HILL INCORPORATED

(PREVIOUSLY HILL STREET BEVERAGE COMPANY INC.)

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three- and six-month periods ended December 31, 2023 and 2022

The following management's discussion and analysis ("**MD&A**") provides a review of the activities, results of operations and financial condition of Hill Incorporated Inc., previously Hill Street Beverage Company Inc., (the "**Company**", **"we"** or "**Hill**") for the three-and six-month periods ended December 31, 2023 and 2022. These comments should be read in conjunction with the audited consolidated financial statements for the years ended June 30, 2023 and 2022 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 February 29, 2024. Additional information relating to Hill is available on SEDAR.

All amounts are stated in Canadian dollars unless otherwise identified.

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; (ii) there is a substantial likelihood that a reasonable investor would consider it important in making an investment decision; or (iii) 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.hillincorporated.com, or at the Company's profile on http://www.sedarplus.ca./

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'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 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's views as of February 29, 2024 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 revenues, volumes, operating efficiencies, or costs may be based on, among other things, the following material factors and assumptions: sales volumes will increase over time; no material changes in basic consumer preferences; manufacturing and packaging efficiencies will improve over time; the cost of input materials for manufacturing will increase over time; competitive activity from competitors will continue; foreign currency exchange rates will change; there will likely be material changes to the regulatory environment in which Hill 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'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's various other public filings as and when released by Hill. The forward-looking statements included in this MD&A are made only as of February 29, 2024 and, except as required by applicable securities laws, Hill does not undertake to publicly update such forward-looking statements to reflect new information, future events or otherwise.

BUSINESS HIGHLIGHTS FOR Q2 FY 2024

- ***We Continued to Expand the DehydraTECH Licensee Eco-System, As Leading Multi-State Operator MariMed Inc. Launched New DehydraTECH-Powered Products in Q2***

- ***DehydraTECH Licensee 1906 Launched an Exciting New Direct-To-Consumer Product Line, Produced Using DehydraTECH, Across A Majority of US States During Q2, Adding to Their Existing Product Lines Already Sold in Licensed Dispensaries***

- ***We Continued to Drive Marketplace Growth on Vin(Zero) Alcohol-Free Wine, Increasing Shipments to Retailers by 11% in Q2 vs Year Ago and Adding the Largest Grocery Retailer in Western Canada – Save-On-Foods – to Our Base of Vin(Zero) Customers***

FINANCIAL HIGHLIGHTS FOR Q2 FY 2024 AND THE SIX MONTHS ENDED DECEMBER 31, 2023

- ***We Delivered the Second-Highest Quarterly Gross Profit in Company History in Q2, Topping $500K For the Second Time***

- ***We Narrowed the Net Loss for the Six-Month Period by 23% vs. Same Period Year Ago***

We Continued to Expand The DehydraTECH Licensee Eco-System, As Leading Multi-State Operator MariMed Inc. Launched New DehydraTECH-Powered Products In Q2

Intensive R&D, product and commercial manufacturing development led to our November 16, 2023 announcement that leading multi-state operator MariMed will use the patented DehydraTECH biodelivery technology to power its next generation of cannabis edibles sold under several of its award-winning brands.

MariMed has now rolled out improved DehydraTECH-powered products in Massachusetts, Maryland, and Delaware, with Illinois planned to launch in early 2024 as well. MariMed brands now being powered by DehydraTECH include '***Vibations™***' all-natural, full-spectrum cannabis drink mix, which recently won first place in the beverages category of the High Times Cannabis Cup in Massachusetts, '***K Fusion™***' chewable tablets, and 'InHouse™' gummies. More information on MariMed's brands can be found at MariMed Brands.

We anticipate that this major new multi-state, multi-brand licensee will deliver strong incremental licensing revenues in 2024 as their launches reach full scale and expand across their state footprint.

The addition of MariMed to our DehydraTECH licensee ecosystem represents continued expansion by Hill on the key factors driving the growth agenda of our DehydraTECH licensing business:

1) **new licensees** – increasing our base of active licensees and brands;
2) **new states** – new state launches expanding the geographic coverage for active licensees or brands;
3) **new product form factors** – innovation to expand the number of DehydraTECH-powered consumer product forms and types in market to fill consumer needs and occasions; and
4) **deeper penetration of products across operations** – driving deeper penetration of the breadth of product forms and brands across current and new states.

The following chart shows the significant advances we have made in the DehydraTECH licensing business, beginning from the December 2020 rights acquisition through December 2023 at the close of Q2 FY 2024.

	31-Dec-20	31-Dec-21	31-Dec-22	31-Dec-23
Total Active Customers In-Mkt	1	4	7	9
Total States Active	4	6	11	13
Total Product Forms Active	3	6	7	13
Product Penetration Depth*	7	11	21	34

* Product forms x brands x states available

DehydraTECH Licensee 1906 Launched an Exciting New Direct-To-Consumer Product Line, Produced Using DehydraTECH, Across A Majority of US States During Q2, Adding to Their Existing Product Lines Already Sold in Licensed Dispensaries

1906 also launched an exciting new direct-to-consumer (DTC) product line across a majority of US states, offering hemp-derived Delta-9 THC micro-dose versions of their popular 'Drops' products, which are also produced using DehydraTECH. This DTC launch expanded access of 1906 Drops varieties to a much broader footprint of consumers, adding DTC distribution across approximately 36 states. This new initiative adds to the dispensary availability in several legal adult-use states of the higher dose, marijuana-derived delta-9 THC 1906 Drops. 1906 has announced that they will be streamlining the dispensary availability of the higher dose, marijuana-derived delta-9 THC 1906 Drops to Illinois, Massachusetts, Missouri, New Jersey, New York and Pennsylvania. More information on 1906's products can be found at https://1906.shop/.

We Continued to Drive Marketplace Growth on Vin(Zero) Alcohol-Free Wine, Increasing Shipments to Retailers by 11% in Q2 vs. Year Ago and Adding the Largest Grocery Retailer in Western Canada – Save-On-Foods – to Our Base of Vin(Zero) Customers

As communicated, the new streamlined commercial model on our alcohol-free business creates a new and different cadence to the business, where dramatic quarter-to-quarter swings on the recognized revenues are planned based on inventory efficiencies. Therefore, the business must be looked at across longer time frames and through different operational lenses. As we adapt to the new cadence of supply shipments and recognized revenues, a key measure of the underlying business in this new model is our case depletions, which represents the shipment figures from our distributor to retailers. Our shipments from warehouses to retail customers increased by a strong 11% during the quarter over same quarter prior year, showing strength of support for the 2023 holiday period.

In addition, we secured a major new account during the period that added to the strong shipments to retail, adding Save-On-Foods to our customer base. Save-On-Foods is Western Canada's largest grocery retailer[1], with a dynamic history dating back to 1915. Their Wholesale Division also services ***Choice Markets***, ***Quality Foods***, ***Georgia Main***, ***AG Foods***, ***Buy-Low Foods*** & ***Calgary Co-Op***. In total, this placement provides new consumer access to Vin(Zero) through approximately 165 Save-On-Foods stores across ***British Columbia, Alberta, Saskatchewan, Manitoba and the Yukon Territory***. We are excited about this new additional business and its impact in 2024, on top of our strong existing base of customers.

We Delivered the Second-Highest Quarterly Gross Profit in Company History, Topping $500K For the Second Time

Consolidated net revenue for Q2 was a very strong $982,773 - the third highest ever - and our Q2 gross profit of $537,218 was the second highest in history, trailing only the record Q2 year ago. The year ago quarter had extraordinarily high revenues for the Company due to significant inventory building on the alcohol-free wine business for the first winter of the new business model. Our subsequently improved forecasting and inventory efficiency planning, as we've executed the model, resulted in a less significant inventory build-up for this winter season; however, alcohol-free wine net revenue in Q2 was still a very strong $671,201.

We Narrowed the Net Loss for the Six-Month Period by 23% vs. Same Period Year Ago

As reported, gross profit of $537,218 was the second highest level reached in Company history, trailing only the record year ago Q2. Yet, on a consolidated basis, gross profit declined 30% for the six-month period vs. year ago that included the record Q2. As discussed, the variance is due to the changes in alcohol-free wine inventory buildup and resulting recognized revenue between the two years. Despite this decline in consolidated revenue and gross profit for the six-month period, the significant cost reduction measures we have taken have resulted in the net loss for the period improving a full 23% vs. year ago, decreasing from $856,925 to $650,614.

[1] Source: Save-On-Foods

DESCRIPTION OF BUSINESS

Hill Incorporated is a progressive bioscience implementation company that is dedicated to building pathways to better and healthier living by leveraging our deep CPG expertise to commercialize leading-edge technologies to craft superior cannabis solutions and non-alcoholic beverage products globally. The Company has fundamentally transformed its legacy business model to embrace a more profitable and more scalable global growth agenda.

The Company currently operates two lines of business:

1. Hill Street Beverages

This business unit represents the Company's legacy alcohol-free consumer beverage marketing and distribution business. It includes Vin(Zero) alcohol-free wine in Canada, and on a smaller scale, in the United States. Vin(Zero) uses only the finest craft ingredients and a proprietary process to remove alcohol from high-quality wines, delivering all the flavour, savour & splendour that you expect from fine wines, without the alcohol. Vin(Zero) has a simple mission of bringing consumers better quality experiences that taste better and are better for you. 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

Our Hill Avenue Cannabis business unit is pioneering the space where craft consumer products meet bioscience by combining our deep CPG commercialization expertise with our rights to use Lexaria Bioscience Corp's ground-breaking DehydraTECH patent portfolio for product development, licensing and B2B and B2C sales of cannabis ingredients or products on a global scale. DehydraTECH is a revolutionary, patented biodelivery technology that is scientifically proven to consistently and rapidly deliver precise doses of bioactive substances like cannabinoids into the bloodstream, for unparalleled bioavailability and onset time. For additional detail about Hill Avenue Cannabis or DehydraTECH technology, visit www.dehydratech-thc.com.

DehydraTECH technology was first developed in 2014 by Lexaria Bioscience Corp., a global innovator in drug delivery platforms. Today, the DehydraTECH intellectual property portfolio consists of 28 granted patents and approximately 50 patents pending worldwide. Hill Avenue Cannabis acquired the exclusive global rights to use and commercialize the DehydraTECH technology to power THC-infused cannabis products in late 2020.

Hill Avenue Cannabis is the DehydraTECH technology licensing, product development and commercialization partner to progressive cannabis brands worldwide who are committed to bringing exceptional, best-in-class cannabis products to market. Hill Avenue Cannabis also 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.

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 has fundamentally changed the Company business model in several significant ways – geographically, operationally, and financially.

- **Geographical Impact**

When Hill Avenue Cannabis acquired the global rights to the DehydraTECH technology for use with THC products, it also acquired pre-existing DehydraTECH licensing agreements with certain US brands and LPs. Thus, Hill Avenue immediately entered licensing into the U.S. cannabis market, generating revenues from licensing partners already operating across four 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 thirteen states with a total population of 150MM[2] and an addressable market of approximately $25.6B USD in estimated 2023 cannabis sales[3]. That footprint covers states generating over two-thirds of the addressable market of $31.8B USD in projected total U.S. cannabis sales for 2023[4].

Operational Impact

The DehydraTECH licensing business is a B2B business model that utilizes the Company's prior CPG product development and commercialization knowledge to accelerate its agenda of becoming a premium cannabis biodelivery technology and ingredient solutions provider to companies looking to market premium, progressive cannabis edibles.

By combining Hill's strengths with those of DehydraTECH creator Lexaria's and Hill'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 than the beverage business.

[2] US Census Bureau, https://www.census.gov/quickfacts/fact/table/US/PST045221
[3] MJBiz Factbook 2023
[4] MJBiz Factbook 2023

SIX -MONTH RESULTS OF OPERATIONS

For the Six-Month Period Ended	Dec. 31, 2023	Dec. 31, 2022	Dec. 31, 2021
	$	$	$
Gross Revenue	1,465,941	2,207,414	1,237,105
Chargebacks & listing fees	(257,111)	(275,931)	(123,629)
Net Revenue	1,208,830	1,931,483	1,113,476
Cost of sales	(450,582)	(851,253)	(522,597)
Gross profit	758,248	1,080,230	590,879
Expenses			
Accretion expense	-	6,377	5,103
Bad debt expense	163,714	118,651	-
Bank charges and interest	(653)	7,541	5,216
Consulting fees	70,141	22,163	32,121
Depreciation	134,086	160,997	178,111
Donations, dues & licenses	-	-	528
Filing and transfer agent fees	15,882	17,928	15,324
Insurance	81,458	134,981	79,674
Interest on promissory note	125,732	116,884	96,335
Management fees	31,778	63,986	98,057
Marketing	(11,478)	46,298	104,543
Office and miscellaneous	62,008	123,247	70,647
Professional fees	29,663	176,392	266,026
Stock-based compensation	49,449	89,829	101,140
Travel and meal allowance	9,989	30,877	24,023
Wages and salaries	514,596	515,624	591,145
Selling and delivery	132,497	305,380	199,700
	1,408,862	1,937,155	1,867,693
Loss before other income (expenses)	(650,614)	(856,925)	(1,276,814)
Other income (expenses)			
Foreign exchange (loss) gain	(10,665)	(8,287)	9,114
Loss on settlement of liability	-	-	(2,720)
Loss on fair value of consideration	-	-	(14,471)
Write-off of inventory	-	-	(20,579)
Other (expenses) income	(972)	4,324	6,434
	(11,637)	(3,963)	(22,222)
Net loss and comprehensive loss	(662,251)	(860,888)	(1,299,036)

FOR THE SIX-MONTH PERIOD ENDED DECEMBER 31, 2023 AND 2022

CONSOLIDATED NET REVENUES

For the Six-Month Period Ended		December 31, 2023	December 31, 2022
Non-alcoholic beverage sales	$	922,877	1,674,602
DehydraTECH licensing income		513,857	497,534
Other income		29,207	35,278
Chargebacks and listing fees		(257,111)	(275,931)
	$	1,208,830	1,931,483

For the six-month period ended December 31, 2023, consolidated net revenues decreased by 37% from $1,931,483 to $1,208,830 compared to the six-month period ended December 31, 2022. The decrease in net revenue over the same period last year was driven primarily by differing timing of production orders and revenue shifts associated with the transformed, more efficient alcohol-free business model, as previously communicated. Sales revenues to our distributor are now spread further apart with less frequent, but significant volume per order, as we work to optimize the timing and efficiency of our supply chain. The year ago period had significant inventory building on the alcohol-free wine business for the first winter of the new business model. Our improved forecasting and inventory efficiency planning as we've executed the model resulted in needing less significant inventory build-up for this winter season.

Chargebacks are fees charged by retailers and distributors for marketing programs and discounts, as well as other fees or penalties. Chargebacks for the six-month period ended December 31, 2023 were $257,111, compared to $275,931 for the prior year six-months. These figures fluctuate based both on the number of retailer programs that are going on during the time period and revenue generated from sales to our distributor.

Non-Alcoholic Beverage Sales

6 Month Period Ended	Dec 31, 2023	Dec 31, 2022	Dec 31, 2021
Gross Revenue	922,877	1,674,603	1,002,398
Chargebacks	(257,111)	(275,931)	(123,629)
Net Revenue	665,766	1,398,671	878,769
CoGS	(450,582)	(851,253)	(522,597)
Gross Profit	215,184	547,418	356,172
GP %	24%	33%	36%

The decrease in Vin(Zero) net revenue over the same period last year was driven primarily by timing and revenue shifts associated with the transformed, more efficient business model. Our improved forecasting and inventory efficiency planning, as we've executed the model, resulted in needing less significant inventory build-up for this winter season vs. the first season under the new model. As mentioned earlier, shipments from warehouse to retailers increased 11% for the latest quarter versus a year ago, which reflects the strength of demand from retailers. Maintaining the proper levels of inventory, as demand continues to grow, creates a much more efficient supply and go-to-market system.

Chargebacks, as previously described, are fees charged by retailers and distributors for marketing programs and discounts, new distribution, as well as other fees or penalties. Retailer programs are ongoing vs. the revenue trends that change with sales from inventory build or replenishment. As a result, the chargebacks as a % of current period revenue can fluctuate dramatically and impact the GP % calculation for any given period.

DehydraTECH Licensing Revenue By Quarter

3 Month Period Ended	Dec. 31, 2023	Sept. 30, 2023	June 30, 2023	Mar 31, 2023	Dec 31, 2022	Sept. 30, 2022	June 30, 2022	Mar 31, 2022
Adjusted Licensing Revenue*	311,572	38,571	250,095	416,972	322,699	174,835	138,111	76,723

**Licensing Revenue has been adjusted to reflect licensing revenues, net of actual bad debts recognized in subsequent periods that would relate to the previous period's income.*

For the three-month period ended December 31, 2023, Adjusted Licensing Revenue ("**DehydraTECH Revenues**"), decreased 3% to $311,572 compared to $322,699 for the three-month period ended December 31, 2022. The decrease in DehydraTECH revenues vs. year ago was due to lower production quantities among Hill's sublicensees, as the year ago quarter included ramp up production quantities for several new brand launches across multiple states.

COST OF SALES

Consolidated cost of sales were $450,582 or 31% of gross revenue for the six-month period ended December 31, 2023, compared to $851,253 or 39% of gross revenue, for the six-month period ended December 31, 2022. The decrease in cost of sales is mainly the result of a significant decrease in shipping costs for the six-month period ended December 31, 2023.

OPERATING EXPENSES

Ordinary operating expenses include selling, delivery and marketing expenses, employee expenses, interest, insurance, professional fees, and other general and administrative expenses. For the six-month period ended December 31, 2023, operating expenses were 27% lower at $1,408,862, compared to $1,937,155 for the six-month period ended December 31, 2022. This decrease is mainly due to significant reductions in professional fees, corporate overhead and expenses related to the Lucknow facility lease (which terminated in early 2023).

OPERATING EXPENSES - NON-CASH

For the six-month period ended December 31, 2023, the Company incurred non-cash expenses totaling $472,981 which includes expenses related to the vesting of restricted share units, bad debt, depreciation, and accrued interest. For the six-month period ended December 31, 2022, the Company incurred non-cash expenses of $496,256. The decrease is mainly due to lower stock-based compensation and depreciation.

OTHER (EXPENSES)

For the six-month period ended December 31, 2023, the Company recognized other expenses totaling $11,637. This includes a foreign exchange loss of $10,665 and other expenses of $972. For the six-month period ended December 31, 2022, the Company recognized other expenses totaling $3,963. This includes a foreign exchange loss of $8,287, partially offset by recognition of other income of $4,324.

NET EARNINGS

The Company improved its net earnings by 23%, recording a net loss of $662,251 for the six-month period ended December 31, 2023, compared to a loss of $860,888 for the six-month period ended December 31, 2022. The improvement in net earnings was driven largely by a 27% decrease in operating expenses due to a reduction of office and miscellaneous, professional fees, marketing, insurance and selling and delivery.

The basic and diluted loss per share for the six-month period ended December 31, 2023 was $0.20 per share, compared to $0.29 for the six-month period ended December 31, 2022, a 31% improvement.

SECOND QUARTER FY 2024 RESULTS OF OPERATIONS

For the Three-Month Period Ended	Dec. 31, 2023	Dec. 31, 2022	Dec. 31, 2021
	$	$	$
Gross Revenue	1,239,884	1,826,912	576,622
Chargebacks & listing fees	(257,111)	(249,079)	(67,885)
Net Revenue	982,773	1,577,833	508,737
Cost of sales	(445,555)	(738,156)	(252,280)
Gross profit	537,218	839,677	256,457
Expenses			
Accretion expense	-	3,277	2,623
Bad debt expense	163,714	500	-
Bank charges and interest	363	4,312	2,613
Consulting fees	49,901	-	19,100
Depreciation	67,043	80,499	89,069
Donations, dues & licenses	-	-	(829)
Filing and transfer agent fees	8,398	11,900	13,352
Insurance	20,403	75,591	39,952
Interest on promissory note	63,496	62,655	49,466
Management fees	10,705	27,750	60,890
Marketing	317	26,322	54,231
Office and miscellaneous	28,877	53,102	30,440
Professional fees	23,093	115,989	150,322
Stock-based compensation	19,531	53,097	45,057
Travel and meal allowance	5,487	20,780	9,089
Wages and salaries	267,663	264,707	319,249
Selling and delivery	126,802	230,257	97,605

	855,793	1,030,738	982,229
Loss before other income (expenses)	(318,575)	(191,061)	(725,772)
Other income (expenses)			
Foreign exchange (loss) gain	(15,738)	(26,583)	7,872
Loss on settlement of liability	-	-	(2,933)
Gain on fair value of consideration	-	-	20,945
Write-off of inventory	-	-	(2,522)
Other income	-	2,627	2,934
	(15,738)	(23,956)	26,296
Net loss and comprehensive loss	(334,313)	(215,017)	(699,476)

REVENUES

Net revenues for the three-month period ended December 31, 2023, were $982,773 compared to $1,577,833 for the same period a year ago. This 38% decrease vs. prior year was primarily driven by differing timing of production orders and revenue shifts associated with the transformed, more efficient alcohol-free business model. Sales revenues to our distributor are now spread further apart with less frequent, but significant volume per order, as we work to optimize the timing and efficiency of our supply chain. Our improved forecasting and inventory efficiency planning, as we've executed the model, resulted in needing less significant inventory build-up for this winter season.

COST OF SALES

Consolidated cost of sales were $445,555 or 36% of gross revenue for the three-month period ended December 31, 2023, compared to $738,156 or 40% of gross revenue, for the three-month period ended December 31, 2022. The decrease in cost of sales is mainly the result of a significant decrease in shipping costs for the three-month period ended December 31, 2023.

OPERATING EXPENSES

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 December 31, 2023, operating expenses were 17% lower at $855,793, compared to $1,030,738 for the three -month period ended December 31, 2022. This decrease is mainly due to significant reductions in professional fees, corporate overhead and expenses related to the Lucknow facility lease (which terminated in early 2023).

OPERATING EXPENSES – ONE TIME

During the three-month period ended December 31, 2023, the Company wrote off $163,714 of bad debt, compared to $500 for the three-month period ended December 31, 2022, as the result of a customer amount owing being deemed uncollectible.

OPERATING EXPENSES - NON-CASH

For the three-month period ended December 31, 2023, the Company incurred non-cash expenses totaling $313,784 which includes expenses related to the vesting of restricted share units, bad debt, depreciation, and accrued interest. For the three-month period ended December 31, 2022, the Company incurred non-cash expenses of $201,737. The increase is mainly due to bad debt expense.

OTHER (EXPENSES) INCOME

For the three-month period ended December 31, 2023, the Company recognized other expenses totaling $15,738. This solely includes a foreign exchange loss of $15,738. For the three-month period ended December 31, 2022, the Company recognized other expenses totaling $23,956. This includes a foreign exchange loss of $26,583, partially offset by recognition of other income of $2,627.

NET EARNINGS

The Company recorded a net loss of $334,313 for the three months ended December 31, 2023, compared to a net loss of $215,017 for the same period in 2022. The increase in net loss was driven by lower revenue levels and increased bad debt, however, partially offset by a reduction in corporate overhead.

The basic and diluted loss per share for the three months ended December 31, 2023, was $0.10 per share, compared to $0.07 for the three months ended December 31, 2022.

SELECTED QUARTERLY INFORMATION

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

	Dec. 31, 2023	Sept. 30, 2023	June 30, 2023	Mar 31, 2023	Dec 31, 2022	Sept. 30, 2022	June 30, 2022	Mar 31, 2022
Gross Revenue	$1,239,884	$226,057	$608,095	$468,297	$1,826,912	$380,502	$1,434,354	$988,549
Net Revenue	$982,773	$226.,057	$484,028	$468,297	$1,577,833	$353,650	$1,217,904	$880,943
Cost of sales	$445,555	$5,027	$169,487	$14,877	$738,156	$113,097	$746,451	$406,183
Gross Profit	$537,218	$221,030	$314,541	$453,420	$839,677	$240,553	$471,453	$474,760
Net Loss	$334,313	$327,938	$983,019	$263,295	$215,017	$645,871	$845,206	$433,693
Total Assets	$3,882,180	$4,042,167	$4,495,982	$5,180,124	$5,806,265	$5,434,740	$6,157,841	$6,504,174
Total Liabilities	$2,860,811	$2,706,016	$2,861,811	$2,720,838	$3,126,245	$3,287,575	$3,401,537	$3,225,247
Shareholder Equity	$1,021,369	$1,336,151	$1,634,171	$2,459,286	$2,680,020	$2,147,165	$2,756,304	$3,278,927

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 beverage business requires significant periodic investments in finished goods production orders that are not necessary in the DehydraTECH licensing business. As discussed, we have dramatically reduced the order-to-cash cycle and the level of working capital on this business.

Additional investments are being made to support the Company's DehydraTECH licensing business to monetize the DehydraTECH intellectual property rights and, if and when the Company considers appropriate, invest in product R&D and concept development on cannabis-infused edible products utilizing our patented DehydraTECH technology as the backbone.

WORKING CAPITAL

As of December 31, 2023, the Company had a positive working capital of $884,568 compared to a positive working capital of $1,225,533 at June 30, 2023.

Balances for the Period Ended	Dec. 31, 2023	June 30, 2023
Cash and cash equivalents	$765,476	$1,195,415
Accounts receivable	$403,777	$515,955
Total Cash + Accounts receivable	$1,169,253	$1,711,370

CONTRACTUAL OBLIGATIONS

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

Contractual Obligations	Payments due in:				Total
	1 year	2-3 years	4-5 years	Over 5 years	
Accounts payable and accrued liabilities	$228,302	-	-	-	$228,302
CEBA loan	$60,000	-	-	-	$60,000
Note payable	$73,559	$284,339	$409,209	$1,805,402	$2,572,509
Total	$361,861	$284,339	$409,209	$1,805,402	$2,860,811

SHARE CAPITAL

The Company is authorized to issue an unlimited number of Common Shares of which 3,244,403 Common Shares are issued and outstanding as of the date hereof.

No Common Shares, stock options or RSU's were issued during the six-month period ended December 31, 2023.

CAPITAL RESOURCES

As of December 31, 2023, the Company did not have commitments for capital expenditures.

OFF-BALANCE SHEET ARRANGEMENTS

The Company 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 six-month period ended December 31,	**2023**	**2022**
Total salaries, benefits and management fees	$375,111	$330,917
Stock-based compensation	$49,449	$92,476
Management and director compensation	$424,560	$423,393

Included in accounts payable and accrued liabilities as at December 31, 2023 is $49,419 (June 30, 2023: $76,236) payable to directors and officers of the Company for officer wages, including vacation payable. 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 fiscal year 2023 in transforming our alcohol-free beverage operating model for Vin(Zero). The changes have fundamentally shifted the cadence of Hill'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 spring of 2024, the Company is ready to continue to scale these playbooks into new territories and new consumer products as it pursues its growth agenda.

OUTSTANDING SHARE DATA

As of February 29, 2024, the Company has the following securities issued and outstanding:

Security Designation	Number issued and outstanding
Common Shares	3,282,812
Warrants to purchase Common Shares	800,646
Incentive Stock Options	186,579
Restricted Share Units	154,815
Fully Diluted	**4,424,852**

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 December 31, 2023, the Company had not yet achieved profitable operations, had a net loss of $662,251 (December 31, 2022: $860,888), accumulated deficit of $24,993,024 (June 30, 2023: $24,330,773), 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.