

Hill Street Reports FQ2 2019 Results & Provides Update on Operations

TORONTO, March 1, 2019 /CNW/ - Hill Street Beverage Company Inc. ("Hill Street" or "the Company") (TSX-V: BEER) reported its fiscal Q2 2019 financial results for the three-month period ended December 31, 2018. A complete set of financial statements and Management's Discussion & Analysis has been filed at www.sedar.com. All dollar figures are quoted in Canadian dollars.

FQ2 2019 Financial Highlights

- Quarterly gross revenue of \$527,652, down 12% y/y;
- Net loss of \$1.4 million for the quarter, compared to a net loss of \$0.4 million y/y;
- Working capital of \$2.2 million, compared with \$1.5 million for same period last year;
- End of quarter cash position of \$1.1 million, with no debt.

"Gross revenue declined in fiscal Q2 2019 because an order from an existing retail customer was delayed but received subsequent to quarter end," said Terry Donnelly, CEO. "Despite this delay, gross revenue for the first half of our fiscal year grew 36% over last year, and we expect materially increasing revenues through the back half of our fiscal year. We invested heavily in marketing and promotional activities during the quarter ended December 31, and investors will begin to see the results from that spend in brand and volume gains. In the short-term, investors will see evidence of our marketing activities in the soon-to-be-released results from our [Hill Street Challenge](#)."

Results of Operations

Results for the Period Ended	Quarter Ended December 31, 2018	Quarter Ended December 31, 2017	Six Months Ended December 31, 2018	Six Months Ended December 31, 2017
	\$	\$	\$	\$
Gross Revenue	527,652	599,048	1,321,591	972,088
Chargebacks and Listing Fees	(132,296)	(473,563)	(414,574)	(643,849)
Net Revenue	395,356	125,485	906,945	328,239
Direct Costs	(169,569)	(244,532)	(464,444)	(364,909)
Gross Profit	225,787	(119,047)	442,501	(36,670)
Operating Expenses	\$ 1,145,038	\$ 320,037	\$ 2,031,588	\$ 573,958

Other One- time Expenses	\$ 230,867	\$ -	\$ 535,542	\$ -
Non-cash Expenses	\$ 262,493	\$ 481	\$ 483,779	\$ 962
Loss before other Income (Expenses)	(1,412,611)	(439,565)	(2,608,408)	(611,590)
Other Income (Expenses)				
Charges related to RTO	-	-	(8,921,869)	-
Foreign exchange gain (loss)	(1,168)	160	(16,055)	5,658
Write-off inventory	(59,449)	-	(67,456)	-
Other income	30,208	-	32,848	-
Loss and comprehensive loss for the period	1,443,020	439,405	11,580,940	605,932
Basic and diluted loss per common share	0	1	0	1
Weighted average number of common shares	87,112,165	503,718	76,224,512	502,298

DESCRIPTION OF THE BUSINESS

The Corporation presently has one business segment, the marketing and distribution of alcohol-free beer and wine in Canada and, to a much lesser extent, the United States. Hill Street sells its products online and in approximately 4,000 recognized retail chain stores through licensed distributors in Canada. In the quarter ended December 31 2018, the Company also announced significant new distribution and retail listings, giving it an addressable retail market of nearly 7,000 stores, with significant new coverage of the independent retail channel across Canada via National Importers, and the depanneur retail segment in Quebec via Clark, Drouin, Lefebvre (CDL). It also provides a direct consumer subscription service at www.hillstreetbevco.com. In addition, the Corporation is focusing on expanding its business segments to include Cannabis infused beverages later in 2019 or 2020 when Cannabis edibles become legal.

Non-Alcoholic Adult Beverages

The Non-Alcoholic retail segment remains one of the fastest growing segments in the beverage category according to Nielsen, the leading retail analytics company. This growth has created an interesting inflection point in how retailers manage the category. Retailers are now evolving from a "transactional" approach to a "strategic" one. Most large box retailers have implemented or are about to implement new designs to optimize sales and profit. They look for relevant and interesting product portfolios and the vendors who can support and grow the category.

Hill Street's launch of four new Vin(Zero) wines and two Hill Street craft beers in the first quarter were met with strong interest in the retail channel. The portfolio of products saw an increase in distribution in the quarter ended December 31, 2018 with the expansion into the Sobeys and Safeway chains in western Canada as well as a commitment to expand multiple new listings nationally in the upcoming fiscal third quarter. Loblaws Limited (LCL) also remains a strong partner, with a commitment to expand the Company's branded portfolio of listings in their Loblaws, Zehrs and Fortino's chains and to expand their private label listings that Hill Street produces (expected in Fall 2019).

According to Nielsen, Quebec is the largest market in Canada for Non-Alcoholic wine and beer beverages and has over 3,000 points of retail distribution actively selling them. In the quarter ended December 31, 2018, Hill Street signed an exclusive sales and distribution agreement with Clark Drouin Lefebvre to begin the brand's market penetration.

Cannabis-infused Adult Beverages

In addition to building an alcohol-free beverage business, Hill Street recognized early that the regulations permitting the use of recreational cannabis, prohibited the mixing of alcohol and cannabis in commercial products. Therefore, if a beer or wine company wanted to make cannabis-infused versions of their beverages, they would first have to produce great tasting alcohol-free versions before they could add cannabis. Hill Street is an award-winning producer of alcohol-free adult beverages with over a decade of experience in producing these products.

Hill Street filed its application for a standard processor license under the Access to Cannabis for Medical Purposes Regulations Act in October 2018. Hill Street has updated and amended its application under the new Cannabis Act, Bill C-45, to become a legal producer of cannabis-infused beverages when edible forms of cannabis become legal in late 2019 or early 2020. This legalization is dependant on the issuance of the final regulations for these products from Health

Canada. Hill Street's partnership with Lexaria Bioscience Corp. ("Lexaria") has resulted in the Company procuring the equipment necessary to produce the material for infusing its beverages with cannabis extracts. In the quarter, the Corporation and Lexaria focused on the training and development work as well as production planning for Hill Street's cannabis beverage production facility. Lexaria's technology was given a significant boost in the form of an investment from global tobacco giant, Altria, providing further credence that Hill Street's choice of their technology was a prudent decision.

Management continues discussions with a number of licensed producers to provide cannabis extracts for use in Hill Street's proposed beverages, as well as engaging with a wide array of companies who wish to use Hill Street's proposed facilities for co-packing purposes. Once Hill Street's manufacturing facility is functioning, management anticipates generating a portion of its revenues from co-packing for other cannabis companies.

About Hill Street Beverage Company Inc. (TSXV:BEER)

Founded in 2008, Hill Street Beverage Company is the world's most award-winning company exclusively focused on alcohol-free beer, wine, and adult format beverages. Hill Street products include: Hill Street Craft Brewed Lager, Designated Draft alcohol-free beer, Vin(Zero) wines, and Vintense wines. Hill Street's award-winning products have won the Retail Council of Canada's Grand Prix, and numerous medals and accolades including three Gold, two Silver, and two Bronze Medals at the U.S. Open Beer Championships, and a prestigious Double Gold Medal at the San Francisco International Wine Challenge. As a result of the Royal Assent of Canada's Bill C-45, legislation to allow the sale of cannabis-infused beverages is expected to occur by October 17, 2019. Hill Street is currently applying for appropriate licenses to permit the production and sale of cannabis infused beverages in Canada, with the view of having infused products available for sale once the regulations permit.

www.hillstreetbeverages.com

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