HILL STREET BEVERAGE COMPANY INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDING DECEMBER 31, 2021

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 and six months ended December 31, 2021, in comparison with the three months and six months ended December 31, 2020. These comments should be read in conjunction with the unaudited condensed interim financial statements and audited financial statements for the years ended June 30, 2021, and June 30, 2020, 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 1, 2022. 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, 2022 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, 2022, 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

Hill Street is a progressive non-alcoholic beverage and cannabis infusion technology solutions company that is fundamentally transforming its legacy business model to embrace a more profitable and more aggressive global growth agenda. We are pioneering the space where craft consumer products meet bioscience by combining our deep CPG expertise and brands with our rights to use **Lexaria Bioscience Corp's** ground-breaking **DehydraTECH™** patent portfolio for product development, licensing and B2B or B2C sales of cannabis ingredients or products on a global scale.

The Company currently has three lines of business:

1. Hill Street Alcohol-Free Beverages

This line represents the legacy consumer beverage marketing and distribution business. It includes Vin (Zero) alcohol-free wine in Canada, and on a smaller scale, in the United States and Australia. It is sold in retail chain stores through Canadian distributors, exported outside of Canada through foreign distributors and offered direct to consumers online at www.hillstreetbeverages.com.

2. Hill Avenue Cannabis Brands

Hill Avenue Cannabis Brands focuses on business-to-consumer (B2C) cannabis edibles products for a growing global market. At present, this line is focused on cannabis-infused (V)ia Regal consumer beverages that were launched in Canada in May of 2021.

3. Hill Avenue Cannabis Technologies

Hill Avenue Cannabis Technologies' business provides DehydraTECH™ enabled business-to-business (B2B) solutions for both extractors/ingredient suppliers and consumer packaged goods (CPG) manufacturers whose products are infused with cannabis and or hemp extracts. This B2B business line licenses global usage rights for DehydraTECH™ patented intellectual property acquired from Lexaria CanPharm ULC, a subsidiary of Lexaria Bioscience Corp. (together, with Lexaria CanPharm ULC, "**Lexaria**") in December 2020.

DehydraTECH™ is one of the world's newest technologies specifically designed to improve the efficacy of orally administered bioactive molecules, including cannabinoids. DehydraTECH™ improves the way active pharmaceutical ingredients (APIs), such as those found in cannabis, enter the bloodstream by promoting healthier delivery methods and increasing the effectiveness of fat-soluble active molecules in product forms such as the many forms of cannabis-infused edibles and topicals.

Findings from extensive scientific studies on the DehydraTECH™ technology performed by its creator Lexaria include:

- **Increased bioavailability up to 5-10x** – to equate to blood absorption by inhalational delivery
- **Increased brain permeation up to 19x** – as demonstrated in animal studies
- **Avoids first-pass liver metabolism** - mitigating unwanted side effects
- **Reduced time of onset** – effects are felt within 15-20 minutes vs. 60-120 minutes
- **Masks unwanted tastes** – eliminating the need for sugar-filled edibles

Hill Avenue Cannabis Technologies fundamentally changes the Hill Street business model in several significant ways – financially, geographically, and operationally.

1. **Financial Impact**
The overall financial efficiency of the DehydraTECH™ business is superior to the legacy beverage business, bringing significantly higher margins and avoiding the requirements for finished product inventory and working capital investment that are required in the beverage businesses.

2. **Geographical Impact**
With the acquisition of the global rights to the DehydraTECH™ patents for use in the production of products containing 0.3% or greater THC, Hill Avenue immediately entered the U.S. cannabis market, generating revenues from licensing partners already operating across multiple U.S. states.

   Because of the nature of the DehydraTECH™ business, the ability to expand into global markets is facilitated by a licensing model that can expand the footprint of availability without major capital or operating expenses.

3. **Operational Impact**
The DehydraTECH™ business is a B2B business model that builds upon the Company's CPG product development, marketing knowledge and retail experience to become a premium infusion technology/ingredient solutions provider to companies looking to sell premium cannabis edibles.

   The relationships with the technology creator Lexaria and the downstream DehydraTECH™ licensee ecosystem enhances the Company's capabilities in bioscience, food science and recipe development beyond the legacy beverage business.

Q2 HIGHLIGHTS

Fiscal Q2 operational activities continued to focus on a range of initiatives to drive the growth agenda for the three lines of business, as well as continued investments in key infrastructure to support the transformed business model.

Hill Avenue Cannabis Technologies continued its expansion into new geographic markets and consumer product formats

The Company continued building its B2B DehydraTECH™ licensing business which is focused on:

1. licensing usage rights for DehydraTECH™ patented global intellectual property to licensed cannabis CPG companies for application in their cannabis-infused consumer products; and

2. licensing usage rights to extractors for converting cannabis oil into DehydraTECH™ powder to preserve cannabinoid potency and extend shelf life in the supply chain for cannabis-infused CPG brands and products.

Q2 cannabis-related revenue grew 274% vs. prior year, which was the first quarter that cannabis revenue was recognized following the acquisition of DehydraTECH™ rights in December of 2020. Importantly, additional partnerships and US state expansions that have been developed and announced by the Company are yet to impact the financial results in this quarter.

Specifically, the Company expanded relationships with existing DehydraTECH™ licensees, including the launch of Nuka 1906 products into Arizona (adding a top 10 U.S. state with ~$1.4B in 2021 sales to our footprint[1]), the full launch of Cannadips THC products into California (the largest U.S. cannabis sales state with close to $5.2B in 2021

[1] https://azdor.gov/reports-statistics-and-legal-research/marijuana-tax-collection

sales[2]), and expanding our licensing footprint with Dehydr8, LLC beyond Michigan (~$1.8B 2021 annual sales, a top 5 U.S. state[3]) by entering into an LOI to build expanded licensing operations in Illinois (~$1.8B 2021 annual sales, a top 5 U.S. state[4]). The financial results of those initiatives will impact future quarters in FY22 and beyond.

As of March 1, 2022, the Company has licensing relationships for DehydraTECH™ intellectual property with companies operating commercially in the United States in Arizona, California, Colorado, Illinois, Massachusetts, and Oklahoma with others in the pipeline. The current states are expected to represent over $15B in total cannabis sales in calendar 2022.

The total US cannabis market is projected by BDS Analytics to reach $24B in sales in 2021 and to practically double to $47.6B in 2026[5], with continued growth in current markets as well as several large states becoming newly legal expansions for adult use. Four new US states passed legalization measures in the November 2020 elections, and four more new states have approved legalization measures during calendar 2021, including New Jersey and New York, where the latter is predicted by BDS Analytics to be a top five market by 2026[6].

Hill Avenue Cannabis Brands' (V)ia Regal expanded availability as distribution orders were secured beyond Ontario

Hill Avenue's first cannabis-infused beverages, (V)ia Regal Pink Grape Sparkler and (V)ia Regal White Grape Sparkler, both premium sparklers made from grapes imported from European vineyards, expanded availability in Canada beyond Ontario as orders were secured from the provincial boards in British Columbia and the Northwest Territories. The Company continues to work through its licensed co-packing partner Molecule Holdings Inc. to secure additional distribution opportunities nationally and to further drive sales velocity on (V)ia Regal in markets that carry the products.

Hill Street Brands alcohol-free beverage revenue normalized in Q2 vs. an extraordinary Q2 FY21 that was driven by COVID-related supply chain and distribution adjustments.

Q2 FY21 was an extraordinary quarter for Hill Street alcohol-free beverage revenues, as sales were shifted and elevated dramatically beyond normal by the impact of retailers and distributors restocking empty shelves and pipeline inventories that were emptied by global pandemic and supply chain issues in Q1 FY21. To provide colour to the shift and contrast in alcohol free beverage sales between quarters, Q2 FY21 net revenues were 260% of Q1 FY21 net revenues and a full 36% of the annual FY21 sales were recognized in the extraordinary Q2. After the quarterly shift and recovery in inventories, future net revenues are expected to reflect positive category trends and growth for the fiscal year.

With this quarterly shift comparison, total alcohol-free beverages net revenue decreased by 40% versus Q2 a year ago, after increasing by 66% in Q1 vs. year ago. The lower revenues in both the quarter and year-to-date also reflect the impact of the Company discontinuing the unprofitable beer business, as detailed further in the next section.

Financial results for the quarter and year-to-date show significant improvements that reflect the growing impact of the DehydraTECH™ business on the Company's financial fundamentals.

The financial results as reported show an increase in consolidated net revenue of 9% for the six-month period ending December 31, 2021 compared to the same period prior year. As noted above, this increase year-to-date reflects the sales shift in alcohol-free wine between quarters as well as the impact of discontinuing the alcohol-free beer

[2] https://www.cdtfa.ca.gov/dataportal/charts.htm?url=CannabisTaxRevenues
[3] https://www.michigan.gov/mra/reports/marijuana-regulatory-agency-statistical-report
[4] https://www.idfpr.com/profs/adultusecan.asp, https://www2.illinois.gov/sites/mcpp/Pages/update01032022_mcpp.aspx
[5] "BDSA Reports Global Cannabis Sales Surge 41% YoY in 2021; Will Surpass $62 Billion by 2026" - https://www.yahoo.com/now/bdsa-reports-global-cannabis-sales-130000521.html
[6] "BDSA Reports Global Cannabis Sales Surge 41% YoY in 2021; Will Surpass $62 Billion by 2026" - https://www.yahoo.com/now/bdsa-reports-global-cannabis-sales-130000521.html

business. After adjusting for the discontinued alcohol-free beer operations, the consolidated net revenue increased 13%.

The more critical impact of the DehydraTECH™ licensing business can be seen in the profitability improvements of the consolidated business. Gross profit as reported for the six-month period increased to $590,879 vs. $527,915 in the prior year, an increase of 12%. The gross profit margin improved from 42% year ago to 48% for the first six months of FY22.

However, when adjusted for the impact of the discontinued alcohol-free beer business, as well as one-time inventory adjustments made in cost of goods in the first half of FY21, gross profit for the six-month period ending December 31, 2021 increased a full 30% vs. the same period a year ago and the gross profit margin improved from 39% a year ago to the 48% margin reported in FY22. The comparisons are detailed more fully in the financial section of this document and clearly show the transformational impact of the DehydraTECH™ licensing business on the Company's financial fundamentals, even as many of the Q2 operational successes have not yet impacted the financials.

Preparations continued on securing cannabis licenses for Hill Avenue's Lucknow facility

The Company submitted its application for a Health Canada R&D license for its Lucknow cannabis facility in Mississauga, Ontario, but has been notified by Health Canada that processing times are delayed at this time and that applicants can expect the review process to take several months. The Company also continued preparations for obtaining the Health Canada Standard Processor License for the Lucknow facility, which will enable the production of DehydraTECH™ fast-acting cannabinoid powder for potential B2B and B2C sales in Canada. The Company has begun construction at the facility, but delays related to municipal permits for the build-out are impacting the timing for submission of that Standard Processor License application to Health Canada.

Continued investments were made in infrastructure to support the growth and transformed business models

Financial results for Q2 continue to reflect increased investments in the infrastructure required to operate the new, more complex business models as the Company transforms from the legacy beverage business into its cannabis-related businesses. G&A expenses increased in Q2 and in the six-month period vs. a year ago, as investments were made in implementing the new ERP platform to support growth and compliance and as the Company incurred step-up increased costs in areas such as legal, audit, and insurance that are required to operate the additional cannabis-related and cannabis technology licensing businesses in both the US and Canada. These additional step-ups costs in FY22 are not expected to grow at the same rate as the business grows.

Permanent CEO named subsequent to the quarter

Subsequent to the quarter end, on January 6, 2022, the Company announced the appointment of Craig Binkley as permanent CEO. Binkley had been operating in the interim Co-CEO role along with fellow board member Lori Senecal since February 9, 2021. Senecal has transitioned out of the interim Co-CEO role and will continue in her Board of Director ("Board") role.

Board Chairman Jack Fraser commented, "Having Craig step into the Chief Executive Officer role full time provides operational continuity to the business and the strong eco-system of partners that has been developed, and it solidifies the leadership of Hill Street behind the clear growth plan that has been put in place. As a seasoned executive with key leadership roles in the global beverage space with The Coca-Cola Company along with blue-chip B2B, pharmaceutical and cannabis operational experience, we are very fortunate to have been able to bring Craig on as our CEO."

SELECTED QUARTERLY FINANCIAL INFORMATION

RESULTS OF OPERATIONS

The following table summarizes certain financial information of the Company for the three months and six months ended December 31, 2021, and the three months and six months ended December 31, 2020.

Consolidated Results for the Period Ended	Quarter Ended December 31, 2021	Quarter Ended December 31, 2020	Six Months Ended December 31, 2021	Six Months Ended December 31, 2020
Gross Revenue	**$576,622**	**$875,529**	**$1,237,105**	**$1,259,979**
Chargebacks, finance fees, and listing fees	**-$67,885**	**-$129,780**	**-$123,629**	**-$239,518**
Net Revenue	**$508,737**	**$745,749**	**$1,113,476**	**$1,020,461**
Direct Costs	**-$252,280**	**-$363,840**	**-$522,597**	**-$492,546**
Gross profit	**$256,457**	**$381,909**	**$590,879**	**$527,915**
Operating Expenses (excl. One-time & non-Cash)	**$794,938**	**$757,466**	**$1,444,954**	**$1,208,186**
Other One-time Expenses	**$0**	**$19,337**	**$16,146**	**$23,837**
Non-Cash Expenses	**$187,291**	**$88,891**	**$406,592**	**$255,513**
Loss before other Income (Expense)	**-$725,772**	**-$483,785**	**-$1,276,813**	**-$959,620**
Other income (Expenses)				
Foreign exchange gain (loss)	$7,872	-$3,497	$9,114	-$1,980
(Loss) gain on Settlement of liability	-$2,933	$6,730	-$2,720	$6,730
Loss) gain on fair value of Consideration	$20,945	$0	-$14,471	$0
Write-off of inventory	-$2,522	-$0	-$20,579	-$1,535
Other Income	$2,934	$30	$6,434	$30
Loss and comprehensive loss for the period	**-$699,476**	**-$480,522**	**-$1,299,036**	**-$956,375**
Basic and diluted loss per common share	**($0.00)**	**($0.00)**	**($0.01)**	**($0.01)**
Weighted average number of common shares outstanding	**212,294,452**	**122,399,917**	**210,647,548**	**117,289,721**

REVENUES

During the three months ended December 31, 2021, consolidated gross revenues were $576,622 compared to $875,529 for the three months ended December 31, 2020. The decrease of $298,907 or 34% compared to December 31, 2020, was due to the decrease in alcohol-free wine volume described earlier in this document compared to the extraordinary revenues year ago driven by demand shifting from first quarter to second quarter FY 21 due to COVID-19 manufacturing delays and resulting out of stock penalties levied by retailers in the first quarter of FY21. The decrease is also a result of the Company's decision to discontinue the alcohol-free beer business in the face of supply chain issues and retailer fines and fees.

Consolidated net revenues for the three months ended December 31, 2021, were $508,737 compared to $745,749 for the three months ended December 31, 2020, representing a decrease of 32% mainly driven again by the decrease in alcohol-free gross revenue offset by lower chargebacks and listing fees as a percentage of gross revenue. For the three months ended December 31, 2021, chargebacks represented 12% of gross revenues compared to 15% for the three months ended December 31, 2020. Chargebacks are fees charged by retailers and distributors for program money and discounts. Listing fees were nil for the three months ended December 31, 2021, and nil for the three months ended December 31, 2020. Despite the decrease in net revenue for the quarter over the prior year due to the shifting of alcohol-free beverage sales by quarter, net revenues increased for the six months ended December 31, 2021, to $1,113,476 compared to $1,020,461 for the six months ended December 31, 2020, representing an increase of 9%.

COST OF SALES/DIRECT COSTS

Direct costs were $252,280 or 44% of gross revenue for the three months ended December 31, 2021, and $363,840 or 42% of gross revenue for the three months ended December 31, 2020. This 2% percentage point increase over the three months ended December 31, 2020, was driven by higher freight costs and unfavourable product mix in the alcohol-free beverage business, partially offset by favourability in the Cannabis-related business.

GROSS PROFIT

For the three months ended December 31, 2021, consolidated gross profit decreased to $256,457 compared to $381,909 for the three months ended December 31, 2020, driven by the shift in alcohol-free sales revenues. Gross profit as a percentage of revenue remained at 44%, equal to the same period prior year. Higher margins from the cannabis technology licensing business offset lower margins in the alcohol-free beverage business to maintain the margin. For the six months ended December 31, 2021, consolidated gross profit increased 12% to $590,879 compared to $527,915 for the six months ended December 31, 2020.

As mentioned earlier, gross profit for the six months ended December 31, 2020 included the non-alcoholic beer business that has since been discontinued, as well as positive adjustments that were made to inventory valuation in the first half of FY21. When those two factors are excluded from the year ago base comparison, gross profit for the remaining alcohol-free wine and cannabis businesses grew 30% from $455,592 to $590,879 and gross profit margin grew from 39% to 48%.

The table below shows the alcohol-free wine and cannabis gross revenue, net revenue and gross profit figures for the three and six months ended December 31st, 2020, and December 31, 2021, when excluding alcohol-free beer sales and the inventory cost adjustment from the same period prior year.

	Quarter Ended December 31st, 2021	Quarter Ended December 31st, 2020	Six Months Ended December 31st, 2021	Six Months Ended December 31st, 2020
Gross Revenue	$ 576,622	$ 823,892	$ 1,237,105	$ 1,180,247
Net Revenue	$508,737	$723,601	$1,113,476	$988,120
Gross Profit	$ 256,457	$ 357,310	$ 590,879	$ 455,592
Gross Profit %	45%	43%	48%	39%

OPERATING EXPENSES – ORDINARY

Ordinary operating expenses include selling and marketing expenses, employee expenses, donations, dues and licenses, professional fees, and other general and administrative expenses. For the three months ended December 31, 2021, operating expenses totaled $794,938 compared to $757,466 for the three months ended December 31, 2020. The principal drivers of the $37,472 increase in operating expenses were salaries and wages of $44,707, professional fees of $54,798, insurance expenses of $15,584, management fees of $45,890, consulting expenses of $11,597 and office and miscellaneous of $10,471. Many of these expenses are related to building out the infrastructure for the new business model, including the cannabis-related and cannabis technology licensing businesses. These increases were offset by lower selling and delivery expenses of $86,273, general and administrative expenses of $36,776, interest on the convertible debt of $15,464, and filing fees of $7,062. The convertible debt was converted into Company shares during the fourth quarter of the prior fiscal year.

The Company experienced significant increases in audit and insurance expenses versus prior year due to requirements relating to its entry into the cannabis business. These step-ups in expenses are not expected to continue the rate of increase as the business grows and their impact will be reduced at higher revenues as these new businesses mature.

OPERATING EXPENSES – ONE TIME

For the three months ended December 31, 2021, there were no one-time expenses. For the three months ended December 31, 2020, one-time expenses were $19,337 relating to $103,064 for investor relation fees, severance payments, and recruiting, offset by reduced salaries and wages due the Canada Emergency Wage Subsidy of $83,727.

OPERATING EXPENSES - NON-CASH

For the three months ended December 31, 2021, the Company incurred non-cash expenses totaling $187,291, which includes expenses related to stock options, depreciation, accretion expense for an interest-free CEBA loan and lease interest expenses, accrued interest on a promissory note. 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.

OTHER EXPENSES

For the three months ended December 31, 2021, the Company incurred other expenses totaling $26,296. This included a gain on fair value of consideration of $20,945, a foreign exchange gain of $7,872 and other income of $2,934. This was offset by a loss on settlement of liability of $2,933, a write-off of inventory of $2,522. 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, $6,730 for a gain on settlement of a liability and other income of $30.

NET EARNINGS

The Company recorded a net loss of $699,476 for the three months ended December 31, 2021, compared to a loss of $480,522 in the three months ended December 31, 2020. The decrease in net earnings of 46% was primarily driven by the decrease in gross profit due to the alcohol-free sales comparison to year ago, an increase in depreciation related to the Lexaria asset purchase and increases in general and administrative expenses including the aforementioned step-up increases arising out of entry into the cannabis business.

The basic and diluted loss per share for the three months ended December 31, 2021, was $0.00 per share. The basic and diluted loss per share for the three months ended December 31, 2020, was $0.00 per share.

SELECTED QUARTERLY INFORMATION

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

	Dec 31, 2021	**Sep 30, 2021**	**June 30, 2021**	**Mar 31, 2021**	**Dec 31, 2020**	**Sept 30, 2020**	**June 30, 2020**	**Mar 31, 2020**
Gross Revenue	$576,622	$660,483	$718,755	$774,747	$875,529	$384,450	$623,450	$502,997
Net Revenue	$508,737	$604,739	$519,194	$655,259	$745,749	$274,712	$323,604	$388,536
Direct Costs	$252,280	$270,317	$261,583	$317,155	$363,840	$128,706	$231,176	$226,366
Gross Profit	$256,457	$334,422	$257,611	$338,104	$381,909	$146,006	$92,428	$162,710
Net Loss (gain)	$699,476	$599,560	$1,469,469	$660,387	$480,522	$475,853	$456,685	$796,425
Total Assets	$6,551,448	$7,125,001	$7,609,334	$5,935,113	$6,438,534	$1,368,840	$2,016,673	$1,594,737
Total Liabilities	$3,241,881	$3,161,015	$3,632,174	$5,031,004	$4,941,526	$1,600,388	$1,831,246	$1,242,007
Shareholder Equity	$3,309,567	$3,963,986	$3,977,160	$904,109	$1,497,008	($231,548)	$185,427	$352,730

*Certain contractual changes and their associated accounting treatment impact gross revenue comparability over quarters. However, these changes do not similarly impact net revenue and therefore, net revenue of the Company provides better comparability over quarters.

LIQUIDITY AND CAPITAL RESOURCES

FINANCIAL POSITION

The Company's principal capital needs are for operating expenses related to alcohol-free beverage inventory, human capital to operate the business and marketing expenses. Additional investments are being made to support the Company's cannabis-infused product line of business and the build-out of the Company's facility for the Health Canada application for a cannabis standard processing license. 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. Management believes that the cash position of the company is sufficient to fund the operations for the next 12 months and does not anticipate any additional capital requirements during this time.

WORKING CAPITAL

Working capital represents current assets less current liabilities. As of December 31, 2021, the Company had a positive working capital of $1,655,017 compared to a working capital of $291,838 for the three months ended December 31, 2020.

As the Company shifts its focus from the alcohol-free beverage business with higher asset requirements and relatively low margins, to growing its cannabis technology licensing revenues which is a high-margin business requiring little to no inventory capital, the Company expects that the requirement to hold inventory in future periods will decrease as a percentage of its sales.

CASH FLOWS

During the three months ended December 31, 2021, Hill Street had negative cash flows from operations of $908,152 compared to negative cash flows of $966,151 during the three months ended December 31, 2020. The amount of cash (used) in investing activities in the three months ended December 31, 2021, was $143,441 primarily for investment in the cannabis standard processing license facility. This compared to $364,553 in the three months ended December 31, 2020. The amount of cash used in financing activities in during the three months ended December 31, 2021, was $19,342 compared to cash from financing activities of $1,404,785 in the three months ended December 31, 2020.

CONTRACTUAL OBLIGATIONS

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

	Payments due by Period					
Contractual Obligations	**FY2022**	**FY2023**	**FY2024**	**FY2025**	**FY2026**	**Total**
Operating Leases and TMI	$30,902	$0	$0	$0	$0	$30,902
Purchase Obligations	$575,491	$78,818	$0	$0	$0	$654,309
Total	$606,393	$78,818	$0	$0	$0	$685,211

SHARE CAPITAL

The Company is authorized to issue an unlimited number of common shares and as of December 31, 2021, 212,294,452 common shares were issued and outstanding[1].

Security Designation	Number issued and outstanding
Common shares[1]	212,294,452
Warrants to purchase common shares (other than Broker warrants)	81,517,544
Incentive Stock Options	14,599,889
Broker warrants to purchase common shares	52,000
Other[2]	4,188,948
Maximum Fully Diluted	312,612,833

Notes:
1. Subsequent to the quarter, pursuant to a warrant exercise, an additional 6,457,000 common shares were issued and as a result, as of the date hereof, there is a total of 218,751,453 common shares issued and outstanding.
2. This represents the maximum number of common shares that remain issuable to Lexaria Canpharm ULC in connection with the Company's acquisition of the DehydraTech™ technology which was completed on December 9, 2020.

CAPITAL RESOURCES

As of December 31, 2021, the Company has capital commitments in fiscal year 2022 for inventory purchases and leasehold improvements for the Lucknow facility for DehydraTECH™ powder production that are included in the contractual obligations table above.

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 three-month period ended December 30,	2021	2020
Total salaries, benefits and management fees	$496,483	$272,497
Stock-based compensation	$98,875	$79,459
Management and director compensation	$595,358	$351,956

Included in accounts payable as of December 31, 2021, is $430,396 (compared to $294,287 as of June 30, 2020) payable to directors and officers of the Company for management compensation.

On April 9, 2021, certain members of management and board members participated in a non-brokered private placement financing of units ("**April 2021 Units**") for gross proceeds of $310,825 at a price of $0.08 per April 2021

Unit. Each April 2021 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 $0.11 per share for a period of three years from closing, subject to acceleration on certain terms.

During the year ended June 30, 2021, the principal amount of $1,022,500 of a convertible note payable by the Company was converted into 20,450,000 common shares at conversion price of $0.05 per share.

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 our 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 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 balance sheet.

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.

When valuing options, management uses judgment to determine 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 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 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.

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.

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 recognises revenue for the transferred products in the amount of consideration to which the Company expects to be entitled to (therefore, revenue would not be recognised 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.