

HILL STREET BEVERAGE COMPANY INC.

MANAGEMENT’S DISCUSSION AND ANALYSIS

For the three-month period ended September 30th, 2022

Hill Street Beverage Company Inc., (the “Company”, “We”, or “Hill Street”) is a progressive bioscience implementation company that utilizes new technologies to provide innovative cannabis solutions and non-alcoholic beverage products globally. We are pioneering the space where craft consumer products meet bioscience by leveraging our deep CPG expertise. We are currently developing the platform for our North American distribution around our rights to use Lexaria Bioscience Corp.’s ground-breaking DehydraTECH™ patent portfolio for product development, licensing and B2B sales of cannabis ingredients.

This Management Discussion and Analysis (“MD&A”) of the financial condition and results of operations of the Company, and its subsidiaries, is for the three-month period ended September 30, 2022.

The MD&A is dated November 29, 2022, unless otherwise indicated, and should be read in conjunction with the consolidated condensed interim financial statements of the Company for the three-month period ended September 30, 2022 and the related notes. The Company’s significant accounting policies are set out in Note 2 of the audited consolidated financial statements for the year ended June 30, 2022.

This MD&A was written to comply with the requirements of National Instrument 51-102 – Continuous Disclosure Obligations. Results are reported in CAD dollars, unless otherwise noted. In the opinion of management, all adjustments (which consist only of normal recurring adjustments) considered necessary for a fair presentation have been included. The results presented as at September 30, 2022, are not necessarily indicative of the results that may be expected for any future period. The financial statements are prepared in compliance with International Financial Reporting Standards.

For the purposes of preparing this MD&A, management, in conjunction with the Board of Directors, considers the materiality of information. Information is considered material if: (i) such information results in, or would reasonably be expected to result in, a significant change in the market price or value of the Company’s common shares; or (ii) there is a substantial likelihood that a reasonable investor would consider it important in making an investment decision; or (iii) if it would significantly alter the total mix of information available to investors. Management, in conjunction with the Board of Directors, evaluates materiality with reference to all relevant circumstances, including potential market sensitivity.

Further information about the Company and its operations can be obtained from the Company website at www.hillstreetbeverages.com, or from www.sedar.com.

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 November 29, 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. Any forward-looking statements, including statements regarding expected volumes, operating efficiencies, or costs are based on, among other things, the following material factors and assumptions: sales volumes will increase over time; no material changes in basic consumer preferences; brewing, blending, and packaging efficiencies will improve over time; the cost of input materials for brewing and blending will increase over time; competitive activity from other manufacturers will continue; foreign currency exchange rates will change; there will likely be material changes to the regulatory environment in which Hill Street operates, particularly regarding cannabis-related products, and there will be 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 November 29, 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.

Q1 HIGHLIGHTS

New Launches Hit the Market for DehydraTECH™ Licensees

During the three-month period ended September 30, 2022, [1906 Drops](#) expanded to Michigan, Pennsylvania, and Ohio. In addition, several of the newer DehydraTECH™ licensees that Hill Street have been working with to develop their commercial manufacturing operations executed their initial product launches in market, including:

- [Lume](#) launched their first DehydraTECH™-powered products under their brand in Michigan dispensaries.
- [Neo Alternatives](#) launched their [Root 66](#) brand utilizing DehydraTECH™ in Massachusetts dispensaries.
- [Folium Farms](#) prepared for the launch of their Karma brand utilizing DehydraTECH™ in Oregon that occurred in early October.

We expect the financial impact of these new launches to build over the coming quarters.

We Continued to Execute on the Transformed Vin(Zero) Business Model

As we communicated in the [October 6 update](#), we have transformed our Vin(Zero) business model, with major adjustments across all the key areas of production planning, shipping and logistics, warehousing, sales and retail distribution. These changes will lead to several key positive financial impacts:

- shorten our order-to-cash cycle;
- reduce the level of working capital that we will be holding in finished goods inventory;
- Reduce the need for more expensive temperature-controlled containers for our products as our forecasting, operations planning, and inventory logistics models create a more efficient shipping cycle.

As we also previously communicated, this new streamlined commercial model creates a new and different cadence to the business, where dramatic quarter-to-quarter swings on the recognized revenues are planned, and the business must be looked at across longer time frames. We will be placing larger procurement orders less frequently, but more rapidly converting those orders to revenues on the P&L and cash on the balance sheet. Q1 FY2023 is the first quarter where our recognized revenues reflect the new cadence of the business, with lower recognized revenues for the quarter. Record revenues in Q4 FY2022 (over \$1MM vs. average net revenues of \$475k per quarter) continued to support the go-to-market distribution system and retail sales during Q1 FY2023. As of the date of the MD&A, Hill Street have already received and sold the inventory that we ordered during this past summer and expect Vin(Zero) revenues to be higher during the full six month period ended December 31, 2022 compared to the same six-month period in calendar 2021.

OTHER KEY DEVELOPMENTS

On August 30, 2022, Hinta Chambers officially resigned as the Chief Financial Officer of the Company after working through her notice period. Mrs. Chambers continued to stay on as an interim CFO and consultant until a replacement was found.

On October 12, 2022, the Company appointed Matthew Jewell as its Chief Financial Officer

On November 18, 2022, the Company, with the approval of the TSX Venture Exchange, amended the expiry date of 11,250,900 warrants (the “Amended Warrants”) from November 18, 2022 to March 17, 2023. In addition, the exercise price of the Amended Warrants was re-priced to \$0.05.

DESCRIPTION OF THE BUSINESS

Hill Street is a progressive bioscience implementation company that utilizes new technologies to provide innovative cannabis solutions and non-alcoholic beverage products globally. The Company has fundamentally transforming its legacy business model to embrace a more profitable and more scalable 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** groundbreaking **DehydraTECH™** patent portfolio for product development, licensing and B2B and B2C sales of cannabis ingredients or products on a global scale.

The Company currently has two 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. The products are 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 Technologies

Hill Avenue Cannabis Technologies' business provides DehydraTECH™-enabled business-to-business (B2B) solutions for both cannabis extractors and 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 self-emulsifying drug delivery systems (SEDDS) 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

The evolution of Hill Avenue Cannabis Technologies has fundamentally changed the Hill Street business model in several significant ways – geographically, operationally, and financially.

- **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, which acquisition included pre-existing DehydraTECH™ licensing agreements with certain US LPs, Hill Avenue immediately entered the U.S. cannabis market, generating revenues from licensing partners already operating across multiple U.S. states.

Since the DehydraTECH™ rights were acquired in December 2020, the Company has expanded its licensing to an operating footprint in the U.S. that now covers ten states with a total population of 115MM¹ and an addressable market of approximately \$21.5B USD in estimated 2022 cannabis sales². That footprint covers states generating almost two-thirds of the addressable market of \$33B USD in projected total U.S. cannabis sales for 2022³.

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

- **Operational Impact**

The DehydraTECH™ licensing business is a B2B business model that utilizes the Company's prior CPG product development and marketing knowledge along with its retail experience, to accelerate its agenda of becoming a premium cannabis infusion technology / ingredient solutions provider to companies looking to market premium cannabis edibles.

By combining Hill Street's strengths with those of DehydraTECH™ creator Lexaria's and Hill Street's downstream DehydraTECH™ licensees, the Company has created an ecosystem with robust capabilities in bioscience, food science, new product format and recipe development, as well as commercial manufacturing and operations for a range of consumer product form factors.

- **Financial Impact**

The overall financial efficiency of the DehydraTECH™ technology licensing 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 business.

¹ US Census Bureau, <https://www.census.gov/quickfacts/fact/table/US/PST045221>

² MJBiz Factbook 2022

³ MJBiz Factbook 2022

RESULTS OF OPERATIONS

For the Three-Month Period Ended	Sep 30, 2022	Sep 30, 2021
	\$	\$
Gross revenue	380,502	660,483
Chargebacks & listing fees	(26,852)	(55,744)
Net revenue	353,650	604,739
Cost of sales	(113,097)	(270,317)
Gross profit	240,553	334,422
Expenses		
Accretion expense	3,100	2,480
Bad debt expense	118,151	-
Bank charges and interest	3,229	2,603
Consulting fees	22,163	13,021
Depreciation	80,498	89,042
Donations, dues & licenses	-	1,357
Filing and transfer agent fees	6,028	1,972
Insurance	59,390	39,722
Interest on promissory note	54,229	46,869
Management fees	36,236	37,167
Marketing	19,976	50,312
Office and miscellaneous	70,145	40,207
Professional fees	60,403	115,704
Stock-based compensation	36,732	56,083
Travel and meal allowance	10,097	14,934
Wages and salaries	250,917	271,896
Selling and delivery	75,123	102,095
	906,417	885,464
Loss before other income (expense)	(665,864)	(551,042)
Other income (expenses)		
Foreign exchange gain	18,296	1,242
Write-off of inventory	-	(18,057)
Loss on fair value of consideration	-	(35,416)
Gain on settlement of liability	-	213
Other income	1,697	3,500
	19,993	(48,518)
Net loss and comprehensive loss	(645,871)	(599,560)

FOR THE THREE-MONTH PERIOD ENDED SEPTEMBER 30, 2022 AND 2021

NET REVENUES

For the Three-Month Period Ended		September 30, 2022	September 30, 2021
Non-alcoholic beverage sales	\$	187,581	508,215
Licensing income		174,835	133,935
Other income		18,086	18,333
Chargebacks and listing fees		(26,852)	(55,744)
	\$	353,650	604,739

For the three-month period ended September 30, 2022, consolidated net revenues decreased 41% to \$353,650 compared to \$604,739 in the three-month period ended September 30, 2021. Net revenues are a better reflection of the revenue health of our consolidated business, both on the alcohol-free side (“Vin(Zero)”) as well as our cannabis-related business initiatives.

For the three-month period ended September 30, 2022, Licensing income (“DehydraTECH™ Revenues”) increased 23% to \$174,835 compared to \$133,935 in the three-month period ended September 30, 2021. The increase in DehydraTECH™ Revenues was due to increased sales and activity among Hill Street’s licensees, including expansion into additional US States. The revenue impact of the new licensee launches in September / October 2022 is expected to build in future quarters.

The decrease in Vin(Zero) net revenue was driven primarily by timing and revenue shifts associated with the new, transformed business model. Our sales revenues to our distributor are now spread out longer with less frequent, but significant volume. The Chargebacks are fees charged by retailers and distributors for marketing programs and discounts, as well as other fees or penalties. Chargebacks for the three-month period ended September 30, 2022 were \$26,852 vs. \$55,744 for the prior year quarter and fluctuate proportionally with sales.

COST OF SALES/DIRECT COSTS

Cost of sales were \$113,097 or 30% of gross revenue for the three-month period September 30, 2022 compared to \$270,317 or 41% of gross revenue for the three-month period ended September 30, 2021. The eleven percentage point decrease over the three-month period ended September 30, 2022 was driven by decreased finished goods costs and decreased freight costs on the Vin(Zero) alcohol-free business compared to the prior period.

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

Ordinary operating expenses include selling, delivery and marketing expenses, employee expenses, interest, insurance, professional fees, and other general and administrative expenses. For the three-month period ended September 30, 2022, operating expenses were relatively flat at \$906,417, compared to \$885,464 for the three-month period ended September 30, 2021.

OPERATING EXPENSES – ONE TIME

Included in operating expenses are the following one-time transactions:

- During the three-month period ended September 30, 2022, the Company wrote-off \$118,151 to Bad debt expense as the result of a customer amount owing being deemed uncollectible.
- During the year ago three-month period ended September 30, 2021, the Company incurred significant one-time professional fees associated with outsourced human capital, increased HR fees due to employee placement and one-time ERP implementation fees, all causing professional fees to be higher than normal.

OPERATING EXPENSES - NON-CASH

For the three-month period ended September 30, 2022, the Company incurred non-cash expenses totaling \$294,519 which includes expenses related to the vesting of stock options, restricted share units, depreciation, and accretion expense, and accrued interest. For the prior year quarter ended September 30, 2021, the Company incurred non-cash expenses of \$219,302. The increase is mainly due to timing of equity grants.

OTHER INCOME (EXPENSES)

For the three-month period ended September 30, 2022, the Company incurred other income totaling \$19,993. This includes a foreign exchange gain of \$18,296 and interest income of \$1,697. For the three-month period ended September 30, 2021, the Company incurred other expenses totaling \$48,518. This includes a loss on fair value of consideration of \$35,416 and a write-off of inventory of \$18,057, which was offset by a foreign exchange gain of \$1,242, a gain on settlement of liability of \$213 and interest income of \$3,500.

SELECTED QUARTERLY INFORMATION

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

	Sept. 30, 2022	June 30, 2022	Mar 31, 2022	Dec 31, 2021	Sept 30, 2021	June 30, 2021	Mar 31, 2021	Dec 31, 2020
Gross Revenue	\$380,502	\$1,434,354	\$988,549	\$576,622	\$660,483	\$718,755	\$774,747	\$875,529
Net Revenue	\$353,650	\$1,217,904	\$880,943	\$508,737	\$604,739	\$519,194	\$655,259	\$745,749
Direct Costs	\$113,097	\$746,451	\$406,183	\$252,280	\$270,317	\$261,583	\$317,155	\$363,840
Gross Profit	\$240,553	\$471,453	\$474,760	\$256,457	\$334,442	\$257,611	\$338,104	\$381,909
Net Loss (gain)	\$645,871	\$845,206	\$433,693	\$699,476	\$599,560	\$1,469,469	\$660,387	\$480,522
Total Assets	\$5,434,740	\$6,157,841	\$6,504,174	\$6,551,448	\$7,125,001	\$7,609,334	\$5,935,113	\$6,438,534
Total Liabilities	\$3,287,575	\$3,401,537	\$3,225,247	\$3,241,881	\$3,161,015	\$3,632,174	\$5,031,004	\$4,941,526
Shareholder Equity	\$2,147,165	\$2,756,304	\$3,278,927	\$3,309,567	\$3,963,986	\$3,977,160	\$904,109	\$1,497,008

LIQUIDITY AND CAPITAL RESOURCES

FINANCIAL POSITION

The Company's principal capital needs are for operating expenses related to inventory, general and administrative, and marketing expenses for its two main lines of business. The Company's alcohol-free business requires significant investments in finished goods inventory that are not necessary in the cannabis-related licensing business.

WORKING CAPITAL

As of September 30, 2022, the Company had a positive working capital of \$988,121 compared to a positive working capital of \$1,530,006 for June 30, 2022.

Balances for the Period Ended	Sept. 30, 2022	June 30, 2022
Cash and cash equivalents	\$718,357	\$1,153,195
Accounts receivable	\$628,576	\$1,343,994
Total Cash + Accounts receivable	\$1,346,933	\$2,497,189

CONTRACTUAL OBLIGATIONS

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

Contractual Obligations	Payments due by Period				Total
	1 year	2-3 years	4-5 years	Over 5 years	
Accounts payable and accrued liabilities	\$820,832	-	-	-	\$820,832
Lease liability	\$22,471	\$46,504	\$9,891	-	\$78,866
CEBA loan	\$60,000	-	-	-	\$60,000
Note payable	\$169,643	\$460,233	\$564,610	\$1,148,768	\$2,343,254
Total	\$1,072,946	\$506,737	\$574,501	\$1,148,768	\$3,302,952

SHARE CAPITAL

The Company is authorized to issue an unlimited number of Common Shares of which 225,140,400 Common Shares are issued and outstanding as of the date hereof.

During the three-month period ended September 30, 2022:

- 1,700,000 of the restricted share units ("RSUs") previously granted were redeemed by employees for common shares of the Company. The fair value of RSUs redeemed, being \$68,000, was reclassified to share capital from reserves.

On October 12, 2022, the Company granted 1,000,000 RSUs to an officer of the Company. The RSUs are set to vest on October 12, 2023 and are subject to the RSU Plan of the Company.

On November 22, 2022, 500,000 of the RSUs previously granted were redeemed for common shares by an employee of the Company.

CAPITAL RESOURCES

As of September 30, 2022, 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 the Three-Month Period ended September 30,	2022	2021
Total salaries, benefits and management fees	\$158,375	\$260,137
Stock-Based compensation	\$45,599	\$54,932
Management and Director Compensation	\$203,974	\$315,069

Included in accounts payable as at September 30, 2022 is \$170,525 (June 30, 2022: \$504,665) payable to directors and officers of the Company for management wages. The amount is non-interest bearing and unsecured.

OUTLOOK

Both the Company's alcohol-free beverage and DehydraTECH™ licensing businesses have global growth potential in on-trend consumer categories. We made significant advances in calendar year 2022 in transforming our alcohol-free operating model for Vin(Zero). The changes will fundamentally shift the cadence of the Hill Street's revenues across quarters, but we expect it to drive more efficient financial metrics that are critical for the Company's business. We will leverage the streamlined distribution process and capitalize on marketing initiatives and global distribution opportunities with the intention of continually increasing revenues while maintaining or improving current margins.

We have also expanded our US commercial operations on a state-by-state basis for DehydraTECH™ licensing and have developed a broad portfolio of consumer form factors with an expanded ecosystem of partners. We will work with this DehydraTECH™ ecosystem and partners to not only grow within the territories where the Company currently operates, but to also leverage the intellectual capital and network the Company has built to both grow with current licensees and engage new ones as appropriate to build out our geographic and consumer product form factors roadmap.

Heading into the second half of FY2023, Hill Street is ready to scale these playbooks into new territories and new consumer products as it pursues its global growth agenda.

OUTSTANDING SHARE DATA

As of November 29, 2022, the Company has the following securities issued and outstanding:

Security Designation	Number issued and outstanding
Common Shares	225,140,400
Warrants to purchase Common Shares	53,851,444
Incentive Stock Options	11,355,575
Restricted Share Units	10,971,223
Fully Diluted	301,318,642

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.

GOING CONCERN

As at September 30, 2022, the Company had not yet achieved profitable operations, had a net loss of \$645,871 (September 30, 2021: \$599,560), accumulated deficit of \$22,869,442 (June 30, 2022: \$22,223,571), and expects to incur further losses in the foreseeable future, all of which indicate the existence of a material uncertainty that may cast significant doubt upon the Company's ability to continue as a going concern. Realization values may be substantially different from carrying values as shown and these consolidated financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern. Such adjustments could be material.

COVID-19

During the year, there was the continued global outbreak of COVID-19 (coronavirus), which has had an impact on businesses through the restrictions put in place by the Canadian, provincial and municipal governments regarding travel, business operations and isolation/quarantine orders. The Company's operations were impacted by COVID-19 due to a slower growth in year over year sales than anticipated. At this time, it is unknown the extent of the impact the COVID-19 outbreak may have on the Company as this will depend on future developments that are highly uncertain and that cannot be predicted with confidence. These uncertainties arise from the inability to predict the ultimate geographic spread of the disease, and the duration of the outbreak, including the duration of travel restrictions, business closures or disruptions, and quarantine/isolation measures that are currently, or may be put, in place by Canada and other countries to fight the virus. While the extent of the impact is unknown, we anticipate this outbreak may cause reduced customer demand, supply chain disruptions, staff shortages, and increased government regulations, all of which may negatively impact the Company's business and financial condition.