

Hill Street Beverage Company Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and nine-month period ending March 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 and nine months ended March 31, 2021 in comparison with the three and nine months ended March 31, 2020. These comments should be read in conjunction with the audited financial statements for the years ended June 30, 2020 and June 30, 2019 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 May 31st, 2021. 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 May 31, 2021 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 May 31, 2021 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 Beverage Company is a progressive non-alcoholic beverage and cannabis solutions company. We are pioneering the space where craft consumer products meet bioscience by combining our deep CPG expertise and our rights to use **Lexaria Bioscience Corp.'s** ground-breaking **DehydraTECH™** patent portfolio for product development, licensing and B2B sales of Cannabis ingredients.

The Company currently has three lines of business:

1. Hill Street Alcohol Free Beverages

This line represents the legacy consumer marketing and distribution business. It includes alcohol free beer and wine in Canada, and on a smaller scale, in the United States. It is sold in retail chain stores through Canadian distributors, and direct to consumer online at www.hillstreetbeverages.com

2. Hill Avenue Cannabis Brands

Hill Avenue Cannabis Brands specializes in business-to-consumer (B2C) edibles products for a growing global market. At present, this line is focused on cannabis infused (V)ia Regal consumer beverages, with release into retail distribution in the fourth quarter.

3. Hill Avenue Cannabis Technologies

Hill Avenue Cannabis Technologies provides DehydraTECH™ enabled business-to-business (B2B) solutions for both extractors and consumer packaged goods (CPG) manufacturers. This B2B business line currently focuses on licensing usage rights for DehydraTECH™ patented global Intellectual Property acquired from Lexaria Bioscience Corp. in December 2020. The Company acquired existing contracts to provide licenses for use of these patents by companies in Canada and the USA. Additionally, the Company anticipates developing new relationships to supply manufacturers of consumer goods whose products are infused with cannabis and or hemp extracts. These opportunities facilitate entry into new categories, industries and geographies.

Q2 HIGHLIGHTS

Gross and Net Revenues from Hill Avenue Cannabis Co.'s licensing arrangements Grew 180% from Q2 to Q3.

The Company realized rapid growth in its recently created B2B business line, Hill Avenue Cannabis Technologies, which is currently focused on licensing usage rights for DehydraTECH™ patented global Intellectual Property to CPG customers for application in cannabis infused products. The Company continues to focus on growing these existing relationships and pursuing new licensing relationships with extractors and other manufacturers of consumer goods whose products are infused with cannabis and or hemp extracts.

Hill Avenue Cannabis Co.'s First Beverage Produced in Preparation for launch

Hill Avenue's first cannabis infused beverage, (V)ia Regal Pink Grape Sparkler, was produced and packaged to deliver the pipeline fill order from the OCS and became available for retail purchase on May 18, 2021. The Company also began to investigate expanded Canadian distribution opportunities beyond

the Ontario market for both (V)ia Regal Pink Grape Sparkler and its companion product (V)ia Regal White Grape Sparkler.

Progress Continued on Securing Cannabis License for Hill Avenue Through the Lucknow Facility

The Company continued planning for its licensed cannabis operations at the Lucknow facility which is strategically located near Pearson Airport in Mississauga, Ontario. The Company remains committed to obtaining the Health Canada Standard Processor License for the facility to produce DehydraTech™ powder, however, the Company has encountered challenges in terms of construction permits, scarcity of materials and labour shortages due to COVID.

Consolidated Hill Street Beverage Company Inc. Substantially Increased Gross and Net Revenues Year Over Year by 54% and 69% respectively, Despite pandemic challenges

Coincident with driving its cannabis initiatives, Hill Street's legacy alcohol free business showed strong momentum in the quarter. Consolidated gross revenue increased by 54% versus the same quarter a year ago, to \$774,747 from \$502,997. Net Revenue grew by 69% increasing from \$388,536 in the previous Q3 2020, to \$655,259 in Q3 2021. In addition to Hill Avenue Cannabis Co. growth, Alcohol Free sales increased, driven by presumed ongoing trend amongst many consumers to make more mindful decisions about their consumption habits and due to strong orders from retail to replenish stock following pandemic related shortages. Additionally, online sales for the Company's alcohol-free products increased 176% versus the same quarter a year ago, as customer loyalty to the program showed strength, with many repeat and month to month purchasers.

Gross Margin percentage increased significantly year over year for the quarter from 32% to 44%, primarily driven by favourable Cannabis licensing margins.

At the beginning of the period, Hill Street experienced out of stock issues, as the overseas supplier continued to have COVID-related fulfillment challenges. This resulted in Hill Street incurring out of stock fines from certain retailers. Additionally, ocean freight rates rose significantly due to the backlog created by the Suez Canal blockage that occurred in March. Although presumed temporary, some shipping industry experts suggest that some level of upcharge could become permanent.

The Company initiated a Private Placement to fund its growth agenda

During the quarter, the Company announced a non-brokered private placement of units to raise capital to support its global growth agenda. It anticipates that this capital will fund the next phase of corporate development as the Company continues to build out programs to monetize the global patent usage rights to DehydraTECH™ (R) fast-acting emulsion technology. On May 9, 2021, the Company closed the private placement, for gross proceeds to the Company of \$3,403,884.

Management Changes were made to position the Company for its next phase of growth

Jack Fraser was appointed Chairman of the Board and the Company appointed Interim CO-CEO's Craig Binkley and Lori Senecal to lead these new Company initiatives.

RESULTS OF OPERATIONS

The following table summarizes certain financial information of the Company for the three months ended March 31, 2021 and March 31, 2020. It also summarizes certain financial information for the nine months ended March 31, 2021 and March 31, 2020.

Results for the Period Ended	Quarter Ended March 31, 2021	Quarter Ended March 31, 2020	Nine Months Ended March 31, 2021	Nine Months Ended March 31, 2020
Gross Revenue	\$774,747	\$502,997	\$2,034,726	\$1,990,473
Chargebacks, finance fees, and listing fees	-\$119,488	-\$114,461	-\$359,006	-\$583,222
Net Revenue	\$655,259	\$388,536	\$1,675,720	\$1,407,251
Direct Costs	\$317,155	\$226,366	\$809,701	\$773,630
Gross profit	\$338,104	\$162,170	\$866,019	\$633,621
Operating Expenses (excl. One-time & Non Cash)	\$884,739	\$421,347	\$2,092,925	\$1,841,540
Other One-time Expenses	\$47,643	\$238,843	\$71,479	\$1,350,886
Non Cash Expenses	\$146,199	\$312,497	\$401,711	\$635,058
Loss before other Income (Expense)	-\$740,476	-\$810,517	-\$1,700,096	-\$3,193,863
Other income (Expenses)				
Foreign exchange gain (loss)	\$15,463	\$14,092	\$13,483	\$,335
Gain on favourable interest rate	\$6,541	-	\$6,541	-
Loss on conversion of Debt	-\$1,168	-	-\$1,168	-
Gain on Settlement of liability	\$59,253	-	\$65,983	
Write-off of intangibles	-	-	-	-\$8,000
Write-off of inventory	-	--	-\$1,535	-\$23,466
Other Income	\$-	-	\$30	-
Loss and comprehensive loss for the period	\$660,387	\$796,425	\$1,616,762	\$3,224,994
Basic and diluted loss per common share	(\$0.00)	\$0.01	\$0.01	\$0.03
Weighted average number of common shares outstanding	141,905,150	110,475,579	125,375,081	102,033,744

REVENUES

During the three months ended March 31, 2021, gross revenues were \$774,747 compared to \$502,997 for the three months ended March 31, 2020. The increase of 54% compared to the three months ended March 31, 2020 was due to increased demand in current year. COVID-19 related manufacturing delays caused by lock-down at the overseas manufacturer resulted in lower sales early in the quarter, however this was more than offset by retailers restocking in the last month of the quarter. In addition, online sales increased by 176% compared to the same quarter in the prior year.

Net revenues for the three months ended March 31, 2021 were \$655,259 compared to \$388,536 in the three months ended March 31, 2020, representing an increase of 69% which was mainly driven by chargebacks and listing fees as a percentage of Gross Revenue decreasing year over year. For the three

months ended March 31, 2021, chargebacks and listing fees represented 15% of gross revenues down from 23% for the three months ended March 31, 2020. Chargebacks are fees charged by retailers and distributors for program money and discounts. Chargebacks for the quarter were \$119,488 and \$114,461 for the prior year. Listing fees were \$nil, for the three months ended March 31, 2021 and \$35,000 for the three months ended March 31, 2020.

COST OF SALES/DIRECT COSTS

Direct costs were \$ 317,155 or 41% of gross revenue for the three months ended March 31, 2021 and \$226,366 or 45% of gross revenue for the three months ended March 31, 2020. This is a 4% percentage point decrease over the three months ended March 31, 2020, was driven by favourable inventory adjustments for the recovery of costs for damaged product and Cannabis licensing revenues offset by higher import freight costs.

OPERATING EXPENSES (EXCLUDING ONE-TIME & NON CASH)

Ordinary operating expenses include selling & marketing expenses, employee expenses, donations, dues & licenses, professional fees, and other general and administrative expenses. For the three months ended March 31, 2021, operating expenses totaled \$884,739 compared to \$421,347 for the three months ended March 31, 2020. The principal drivers of the \$463,392 increase in operating expenses were: Distribution expenses, Management Fees, Interest, Insurance donations and professional fees. Distribution costs increased by \$72,595 due to higher volume year over year and retailer fines due to out of stock. Board fees increased by \$78,000 and Professional fees increased by \$38,990 primarily related to legal expenses. Interest increased by \$66,531 due to interest on convertible debt and the promissory note. Insurance Cost increased by \$36,036 due to cannabis industry risk. Donations, Dues and Licenses decreased by \$28,464 to (\$1,204) from \$29,674 in prior year's quarter primarily due to the expiry of a partnership brand licensing agreement. Wages and Salaries decreased by \$98,974 due to lower headcount compared to the same quarter in prior year.

OPERATING EXPENSES – ONE TIME

In addition to ordinary operating expenses, for the three months ended March 31, 2021, one-time expenses were \$47,643 relating to \$71,749 for severance costs offset by a recovery of costs from a supplier. For the three months ended March 31, 2020 one-time expenses were \$238,843 primarily for severance and one-time investor relations related costs.

OPERATING EXPENSES - NON-CASH

For the three months ended March 31, 2021 the Company incurred non-cash expenses totaled \$146,199 which includes expense related to the stock options, depreciation, the expense of warrants issued in exchange for marketing services, accretion expense on convertible debentures, lease interest expense offset by gains on the settlement of liabilities and favourable interest rates. For the three months ended March 31, 2020 the Company incurred non-cash expenses of \$312,497 for expense for depreciation, stock options, warrants and severance.

OTHER EXPENSES

For the three months ended March 31, 2021, the Company incurred other income and expenses totaling \$80,089. These includes \$15,463 for loss on foreign exchange and \$6,541 for a gain favourable interest rates, \$59,253 for the gain on settlement of liabilities, and a loss on debt conversion for \$1,168. For the three months ended March 31, 2020, the Company incurred other expenses totaling \$14,092 for foreign exchange losses

NET EARNINGS

The Company recorded a net loss of \$660,387 for the three months ended March 31, 2021 compared to a loss of \$796,425 in the three months ended March 31, 2020. The improvement in net earnings of 17% was driven by and improvement in gross margin and gains in other income and expenses.

The basic and diluted loss per share for the three months ended March 31, 2021 was \$0.00 per share. The basic and diluted loss per share for the three months ended March 31, 2020 was \$0.01 per share.

SELECTED QUARTERLY INFORMATION

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

	Mar 31, 2021	Dec 31, 2020	Sept 30, 2020	June 30, 2020	Mar 31, 2020	Dec 31, 2019	Sep 30, 2019	June 30, 2019
Gross Revenue	\$774,747	\$875,529	\$384,450	\$623,450	\$502,997	\$973,710	\$513,766	\$506,721
Net Revenue	\$655,259	\$745,749	\$274,712	\$323,604	\$388,536	\$689,276	\$329,439	\$55,100
Direct Costs	\$17,155	\$363,840	\$128,706	\$231,176	\$226,366	\$395,228	\$152,036	\$164,193
Gross Profit	\$338,104	\$381,909	\$146,006	\$92,428	\$162,710	\$294,048	\$177,403	\$219,293
Net Loss (gain)	\$660,387	\$480,522	\$475,853	\$456,685	\$796,425	\$882,658	\$1,509,913	(\$6,711,371)
Total Assets	\$5,935,113	\$6,438,534	\$1,368,840	\$2,016,673	\$1,594,737	\$2,225,062	\$1,908,157	\$3,004,909
Total Liabilities	\$5,031,004	\$4,941,526	\$1,600,388	\$1,831,246	\$1,242,007	\$1,198,761	\$882,662	\$627,141
Shareholder Equity	\$904,109	\$1,497,008	(\$231,548)	\$185,427	\$352,730	\$1,026,301	\$1,025,495	\$2,377,768

LIQUIDITY AND CAPITAL RESOURCES

FINANCIAL POSITION

The Corporation's principal capital needs are for operating expenses related to inventory, employee and marketing expenses. Additional investments are being made to support the cannabis infused powder and license business to monetize the Lexaria acquisition. In addition, the Company will need to continue to invest in building its cannabis license facility. 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.

As of March 31, 2021, the Company has negative working capital and will continue to focus on cost management and revenue growth. On April 9, 2021, the Company issued 42,548,545 units at a price of

\$0.08 per unit for gross proceeds of \$3,403,884. Each unit consisted of one common share and one common share purchase warrant, with each whole warrant exercisable into one common share of the Company at an exercise price of \$0.11 per share, exercisable for a period of 36 from the date of issuance. In connection with the offering, the Company paid finders of \$8,320 and issued 52,000 finder's warrants. Each finder warrants will entitle the holder to purchase one common share of the Company at a price of \$0.08 for 24 months from the date of closing.

WORKING CAPITAL

Working capital represents current assets less current liabilities. As of March 31, 2021, the Company had a negative working capital of \$237,323 compared to a positive working capital of \$571,611 for March 31, 2020.

CASH FLOWS

During the nine months ended March 31, 2021, Hill Street had negative cash flows from operations of \$1,428,880 compared to negative cash flow of \$1,457,170 during the nine months ended March 31, 2020. The amount of cash (used) in investing activities in the nine months ended March 31, 2021 was (\$370,977) compared to (\$385) in the nine months ended March 31, 2020. The increase was primary due to the Company's acquisition of Lexaria's CanPharm assets. The amount of cash generated in financing activities during the nine months ended March 31, 2021 was \$1,424,152 compared to \$547,034 in the nine months ended March 31, 2020.

CONTRACTUAL OBLIGATIONS

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

Contractual Obligations	Payments due by Period					Total
	FY2021	FY2022	FY2023	FY2024	FY2025	
Operating Leases	\$7,623	\$30,656	\$12,910	\$0	\$0	\$66,436
Purchase Obligations	\$404,040	\$57,802	\$7,941	\$0	\$0	\$357,659
Total	\$411,663	\$88,457	\$20,851	\$0	\$0	\$520,971

SHARE CAPITAL

The Company is authorized to issue an unlimited number of Common Shares of which 141,905,150 Common Shares are issued and outstanding as of the date hereof.

CAPITAL RESOURCES

As of March 31, 2021, 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.

<u>During nine-month period ended March 31,</u>	<u>2021</u>	<u>2020</u>
Total salaries, benefits and management fees	\$737,370	\$841,341
Stock-Based compensation	\$92,942	\$323,728
Management and Director Compensation	830,312	\$1,165,069

Included in accounts payable as at March 31, 2021 is \$560,810 (June 30, 2020: \$337,682) payable to Directors and Officers of the Company for management wages. The amount is non-interest bearing and unsecured.

On December 23, 2019, management and board members participated in a non-brokered private placement financing of units ("**Dec 19 Units**") for gross proceeds of \$250,000 at a price of \$0.06 per Dec 19 Unit. Each Dec 19 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 \$0.13 per share for a period of two years from closing, subject to acceleration.

On November 18, 2020, management and board members participated in a non-brokered private placement financing of units ("**Nov 20 Units**") for gross proceeds of \$373,500 at a price of \$0.05 per Nov 20 Unit. Each Nov 20 Unit consists of one common shares 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 \$0.13 per share for a period of two years from closing, subject to acceleration.

As at March 31, 2021, the Company had a present value of \$860,892 (June 30, 2020: \$770,485) of related party convertible debt related to a private placement financing that closed May 4, 2020 for gross proceeds of \$1,022,500 at a price of \$1.00 per unit. Each unit in the offering was comprised of \$1.00 principal amount of secured convertible debentures and 20 common share purchase. On February 11, 2021, the Company issued 450,000 common shares to the former CEO of the Company pursuant to the partial conversion of \$22,500 principal amount of the convertible debt.