HILL STREET BEVERAGE COMPANY INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE TWELVE-MONTH PERIOD ENDING JUNE 30, 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 "**Corporation**", the "**Company**" or "**Hill Street**") for the three months and the year ended June 30, 2019 in comparison with the three months and the year ended June 30, 2018. These comments should be read in conjunction with the audited financial statements for the years ended June 30, 2018 and June 30, 2017, 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 October 28, 2019. 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 October 28, 2019 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 October 28, 2019, 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 Corporation presently has one business segment, the marketing and distribution of non-alcoholic 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 Corporation is focusing on expanding its business segments to include Cannabis infused beverages in 2020 after Cannabis edibles become legal in Canada.

INNOVATIVE PRODUCTS AND ADDRESSABLE MARKETS

Non-Alcoholic Adult Beverages

The Non–Alcoholic retail segment continued to make strong gains in Q4. Increasing product availability in the retail channel remains core to increasing brand awareness while providing the critical mass necessary to justify broader scale marketing initiatives. Retailers generally follow formal category updates twice a year (Spring and Fall), and these are the timeframes within which the Company works to secure additional listings.

Hill Street's retail account presence remains dominated by the banners operated by Loblaws Ltd. and Sobeys (collectively 51% of the national grocery share). Loblaw's Market division banners continued to expand listings in Q4 adding Vin(Zero) Cabernet Sauvignon and Brut. Additionally, a major national grocery retailer partnership produced under contract by Hill Street grew with a commitment to increase listings to four varietals for the Holiday 2019 season.

Sobey's continued to embrace the Hill Street brands, increasing distribution in its 183 western Safeway stores by increasing its listings from three to six products in total. Additionally, the Company's Quebec distributor secured four listings at 262 Sobey's IGA stores and five listings in 80 Loblaw's Provigo stores.

The retirement home segment of the business began to payout with several orders from high end Ontario homes. Leveraging these wins, several meetings have been conducted with national retirement living chains. The Company believes this segment could prove to be a significant high margin revenue opportunity as this market segment typically cannot consume alcohol due to serious contra-indications with many medicines the aged are often required to take.

The provincial liquor boards remain an opportunity. In addition to a strong business with Manitoba Liquor Board, Hill Street participated in the LCBO's Q4 product call for Alcohol Free Wines (on shelf January 2020). Over 300 sku's from around the world participated in the product call for the ten 10 sku portfolio. Hill Street received approval for one of its submissions through to the tasting phase of the LCBO process. Liquor stores are an obvious distribution opportunity for the Company's products in the minds of consumers, but these retailers have not yet embraced the category fully as the products do not contain alcohol and have no associated excise taxes for government operators.

In Q4, Hill Street presented it's Holiday 2019 strategy to the retail channel. The objective of the new "Entertainer's Pack" is to bring new consumers into the non-alcoholic franchise by creating off shelf display. Retailers' early response has been very encouraging, Hill Street is preparing for significantly increased demand over the previous year.

Cannabis-Infused Adult Beverages

Cannabis edibles, including beverages, became legal in Canada in October 2019. Hill Street began to advance its market entry by: (i) developing a consumer driven product portfolio and pricing model, (ii) conducting initial meetings with all provincial regulators, (iii) submitting formal proposals to the Ontario Cannabis Store and SQDC, the Quebec provincially owned regulator, (iv) preparing preliminary channel marketing plans, and (v) meetings with over two hundred (200) retail operators across Canada, (vi) submitting a formal response to Health Canada's Proposed in preparation to the market entry.

Hill Street remains focused on building versatile infrastructure able to address Health Canada regulations pertaining to packaging, licensing, branding and marketing. The Cannabis 2.0 Health Canada regulations were issued in June 2019 and confirmed with some adjustments in September 2019. Hill Street has been working with these regulations to meet the Company's stated goal of launching these products in 2020. To that end, the Company requires a production facility licensed to produce cannabis beverages exclusively, or a production agreement with a licensed producer with the necessary equipment to produce cannabis infused beverages.

Q4 HIGHLIGHTS

Hill Street's fourth quarter was largely focused on the expansion and marketing of the non-alcoholic product line, coupled with preparations, analysis, and planning for the launch of cannabis infused beverages upon legalization. The quarter generated positive growth in the Company's alcohol-free segment, including the first shipments to the Quebec marketplace with the Company's new distributor, and increasing penetration and listings with existing retail customers. The Company launched its new Vin(Zero) Brut Rose and Shiraz wines and began preparations for the production of two new alcohol-free craft beers, Amber and Double I.PA.

The Company has spent a great deal of time and energy digesting the proposed regulations from Health Canada regarding edible forms of cannabis, including infused beverages. These regulations surprised the industry with specific requirements banning the use of alcohol-related terms such as wine and beer. It also contains additional restrictions requiring separate facilities for the production of cannabis infused products, which will be prohibited from producing consumable products that do not contain cannabis. In addition, the regulations also restrict format sizes, including the ability to sell in multiples, which is common in beverage distribution.

In response to the draft regulations proposed in December 2018, the Company initiated and co-founded a not-for-profit industry coalition, the Cannabis Beverage Producers Alliance (CPBA), in association with ten other leading cannabis beverage producers, which was launched in early Q4. The goal of the organization is to provide an effective lobbying voice for the issues created by Health Canada that negatively impact the entire industry. Hill Street had been elected as Co-Chair of this initiative and worked extensively to prepare for the April launch of the Alliance. The launch of the organization was covered by major national and regional news, including CBC, CTV, The Globe & Mail, and National Post, generating nearly 55 million impressions according to the association's public relations consultants. Hill Street is the only member of the alliance with two seats on the board, and its EVP Government Affairs is the co-chair. Hill Street's CEO and EVP Government Affairs appeared in nearly 30 media interviews related to this activity, resulting in significant brand awareness for the Company. When the media preview of the regulations was announced, the CBPA was pleased to see that three of the ten proposed recommendations were adopted into the context of final draft. The ability to multi-pack (bundle products together), the operating standard for the production facility reduced to HAACP and existing food manufacturing standards, and permission to use varying vessel sizes were significant outcomes of the lobbying efforts.

To address the impact of the proposed regulations, the Company conducted a strategic and operational review of the Company's plans and determined that we needed to find a new location to produce our cannabis beverages. The Company's original plans and its cannabis application were developed to use the facilities of VinFirst, our largest shareholder, to produce cannabis beverages on their existing Tetra Pak and canning lines. The regulations now prohibit this strategy. We have continued with our application at the VinFirst facility in order to ensure our application remains in its numerical position in the queue, and we will pursue the license on this facility even though we have no plans to ever produce beverages at this location. This will ensure our Board and executives remain in the process for their security clearances, which are one of the most significant and time-consuming undertakings of a cannabis license application.

While the VinFirst application is underway, the Company acquired a bottling and canning line, each of which is capable of producing sufficient amounts of beverages to meet the Company's revenue objectives for the first three years. The Company concurrently pursued and assessed the impact of joint ventures, strategic partnerships, and acquisitions with existing licensed producers in order to understand the possibility of placing our newly acquired bottling and canning lines into an existing facility. While these types of partnerships can seem relatively simple to negotiate at the outset, the regulatory environment created by Health Canada places much of the control of any cannabis product produced in a licensed facility under the ownership and control of the licensed producer through its entire lifecycle, including the ownership of any consumer liability. This significantly complicates the concept of "co-packing" for other brands that do not already have existing cannabis licenses from Health Canada.

Co-packing is a standard operating model in the beverage sector, where it is extremely common for brands to contract out production of beverages to the owners of these facilities. It is the current method by which Hill Street produces its alcohol wine and beer. Typically, co-packing is a high volume, low margin business, and leaves the selling, marketing and distribution of the finished product to the brand owner. In the case of cannabis edibles, the packaging, production, selling, and distribution must be owned by the licensed producer, leaving essentially only the marketing to the brand owner. Health Canada by and large prohibits marketing of cannabis beverages. Hill Street pursued and analyzed strategies which the Company anticipated would maximize both revenue and profit, including joint ventures, manufacturing partnerships, and licensing.

The Company announced in May 2019 the acquisition of OneLeaf Cannabis, a late stage applicant for a cannabis license in a 48,000 square foot facility based in Regina, Saskatchewan. This acquisition was deemed to be the best route for the Company to build out its own bottling and canning line and take advantage of a fully integrated business model including cultivation, extraction, and recreational and medical sales of dried cannabis and oils, in addition to its originally planned beverage lines. The acquisition was announced as a binding agreement, subject to sufficient capital being raised by Hill Street to complete the build out of the facility and OneLeaf receiving its license from Health Canada within a reasonable time frame. Subsequent to the end of the fiscal year, both parties mutually agreed to terminate the proposed acquisition due to lack of access to sufficient capital, significant increases in the expected amount of capital necessary to build the facility to GMP standards, a material downturn in the capital markets sentiment towards cannabis cultivation facilities, loss of investor trust due to much-publicized scandals and high profile terminations of cannabis executives at competitors, and numerous delays in the approval of the license for the facility by Health Canada. The Company believes of the results of this fundamental shift in market sentiment was the inability to complete its $5MM financing which was announced in May concurrent with the acquisition of OneLeaf, and ultimately cancelled on July 31, 2019. The Company was able to close a tranche of financing for proceeds of $1.6MM in June 2019, prior to the end of the fiscal year.

The Company has been working towards an effective solution to its production challenges and still expects to have a production facility identified, licensed, and operational subsequent to launch of the cannabis edibles market, targeted for late Q1 or Q2 of CY20. During the period between the announcement of the acquisition of OneLeaf and its subsequent termination on Oct 1, the Company has been contacted by numerous third party co-packing beverage companies specifically constructed to support the needs of the nascent cannabis beverage industry, with similar models to those that are commonplace in the alcohol industry, with the exception of the adjustments necessary to remain compliant with Health Canada regulations on product distribution and liability. The Company began negotiations with these various co-packing providers upon the termination of the OneLeaf transaction, and expects to announce one or more co-packing partnerships within the near future.

The Company has participated in numerous trade shows and conferences in order to continue to build awareness and demand for its products, including generating public interest for cannabis infused beverages. This included the Company's CEO appearing as a keynote speaker at the inaugural Cannabis Drinks Expo in San Francisco, California, in July 2019. This was the first time the global industry provided a singular focus on cannabis beverages. It was attended by over 1,000 industry executives from over 400 companies.

PRODUCTION FACILITY

Hill Street has been determining and sourcing much of the equipment required to meet the needs of the Health Canada cannabis edible regulations, and production and distribution requirements to be able to handle alcohol free and cannabis infused liquids in all seasons, as well as internally utilizing best practice methodologies. The Company retained Lakeside Process Controls to provide Professional engineering design and consulting services. The Process and Instrumentation Drawing (P&ID) has been completed for its bottling and canning lines. The P&ID allows for liquid to be brought to the facility in large quantities for bulk production as well as in smaller quantities for artisanal releases.

MARKETING ACTIVITIES

In May 2019, Prostate Cancer Canada launched its annual Plaid for Dad fundraising campaign. As a major corporate partner of Prostate Cancer Canada, Hill Street became the matching donor partner throughout the campaign. During this time, Hill Street was featured in all communications, out of home advertising, direct mail campaigns, television and digital outreach. Canadian actor, Eric McCormack was featured in television ads and on television interviews promoting Hill Street products. It is estimated that this campaign reached over seven million Canadians helping drive sales of Hill Street's specially branded Designated Draft beer through the summer season.

Following an exclusive presence at the Toronto Outdoorsmens Show in February with attendance in excess of 25,000 people, in March, Hill Street entered into a marketing agreement with FishTV. This will see Hill Street's products placed and discussed in 2019/2020 episodes of the outdoor lifestyle nationally televised show.

SELECTED ANNUAL INFORMAITON

The following table summarizes certain financial information of the Corporation for the years ended June 30, 2017, 2018, 2019.

RESULTS OF OPERATIONS

The following table summarizes certain financial information of the Corporation for the twelve months ended June 30, 2019, June 30, 2018 and June 30, 2019. Gross revenues for the quarter ended June 30, 2019 increased by 190% compared to the quarter ended June 30, 2018, with full year revenue growth of 61%.

Results for the Year Ended	June 30, 2019	June 30, 2018	June 30, 2017
Gross Revenue	$2,432,094	$1,511,311	$1,521,711
Chargebacks and listing fees	-$1,151,894	-$840,429	-$773,679
Net Revenue	$1,280,200	$670,882	$748,032
Direct Costs	-$848,373	-$584,500	-$479,465
Gross profit	**$431,827**	**$86,382**	**$268,567**
Operating Expenses	**$3,697,557**	**$2,126,109**	**$1,797,610**
Other One-time Expenses	**$868,984**	**$148,220**	
Non Cash Expenses	**$875,666**	**$895**	**$7,453**
Loss before other Income (Expense)	**-$5,010,380**	**-$2,188,842**	**-$1,536,496**
Other income (Expenses)			
Foreign exchange (loss) gain	-$17,240	-$709	$4,509
Loss on legal settlement		-$215,930	
Write-off of inventory	-$7,298	-$242,399	
Write-off of equipment		-6,936	-$4,975
Write-off accounts payable			$1,318,247
Charges relating to public company listing	-$918,345		
Other Income	$9,411	$1,830	$789
Income (Loss) and comprehensive Income (loss) for the period	**-$5,943,852**	**-$2,652,986**	**$217,926**
Basic and diluted income (loss) per common share	**-$0.07**	**-$0.07**	**-$1.10**
Weighted average number of common shares outstanding	**85,543,433**	**40,229,986**	**193,428**

REVENUES

During the twelve months ended June 30, 2019, gross revenues were $2,432,094 compared to $1,511,311 for the same period in 2018, representing an increase of 61%.

Net revenues for the twelve months ended June 30, 2019 were $1,280,200 compared to $670,882 in the twelve months ended June 30, 2018, representing an increase of 91% driven by top line growth.

For the twelve months ended June 30, 2019, chargebacks and listing fees represented 47% of gross revenues compared to 55% for the twelve months ended June 30, 2018. Chargebacks are fees charged by retailers and distributors for program money and discounts. Listing fees were $446,303, for the twelve months ended June 30, 2019 and $90,831 for the twelve months ended June 30, 2018.

COST OF SALES/DIRECT COSTS

Direct costs were $848,373 or 35% of gross revenue for the twelve months ended June 30, 2019, this is a 4% point decrease over the twelve months ended June 30, 2018. The decrease is primarily driven by a reclass of some charges in accordance with IFRS.

OPERATING EXPENSES

Operating expenses include selling & marketing expenses, employee expenses, donations, dues & licenses, professional fees, and other general and administrative expenses. For the twelve months ended June 30, 2019, operating expenses totaled $3,697,557 compared to $2,126,109 for the twelve months ended June 30, 2018. The principal drivers of the $1,571,448 increase in operating expenses were: advertising and marketing expenses $479,884, employee related costs $508,115, and warehouse, selling and delivery $400,209. The increase in marketing is driven by the investment to create brand awareness.

ONE TIME OPERATING EXPENSES

For the twelve months ended June 30, 2019 the Corporation incurred one-time expenses totaling $868,984. These expenses are comprised of costs relating to M&A, cannabis consulting, investor relations/financing consulting, legal fees and RTO fees**.** For the twelve months ended June 30, 2018 the Corporation incurred one-time expenses totaling $148,220 relating to RTO fees.

NON CASH EXPENSES

For the twelve months ended June 30, 2019 the Corporation incurred non cash expenses totaled $875,666, these include the expense related to the stock options and depreciation.

OTHER NON-OPERATING EXPENSES

For the twelve months ended June 30, 2019, the Corporation incurred other expenses totaling $933,472. This included: $918,345 for non-cash charges related to Public Company Listing charges. These are expenses related to shares issued in relation to the completion of the Company's Reverse Take Over (RTO) qualifying transaction completed July 24, 2018. The Inventory write off was $7,298 for the twelve months ended June 30, 2019, this was driven by product written off due an error in nutritional product labelling and offset by replacement product received. For the twelve months ended June 30, 2019 the Corporation received $9,411 in interest income.

NET EARNINGS

The Corporation recorded a net loss of $5,943,852 for the year ended June 30, 2019, compared to a loss of $2,652,986 in the twelve months ended June 30, 2018. This loss was principally driven by expenses relating to marketing, professional fees, employee expenses and the non-cash expenses of the Corporation relating to the completion of the RTO as noted above.

The basic and diluted loss per share for the twelve months ended June 30, 2019 was $0.07 per share. The basic and diluted loss per share for the twelve months ended June 30, 2018 was also $0.07 per share.

SELECTED QUARTERLY INFORMATION

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

	Jun 30, 2019	Mar 31, 2019	Dec 31, 2018	Sept 30, 2018	June 30, 2018	Mar 31, 2018	Dec 31, 2017	Sept 30, 2017
Gross Revenue	$506,721	$603,854	$527,652	$793,867	$174,796	$364,427	$599,048	$373,040
Net Revenue	-$55,100	$428,355	$395,356	$511,589	$94,550	$248,093	$125,485	$202,754
Direct Costs	$164,193	$219,736	$169,569	$294,875	$199,693	$19,898	$244,532	$120,377
Gross Profit	$-219,293	$208,619	$225,787	$216,714	-$105,143	$228,195	-$119,047	$82,377
Net Loss (gain)	$-6,711,371	$1,074,283	$1,443,020	$10,137,920	$1,402,174	$644,880	$439,405	$166,527
Total Assets	$3,004,909	$2,216,288	$2,997,226	$4,502,946	$2,845,751	$1,650,397	$598,745	$726,053
Total Liabilities	$627,141	$829,799	$743,463	$1,069,283	$1,387,534	$674,059	$1,753,076	$1,602,343
Shareholder Equity	$2,377,768	$1,386,489	$2,253,763	$3,433,633	$1,458,217	$976,338	$-1,154,331	$-876,290

LIQUIDITY AND CAPITAL RESOURCES

FINANCIAL POSITION

The Corporation's principal capital needs are for operating expenses related to employee and marketing expenses. Additional investments are being made to support the cannabis infused beverages market. Since its formation, the Corporation 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 June 30, 2019, the Corporation had a working capital of $1,880,164 compared to a working capital of $1,454,523 for the twelve months and ended June 30, 2018.

CASH FLOWS

During the twelve months ended June 30, 2019, Hill Street had negative cash flows from operations of $5,367,722 compared to negative cash flow of $1,972,468 during the twelve months ended June 30, 2018. The amount of cash (used) in investing activities in the twelve months ended June 30, 2019 was $243,126 compared to $2,852 in the twelve months ended June 30, 2018. The amount of cash provided by financing activities in during the twelve months ended June 30, 2019 was $4,568,413 compared to $4,054,744 in the twelve months ended June 30, 2018.

CONTRACTUAL OBLIGATIONS

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

	Payments due by Period					
Contractual Obligations	**FY2020**	**FY2021**	**FY2022**	**FY2023**	**FY2024**	**Total**
Bank Debt Obligations (principal and interest)	$0	$0	$0	$0	$0	$0
Contractual Royalty Obligations	$2,250	$0	$0	$0	$0	$2,250
Operating Leases	$0	$0	$0	$0	$0	$0
Purchase Obligations	$404,850	$114,000	$77,167	$0	$0	$596,017
Other Debt Obligations	$0	$0	$0	$0	$0	$0
Total	$407,100	$114,000	$77,167	$0	$0	$598,267

SHARE CAPITAL

The Corporation is authorized to issue an unlimited number of Common Shares of which 96,283,331 Common Shares are issued and outstanding as of the date hereof.

CAPITAL RESOURCES

As of June 30, 2019, the Corporation 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 Corporation.

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 twelve-month period ended June 30,	**2019**	**2018**
Management and Director Compensation	1,558,156	545,262

Included in accounts payable as at June 30, 2019 is $17,656 (June 30, 2018: $127,040) payable to Directors and Officers of the Company for management compensation. The amount is non-interest bearing, unsecured and due on demand.

As at June 30, 2019, the Company had outstanding advances to Directors in the amount of $42,580 for tax deductions. The advances for tax deductions are non-interest bearing and is repayable on demand.

FOURTH QUARTER

The following table summarizes certain financial information of the Corporation for the three months ended June 30, 2019 and June 30, 2018.

Results for the Quarter ended	June 30, 2019	June 30, 2018
Gross Revenue	$506,721	$174,796
Chargebacks and listing fees	$-561,821	$-80,246
Net Revenue	-$55,100	$94,550
Direct Costs	$-164,193	$-199,693
Gross profit	**-$219,293**	**-$105,143**
Operating Expenses	**$717,513**	**$807,947**
Other One-time Expenses	**$207,841**	**$74,385**
Non Cash Expenses	**$174,609**	**$736**
Loss before other Income (Expense)	**-$1,319,256**	**-$988,211**
Other income (Expenses)		
Foreign exchange (loss) gain	-$2,690	-$5,801
Loss on legal settlement	0	-$167,824
Write-off of inventory	$54,771	-$218,589
Write-off of equipment	0	-$6,936
Charges relating to public company listing	$8,003,524	-$15,668
Other Income	-$24,978	$855
Income (Loss) and comprehensive Income (loss) for the period	**$6,711,371**	**-$1,402,174**

REVENUES

During the three months ended June 30, 2019, gross revenues were $506,721 compared to $174,796 for the three months ended June 30, 2018, representing an increase of 190%. The increase is driven by the investment in marketing and promotional activities and additional store listings.

Net revenues for the three months ended June 30, 2019 were -$55,100 compared to $94,550 in the same period year ago. Net revenues are calculated by deducting from gross revenues the costs of chargebacks and listing fees. Listing fees represent the fees charged by retailers to have product available for sale in such retail establishments. The decrease in net revenues was driven by the change in accounting for store listing fees. These listing fees were charged to the P&L in full in the fourth quarter, previously they were amortized over a 5-year period.

For the three months ended June 30, 2019, chargebacks and listing fees represented 111% of gross revenues compared to 46% for the three months ended June 30, 2018. The significant increase was driven by the listing fees of $421,439 paid to retailers, which were charged in full to the P&L in the fourth quarter. Chargebacks are fees charged by retailers and distributors for program money and discounts.

COST OF SALES/DIRECT COSTS

Direct costs were $164,193 or 32% of gross revenue for the three months ended June 30, 2019. Direct costs were $199,963 or 114% of gross revenue for the three months ended June 30, 2018, this was due to timing of direct costs being reported in the fourth quarter instead of in the third quarter which reported direct costs of only $19,898.

OPERATING EXPENSES

Operating expenses include selling & marketing expenses, employee expenses, donations, dues & licenses, professional fees, and other general and administrative expenses. For the three months ended June 30, 2019, operating expenses totaled $717,513 compared to $807,947 for the three months ended June 30, 2018, representing a decline of 13% driven by interest expense as there were no outstanding loans for the three months ended June 30, 2019.

ONE TIME OPERATING EXPENSES

In addition to ordinary operating expenses, the Corporation incurred a number of one-time expenses. For the three months ended June 30, 2019, one-time expenses totaled $207,841 relating to cannabis investment, M&A and legal fees. For the three months ended June 30, 2018, one-time expenses totaled $74,385 relating to RTO fees.

NON CASH EXPENSES

For the three months ended June 30, 2019 the Corporation incurred non-cash expenses totaling $174,609 these include the expense related to the stock options and depreciation.

OTHER NON-OPERATING EXPENSES

For the three months ended June 30, 2019, the Corporation had other income totaling $8,030,627. This income is driven by the change in reporting the non-cash cost of listing the Corporation on the stock exchange. The credit of $54,771 in the three months ended June 30, 2019 was driven by replacement product for a nutritional labelling error that was received in this quarter.

NET EARNINGS

The Corporation recorded a net income of $6,711,371 the three months ended June 30, 2019, compared to a loss of $1,402,714 for the three months ended June 30, 2018. This income is driven by the change in reporting the non-cash cost of listing the Corporation on the stock exchange.

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.

CRITICAL FUTURE ACCOUNTING POLICIES

IFRS 9: New standard that replaced IAS 39 for classification and measurement, tentatively effective for annual periods beginning on or after January 1, 2018. Partial replacement of IAS 39 Financial Instruments: Recognition and Measurement. This standard is effective for annual periods beginning on or after January 1, 2018. The Company will adopt IFRS 9 effective July 1, 2018. The Company has evaluated the impact of this standard and does not expect it to have a material impact.

IFRS 15 deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The Company will adopt IFRS 15 effective July 1, 2018. The Company is currently evaluating the impact of this standards.

IFRS 16, "Leases", was issued in January 2016, and replaces IAS 17,"Leases" ("IAS 17"). IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Certain leases will be exempt from these requirements. IFRS 16 is effective for periods beginning on or after January 1, 2019. The Company has evaluated the impact of this standard and does not expect it to have a material impact.