, 2019, the Company reports a year-over-year increase in sales in the same period of 13% as the Company drives to increase distribution, monitor sell through and analyze industry trends. With the announcement of a distribution agreement in Q1 of a new retailer Fortinos, Hill Street anticipates a continued trajectory of growth as the third quarter opens.

Hill Street's second quarter was also highlighted by a significant change in strategy for its cannabis infused production plan. The Company announced the termination of its acquisition of OneLeaf Cannabis in Regina, Saskatchewan, and the signing of a non-binding letter of intent with Peak Processing of Windsor, Ontario, to provide co-packing (or manufacturing) services for cannabis infused beverages. This fundamental shift in strategy away from owning a cannabis cultivation facility was based on the dramatic turn of sentiment amongst investors in the capital markets towards cannabis cultivation, which has seen the cannabis indexes drop by as much as two-thirds during the last two quarters. Owing largely to over-capacity of growing and greenhouse production of cannabis flower, and the lack of retail stores to drive consumer sales, cannabis cultivators have struggled to attract financing by both institutional and retail investors, in Q2 the Company focused on working with licensed co-packing production partners.

The Company closed a private placement of approximately \$800,000 in December, providing it with working capital to continue its operations in preparation for the launch of cannabis infused beverages in 2020. In addition to this working capital, the Company participated in the Thinking North Capital Conference in October where its beverages were featured to an audience of over 150 investors.

INNOVATIVE PRODUCTS AND ADDRESSABLE MARKETS

Product Innovation

While the Company has announced its first co-packing production agreement with Peak Processing, it expects to use multiple different suppliers of cannabis copacking services, as no one production company has all of the product and packaging formats the Company seeks to use for its cannabis infused products. The Company continues to focus on beer, wine, and cannabis extracts using the patented Lexaria technology process.

The Company's new strategy will involve replacing the premium and unique cannabis cultivars formerly offered by the acquisition of OneLeaf with similar differentiated offerings from other micro-cultivators and processors, to ensure the Company has craft-grown, artisan-produced products that can be premium priced and distinctly positioned against the competition.

In addition, in Q2 the Company focused on cannabis related activities such as examining the stewardship requirements, packaging solutions and securing partnerships for singular-use compliant child-resistant caps.

Addressable Market

Many meetings were undertaken during the period which were fundamental in adding industry- specific knowledge, sales projection quantifiers and demographic predispositions for the cannabis market. Understanding the addressable market in this sector is key to provide sales projections and targets for the business. Armed with this insight, Hill Street is well positioned to carry out the activities necessary to prepare to support the co-packer strategy which it intends to activate in the coming months.

MARKETING

During the second quarter, product placements continue to be seen on the lifestyle television program Fish TV. These *in situ* product uses demonstrates the high value of being able to enjoy a social beverage without risk of illegal activities (consuming alcohol while operating a motor boat) which is at the same time refreshing and great tasting.

In addition, Hill Street's Chairman and CEO Terry Donnelly continued to appear in media interviews and in print. These appearances underlined Hill Street's unwavering commitment to fulfill the strategic direction for cannabis. Also, in early December, Hill Street's EVP of Strategic Partnerships and Government Affairs presented to a large group in the United Kingdom featuring Hill Street's future cannabis strategies. The market research opportunity provided a first-hand look at the EU market potential for cannabis. As the Company moves closer to the release of cannabis beverages in the months ahead, every opportunity to express Hill Street's vision has been met with a favourable response by businesses and the public. This type of marketing is effective with little to no financial impact. This continues Hill Street's austerity marketing position as the next marketing plan is prepared to be launched.

The Zoomer relationship saw a large ad published in direct to consumer materials, driving readers to purchase the Hill Street Products at a retail outlet near them. This was undertaken to address the concern that many of Zoomer's constituents do not enjoy the on-line shopping experience, but are curious to try and enjoy the alcohol-free products.

In November, WW (formerly Weight Watchers) launched a new program that fits in with different lifestyle choices and desired health outcomes. Hill Street participated in a targeted release launch activity called WW City, whereby they launched a challenge for the citizens to participate in a lifestyle change program for a specified period of time. Hill Street remains pleased to be a good choice for all of WW's program offerings, and does enjoy an on-pack endorsement.

SOCIAL RESPONSIBILITY

Hill Street continues to accrue donations to partner charities from its sales on the way to approaching a lifetime charitable donation amount of \$2 million. This is a significant milestone, as Hill Street's commitment to its stated strategy of donating a portion of proceeds of every sale toward health-related charities is reflective of our community involvement initiative.

As Hill Street continues to build distribution of alcohol-free products, brand awareness, and cannabis-infused beverages & complementary products, there exists a great opportunity to reinforce the corporate social responsibility mandate.

A number of charitable organizations requested, and received, product or in-kind donations during the period to support events. Hill Street views these supportive donations as a method for the charitable group to enhance their

events, but also a controlled sampling environment where people who may or may not already be aware of Hill Street to trial the great taste and value proposition of the alcohol-free beverages.

RESULTS OF OPERATIONS

The following table summarizes certain financial information of the Company for the three months ended December 31, 2019 and December 31, 2018. It also summarizes certain financial information for the six months ended December 31, 2019 and the six months ended December 31, 2018.

REVENUES

Results for the Period Ended	Quarter Ended December 31, 2019	Quarter Ended December 31, 2018	Six Months Ended December 31, 2019	Six Months Ended December 31, 2018
Gross Revenue	\$973,710	\$527,652	\$1,487,476	\$1,321,591
Chargebacks, finance fees, and listing fees	-\$284,434	-\$132,296	-\$468,761	-\$414,574
Net Revenue	\$689,276	\$395,356	\$1,018,715	\$906,945
Direct Costs	\$395,228	-\$169,569	\$547,264	\$464,444
Gross profit	\$294,048	\$225,787	\$471,451	\$442,501
Operating Expenses (excl. One-time & Non Cash)	\$698,337	\$1,153,607	\$2,069,752	\$1,675,410
Other One-time Expenses	\$345,870	\$222,298	\$522,463	\$891,720
Non Cash Expenses	\$107,600	\$262,493	\$262,582	\$483,779
Loss before other Income (Expense)	-\$857,759	-\$1,412,611	-\$2,383,346	-\$2,608,408
Other income (Expenses)				
Public Company Listing Fee	-	-	-	-\$918,345
Foreign exchange gain (loss)	-\$1,433	-\$1,168	-\$13,757	-\$16,055
Write-off of inventory	-\$23,466	-\$59,449	-\$23,466	-\$67,456
Write-off of intangibles	-	-	-\$8,000	-
Other Income	-	\$32,208	-	\$32,848
Loss and comprehensive loss for the period	\$882,658	\$1,443,020	\$2,428,569	\$3,577,416
Basic and diluted loss per common share	\$0.01	\$0.02	\$0.02	\$0.05
Weighted average number of common shares outstanding	98,754,081	87,112,165	97,858,706	76,224,512

During the three months ended December 31, 2019, gross revenues were \$973,710 compared to \$527,652 for the three months ended December 31, 2018; representing an increase of 85% driven by a shift in revenue from Q1 to Q2 for the Entertainer's Pack. 2019 revenues for this program were recognized in Q1 2019. YTD growth of 13% over last year driven by a strong second quarter.

For the three months ended December 31, 2019, chargebacks and listing fees (fees charged by retailers and distributors for program money and discounts) represented 29% of gross revenues for the three months ended December 31, 2019 and 25% of gross revenues for the three months ended December 31, 2018. The year over year

increase of four percentage points is driven by the higher costs associated with the distribution of the Entertainer's Pack.

Net revenues for the three months ended December 31, 2019 were \$689,276 compared to \$395,356 in the same period a year ago, representing an increase of 74%. Net revenues are calculated by deducting from gross revenues the costs of chargebacks and listing fees paid to retailers to have product available for sale in such retail establishments. The increase in net revenues is attributable to the increase in gross revenue. Net revenues for the six months ended December 31, 2019 were \$1,018,715 compared to \$906,945 in the six months ended December 31, 2018, representing an increase of approximately 12%.

COST OF SALES/DIRECT COSTS

Direct costs were \$395,228 for the three months ended December 31, 2019 compared to \$169,569 for the three months ended December 31, 2018. Direct costs represented 40% of gross revenue in the quarter compared to 32% in the same quarter in 2018. This increase was primarily driven by higher costs associated with the Entertainer's Pack.

OPERATING EXPENSES (EXCLUDING ONE-TIME & NON CASH)

Operating expenses include selling & marketing expenses, employee expenses, donations, dues and licenses, professional fees and other general and administrative expenses. For the quarter ended December 31, 2019, operating expenses totaled \$698,337 compared to \$1,153,607 for the quarter ended December 31, 2018, representing a decline of \$455,270 or 39% driven primarily by the lower marketing spend for the quarter. The higher marketing expense in the same quarter last year was due to the cost associated with the Hill Street Challenge marketing campaign.

ONE TIME OPERATING EXPENSES

In addition to ordinary operating expenses, the Company incurred a number of one-time expenses. For the three months ended December 31, 2019, one-time expenses totaled \$345,870 relating to capital raise, investor relations, finder's fee and M&A. For the three months ended December 31, 2018 one-time expenses totaled \$222,298 relating to investor relations, M&A and expenses of the Company relating to its cannabis licensing efforts. For the six months ended December 31, 2019 one-time expenses totaled \$891,720 relating to M&A, investor relations, capital raise and cannabis investment. For the six months ended December 31, 2018 one-time expenses totaled \$522,463 relating to investor relations, M&A, cannabis investment and RTO.

NON CASH EXPENSES

For the three months ended December 31, 2019 the Company incurred non-cash expenses totaling \$ 107,600 compared to \$262,493 for the quarter ended December 31, 2018. For the six months ended December 31, 2019 the Company incurred non-cash expenses totaling \$262,582 compared to \$483,779 for the six months ended December 31, 2018. The non-cash expenses related to stock options, depreciation. In the six months ended December 31, 2018 the Company also incurred the non-cash cost of listing the Company on the stock exchange of \$918,345.

NET EARNINGS

The Company recorded a net loss of \$882,658 the three months ended December 31, 2019, compared to a loss of \$1,443,020 for the three months ended December 31, 2018. The improvement is driven by the lower cost of the stock options expense and the marketing spend. For the six months ended December 31, 2019 Company recorded a net loss of \$2,428,569 the six months ended December 31, 2019, compared to a loss of \$3,577,416 for the six

months ended December 31, 2018. The improvement is driven largely by the cost of listing the Company on the stock exchange of \$918,345 incurred in the three months ended December 31, 2018.

SELECTED QUARTERLY INFORMATION

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

	Dec 31, 2019	Sep 30, 2019	June 30, 2019	Mar 31, 2019	Dec 31, 2018	Sep 30, 2018	June 30, 2018	Mar 31, 2018
Gross Revenue	\$973,710	\$513,766	\$506,721	\$603,854	\$527,652	\$793,867	\$174,796	\$364,427
Net Revenue	\$689,276	\$329,439	-\$55,100	\$428,355	\$395,356	\$511,589	\$94,550	\$248,093
Direct Costs	\$395,228	\$152,036	\$164,193	\$219,736	\$169,569	\$294,875	\$199,693	\$19,898
Gross Profit	\$294,048	\$177,403	\$219,293	\$208,619	\$225,787	\$216,714	-\$105,143	\$228,195
Net Loss (-gain)	\$882,658	\$1,509,913	-\$6,711,371	\$1,074,283	\$1,443,020	\$2,134,396	\$1,402,174	\$644,880
Total Assets	\$2,225,062	\$1,908,157	\$3,004,909	\$2,216,288	\$2,997,226	\$4,506,261	\$2,845,751	\$1,650,397
Total Liabilities	\$1,198,761	\$882,662	\$627,141	\$829,799	\$743,463	\$1,069,283	\$1,387,534	\$674,059
Shareholder Equity	\$1,026,301	\$1,025,495	\$2,377,768	\$1,386,489	\$2,253,763	\$3,436,978	\$1,458,217	\$976,338

LIQUIDITY AND CAPITAL RESOURCES

FINANCIAL POSITION

The Corporation's principal capital needs are for operating expenses related to employee, professional fees and warehouse and selling expenses. 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. However, it is very likely the Company will need to raise capital through debt or equity financings in the near future.

WORKING CAPITAL

Working capital represents current assets less current liabilities. As of December 31, 2019, the Company had a positive working capital of \$581,293 compared to a working capital of \$2,245,728 as at December 31, 2018.

CASH FLOWS

For the six months ended December 31, 2019, Hill Street generated negative cash flows from operations of \$1,575,617 compared to negative cash flow of \$3,766,223 for the three months ended December 31, 2018. The

amount of cash (used) in investing activities for the six months ended December 31, 2019 was (\$3,255) compared to \$209,971 for the six months ended December 31, 2018, the increase is driven by the cash acquired from the RTO. The amount of cash provided by financing activities for the six months ended December 31, 2019 was \$892,370 compared to \$2,525,875 for the six months ended December 31, 2018.

CONTRACTUAL OBLIGATIONS

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

Contractual Obligations	Payments due by Period					Total
	FY2020	FY2021	FY2022	FY2023	FY2024	
Contractual Royalty Obligations	\$0	\$0	\$0	\$0	\$0	\$0
Operating Leases	\$0	\$0	\$0	\$0	\$0	\$0
Purchase Obligations	\$50,000	\$164,000	\$66,750	\$0	\$0	\$280,750
Other Debt Obligations	\$0	\$0	\$0	\$0	\$0	\$0
<i>Total</i>	\$50,000	\$164,000	\$66,750	\$0	\$0	\$280,750

SHARE CAPITAL

The Company is authorized to issue an unlimited number of Common Shares of which 110,475,579 Common Shares are issued and outstanding as of the date hereof.

CAPITAL RESOURCES

As of December 31, 2019, 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.

During six month period ended December 31,	2019	2018
Management Salaries & Stock Option Compensation	606,081	992,048

Included in accounts payable as at December 31, 2019 is \$44,578 payable to Directors and Officers of the Company for expense reimbursement, management compensation and board fees. The amount is non-interest bearing, unsecured and due on demand.

LEGAL PROCEEDINGS

There are no legal proceedings material to Hill Street to which Hill Street is a party to or of which any of its property is the subject matter, and there are no such proceedings known to Hill Street to be contemplated.

CRITICAL ACCOUNTING ESTIMATES

The determination of income tax is inherently complex and requires making certain estimates 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 the provision for income taxes.

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 methodology 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 physical 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.