

HILL STREET BEVERAGE COMPANY INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE THREE AND NINE MONTH PERIOD ENDING MARCH 31, 2020

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, 2020 in comparison with the three and nine months ended March 31, 2019. These comments should be read in conjunction with the audited financial statements for the years ended June 30, 2019 and June 30, 2018 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 29, 2020. 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 of May 29, 2020 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 29, 2020 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

The Company presently has one business segment, the marketing and distribution of alcoholic free beer and wine in Canada and, to a much lesser extent, the United States. Hill Street sells its products online and in thousands of branded retail chain stores through licensed distributors in Canada. It also provides direct to consumer sales and a monthly subscription service at www.hillstreetbeverages.com. In addition, the Company is focusing on expanding its business segments to include Cannabis products including ingredients and infused beverages in 2020.

Q3 HIGHLIGHTS

Overall, for the nine months ended March 31, 2020, the Company reports a year-to-date increase in sales in the same period of 3%. Hill Street reports growth, despite seasonally reduced revenues for the third quarter of the year. During the three months ended March 31, 2020, gross revenues declined 17% year over year. Strong sales in the second quarter, driven by sales of the Entertainer's Pack and increased buying by major retailers for the holiday season, contributed to reduced demand in the third quarter, as retailers sold through existing inventories of products ordered during Q2.

Consumers are both seeking alternatives to alcohol on an increasing basis, as well as responding to the growing trend of forgoing alcohol for both Dry January and Dry February. The third quarter has in the past had a strong push to drive sales with both "Dry January" and "Dry February" initiatives, which the Company took advantage of last year with its highly successful "Hill Street Challenge" Promotion. This year, given the broad declines in capital resources available to early stage publicly traded cannabis companies, the Company opted not to renew the media investment in the "Hill Street Challenge" and instead has focused on preparations for its production facilities to launch cannabis products.

IMPACT OF COVID-19

Hill Street's third quarter was on track to generate an expected increase in revenues. However, Hill Street's strong dependence on grocery chain distribution was impacted by the global pandemic in March 2020, resulting in a year over year decline in monthly revenues of 32%. COVID-19, the international pandemic crisis and the Canadian government's reaction to the crisis has resulted in a deep restriction in grocery access across the majority of the country.

During this unprecedented event, grocery stores report unusual activity and buying behaviours. While certain merchandise continues to be coveted, the average dwell time in the aisles has been significantly reduced. Alcohol-free beverages are a product that would be subject to natural discovery during a shopping experience during normal times and not recognized as a go-to pantry staple in this time of crisis.

Challenges in both supply chains and retail distribution for alcohol free beer and wine, due to the shutdown of the economy, are impacting the Company's expectations for alcohol-free sales for the fourth quarter. With the global pandemic now having a profound effect on both business activities and consumer behaviour, the Company is anticipating certain declines in revenues from alcohol free products for the remainder of the year.

As a byproduct of the COVID-19 pandemic, sales in ecommerce have increased significantly including generating record single-day sales in the month of March. Further, social media activity and consumer sentiment towards the Company's brands has trended higher with increased positive reviews and mentions from social media influencers. While the online segment is a fraction of the company's retail business, it is a much higher margin business segment when consumers order a case of six bottles of wine or more. Average order sizes in March have increased 40% month over month, providing improved margins and cashflow for the Company in this small segment. As a result of this trend, the Company launched a "Stay Home. Stay Safe" promotion, providing online consumers with a 15% discount and free shipping for orders over \$30. Eliminating expensive shipping as the perceived barrier to purchase, has resulted in the average order growing to nearly \$140.

The Company continues to monitor the situation closely and has been focusing on driving growth in ecommerce sales especially via social media and to US consumers, in order to continue to sell through existing inventory. In the third quarter US online sales delivered an increase of 63% over the same period in FY19, while driving increased margins because of products priced at par.

INNOVATIVE PRODUCTS AND ADDRESSABLE MARKETS

Product Innovation

Hill Street continues to develop a market-ready plan to bring its portfolio of cannabis infusion ingredients and cannabis infused products to market in an expedited manner. In the quarter, the Company secured a lease on an approximately 2,000 square foot facility, strategically located near Pearson Airport in Mississauga, Ontario. The Company has begun preparations and planning to have the facility licensed for cannabis processing and sales. This facility will be used by the Joint Manufacturing Partnership (JMP) the Company formed with Lexaria Biosciences in July 2019. It will also serve as a warehouse for cannabis infused products including beverages and the powder-based products produced by the JMP.

The Company continues to work towards securing the required partnerships to begin co-packing and production of its portfolio of cannabis infused products. In addition, the Company is meeting with provincial regulators and potential retail customers. The Company is also analyzing improvements in technologies available to the Company to produce its planned products.

Addressable Market

By analyzing the market data available for both the alcohol-free and cannabis beverage marketplaces, the company is able to inform its strategy from sell through rates and shelf SKU expansion with new and existing retail customers. By understanding purchasing patterns, purchase intent, age demographics and more, the chance of a successful product launch increases.

Similarly, understanding consumer consumption patterns of existing alcohol-free products allows the company to make well-considered investments in expanding current distribution. By using these data points, Hill Street continues to formulate strategies to capitalize on the addressable market. In the third quarter Hill Street increased its listings at a major retailer. The total addressable market consists of many channels of distribution which the company not only plans to invest and compete within but become a leader within the space.

MARKETING

In late January, the Company anticipated a sales decline for the quarter therefore a decision was taken to focus marketing efforts on building the Company's online presence. The objective was to drive more organic social media interactions, steward influencers and to facilitate genuine customer reviews.

The choice was taken to not invest heavily in traditional marketing activities during the period as these channels would have a low expectation of a reasonable return on investment.

Scheduled attendance at cannabis tradeshow was cancelled, which would have comprised a good portion of marketing activity for the period. Hill Street's Chief Sales and Marketing Officer participated in an industry expert panel on edibles with Business of Cannabis in February which was well attended by advocates as well as representatives from the Ontario Cannabis Store.

SOCIAL RESPONSIBILITY

Hill Street continues to utilize the media partnerships and charitable relationships established to increase awareness and product differentiation strategies. Traditionally, charitable donations would be dedicated to the health research partnerships that have been long held. In Q4, these commitments will be redirected to Sunnybrook Research Institute, an organization that has been mobilizing to conduct significant research related to the Novel Coronavirus. This collaborative effort by Toronto research teams has been credited with discovering

some compelling data to help fight the virus. Hill Street is desirous of contributing to community-based initiatives that can contribute to counteracting the virus and its spread.

RESULTS OF OPERATIONS

The following table summarizes certain financial information of the Company for the three and nine months ended March 31, 2020 and March 31, 2019.

Results for the Period Ended	Quarter Ended March 31, 2020	Quarter Ended March 31, 2019	Nine Months Ended March 31, 2020	Nine Months Ended March 31, 2019
Gross Revenue	\$502,997	\$603,854	\$1,990,473	\$1,925,373
Chargebacks, finance fees, and listing fees	-\$114,461	-\$175,499	-\$583,222	-\$590,073
Net Revenue	\$388,536	\$428,355	\$1,407,251	\$1,335,300
Direct Costs	-\$226,366	-\$219,736	-\$773,630	-\$684,180
Gross profit	\$162,170	\$208,619	\$633,621	\$651,120
Operating Expenses (excl. One-time & Non-Cash)	\$421,347	\$935,378	\$1,841,540	\$2,980,045
Other One-time Expenses	\$238,843	\$138,679	\$1,350,886	\$661,142
Non-Cash Expenses	\$312,497	\$217,278	\$635,058	\$701,057
Loss before other Income (Expense)	-\$810,517	-\$1,082,716	-\$3,193,863	-\$3,691,124
Other income (Expenses)				
Public Company Listing Fee	-	-	-	-\$918,345
Foreign exchange gain (loss)	\$14,092	\$1,505	\$335	-\$14,550
Write-off of inventory	-	\$5,387	-\$23,466	-\$62,069
Write-off of intangibles	-	-	-\$8,000	-
Other Income	-	\$1,541	-	\$34,389
Loss and comprehensive loss for the period	-\$796,425	-\$1,074,283	-\$3,224,994	-\$4,651,699
Basic and diluted loss per common share	-\$0.01	-\$0.01	-\$0.03	-\$0.06
Weighted average number of common shares outstanding	110,475,579	87,117,594	102,033,744	79,749,078

REVENUES

During the three months ended March 31, 2020, gross revenues were \$502,997 compared to \$603,854 for the three months ended March 31, 2019; representing a decline of 17% driven by the timing of revenue recognized, where some orders for two main distributors were pulled into Q2 impacting Q3. For the nine months ended March 31, 2020 gross revenues were \$1,990,473 compared to \$1,925,373 for the nine months ended March 31, 2019 representing growth of 3% over last year driven by a strong second quarter.

For the three months ended March 31, 2020, chargebacks and listing fees (fees charged by retailers and distributors for program money and discounts) represented 23% of gross revenues. For the three months ended

March 31, 2019 chargebacks and listing fees represented 29% of gross revenue. The 6% decline is driven by expenses incurred for retailer fines and private label freight in the same quarter last year but were not incurred in the quarter ended March 31, 2020. For the nine months ended March 31, 2020 chargebacks and listing fees represented 29% of gross revenues compared to 30% for the nine months ended March 31, 2019.

Net revenues for the three months ended March 31, 2019 were \$388,536 compared to \$428,355 in the same period a year ago, representing a decrease of 9%. Net revenues are calculated by deducting from gross revenues the costs of chargebacks and listing fees paid to retailers to have product available for sale in such retail establishments. The increase in net revenues is attributable to the increase in gross revenue. Net revenues for the nine months ended March 31, 2019 were \$1,407,251 compared to \$1,335,300 in the nine months ended March 31, 2019, representing a decrease of approximately 5%.

COST OF SALES/DIRECT COSTS

Direct costs were \$226,366 for the three months ended March 31, 2020 compared to \$219,736 for the three months ended March 31, 2019. Direct costs represented 45% of gross revenue in the quarter compared to 38% in the same quarter in 2019, the increase was driven by sales of near expiry product to a liquidator. For the nine months ended March 31, 2020 direct costs represented 36% of gross revenue compared to 39% for the nine months ended March 31, 2020.

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

Operating expenses include selling & marketing expenses, employee expenses, donations, dues and licenses, professional fees and other general and administrative expenses. For the three months ended March 31, 2020, operating expenses totaled \$421,347 compared to \$935,378 for the three months ended March 31, 2019, representing a decline of \$514,031 or 55% driven primarily by the lower marketing spend for the quarter. The higher marketing expense in the same quarter last year was due to the cost associated with the Hill Street Challenge marketing campaign. For the nine months ended March 31, 2020 operating expenses totaled \$1,841,540 compared to \$2,980,045, representing a decline of 38% driven largely by reduced marketing expense.

ONE TIME OPERATING EXPENSES

In addition to ordinary operating expenses, the Company incurred a number of one-time expenses. For the three months ended March 31, 2020, one-time expenses totaled \$238,843 relating to severance payments to former executives, investor relations and the expense of warrants issued in exchange for marketing services. For the three months ended March 31, 2019 one-time expenses totaled \$138,679 relating to M&A and cannabis investment. For the nine months ended March 31, 2020 one-time expenses totaled \$1,350,886 relating to M&A, investor relations, capital raise, cannabis investment, finder's fees, severance and warrants issued in exchange for marketing services. For the nine months ended March 31, 2019 one-time expenses totaled \$661,142 relating to investor relations, M&A, cannabis investment, RTO and a one-time fee to list on the stock exchange.

NON-CASH EXPENSES

For the three ended March 31, 2020 the Company incurred non-cash expenses totaling \$ 312,497 compared to \$217,278 for the three months ended March 31, 2019. For the nine months ended March 31, 2019 the Company incurred non-cash expenses totaling \$635,058 compared to \$701,057 for the nine months ended March 31, 2019. The non-cash expenses related to stock options, depreciation, severance issued as share capital and warrants issued in exchange for marketing services.

In the nine months ended March 31, 2019 the Company also incurred the non-cash cost one-time cost of listing the Company on the stock exchange of \$918,345.

NET EARNINGS

The Company recorded a net loss of \$796,425 for the three months ended March 31, 2020, compared to a loss of \$1,074,283 for the three months ended March 31, 2019. The improvement is driven by the lower cost of the stock options expense and the marketing spend. For the nine months ended March 31, 2020 the Company recorded a net loss of \$3,224,994 compared to a loss of 4,651,699 for the nine months ended March 31, 2019. The improvement is driven largely by the cost of listing the Company on the stock exchange of \$918,345 incurred in the three and nine ended March 31, 2019.

SELECTED QUARTERLY INFORMATION

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

	Mar 31, 2020	Dec 31, 2019	Sep 30, 2019	June 30, 2019	Mar 31, 2019	Dec 31, 2019	Sep 30, 2019	June 30, 2019
Gross Revenue	\$502,997	\$973,710	\$513,766	\$506,721	\$603,854	\$527,652	\$793,867	\$174,796
Net Revenue	\$388,536	\$689,276	\$329,439	-\$55,100	\$428,355	\$395,356	\$511,589	\$94,550
Direct Costs	\$226,366	\$395,228	\$152,036	\$164,193	\$219,736	\$169,569	\$294,875	\$199,693
Gross Profit	\$162,710	\$294,048	\$177,403	\$219,293	\$208,619	\$225,787	\$216,714	-\$105,143
Net Loss (-gain)	\$796,425	\$882,658	\$1,509,913	-\$6,711,371	\$1,074,283	\$1,443,020	\$2,134,396	\$1,402,174
Total Assets	\$1,594,737	\$2,225,062	\$1,908,157	\$3,004,909	\$2,216,288	\$2,997,226	\$4,506,261	\$2,845,751
Total Liabilities	\$1,242,007	\$1,198,761	\$882,662	\$627,141	\$829,799	\$743,463	\$1,069,283	\$1,387,534
Shareholder Equity	\$352,730	\$1,026,301	\$1,025,495	\$2,377,768	\$1,386,489	\$2,253,763	\$3,436,978	\$1,458,217

LIQUIDITY AND CAPITAL RESOURCES

FINANCIAL POSITION

The Corporation's principal capital needs are for operating expenses related to employee, professional fees and warehouse and selling expenses. 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 will continue to focus on cost management and revenue growth. In addition, subsequent to the quarter ended March 31, 2020, the Company closed a non-brokered private placement financing of units for gross proceeds of \$1,022,500 at a price of \$1.00 per Unit. Each Unit is comprised of \$1.00 principal amount of secured convertible debentures ("Convertible Debentures") and 20 common share purchase warrants (each whole warrant a "Warrant").

WORKING CAPITAL

Working capital represents current assets less current liabilities. As of March 31, 2020, the Company had a negative working capital of (\$56,882) compared to a positive working capital of \$1,880,164 as at March 31, 2019.

CASH FLOWS

For the nine months ended March 31, 2020, Hill Street generated negative cash flows from operations of \$1,772,163 compared to negative cash flow of \$4,319,254 for the nine months ended March 31, 2019. The amount of cash (used) in investing activities for the nine months ended March 31, 2020 was (\$385) compared to \$108,582 for the nine months ended March 31, 2019. The amount of cash provided by financing activities for the nine months ended March 31, 2020 was \$862,027 compared to \$2,542,596 for the nine months ended March 31, 2019.

CONTRACTUAL OBLIGATIONS

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

Contractual Obligations	Payments due by Period					Total
	FY2020	FY2021	FY2022	FY2023	FY2024	
Contractual Royalty Obligations	\$14,000	\$77,000	\$77,000	\$77,000	\$77,000	\$322,000
Operating Leases	\$7,500	\$30,164	\$30,656	\$20,656		\$88,976
Purchase Obligations	\$25,000	\$130,667	\$66,750	\$0	\$0	\$222,417
Other Debt Obligations	\$0	\$0	\$0	\$0	\$0	\$0
<i>Total</i>	\$46,500	\$237,831	\$174,406	\$97,656	\$77,000	\$633,393

SHARE CAPITAL

The Company is authorized to issue an unlimited number of Common Shares of which 110,475,579 Common Shares are issued and outstanding as of the date hereof.

CAPITAL RESOURCES

As of March 31, 2020, 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 nine month period ended March 31,	2019	2019
Management Salaries & Stock Option Compensation	841,394	992,048

Included in accounts payable as at March 31, 2019 is \$333,651 payable to Directors and Officers of the Company for expense reimbursement, management compensation and board fees. The amount is non-interest bearing, unsecured and due on demand.

LEGAL PROCEEDINGS

There are no legal proceedings material to Hill Street to which Hill Street is a party to or of which any of its property is the subject matter, and there are no such proceedings known to Hill Street to be contemplated.

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.