

Hill Street Beverage Company Inc.

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Hill Street makes big bet on cannabis-infused drinks

- Toronto-based company makes alcohol-free beer and wine
- Seeks to expand into potentially lucrative cannabis-infused beverages
- Hill Street in agreement to pay C\$16 million for cannabis grower OneLeaf Cannabis Corp

Hill Street Beverage Co. (CVE:BEER) is a Canadian company that makes alcohol-free beer and wine as well adult-format beverages.

Thee company offers red, white, sparkling, and rose wines under the Vin(Zero) and Vintense brands. It sells beer under the Hill Street Craft, Designated Draft and MADD virgin craft brand names.

Hill Street's beer and wine lineup have won numerous medals and accolades in North America, including three Gold, two Silver, and two Bronze Medals at the U.S. Open Beer Championships, the Retail Council of Canada's Grand Prix award, and a prestigious Double Gold Medal at the San Francisco International Wine Challenge.

CEO Terry Donnelly said about 90% of the company's revenue comes from wine sales, even though ironically its stock ticker symbol is BEER. He also says its products can be found in about 4,000 grocery and retail stores in Canada and the US as well as through its website.

But Toronto-based Hill Street sees big growth opportunities beyond non-alcoholic wine and beer. The 14-year-old company wants to expand its business model to include the production and the sale of potentially lucrative cannabis-infused beverages -- and it is willing to pay big bucks to get a foothold.

Inflection Points

The Canadian government is expected to legalize cannabis edibles, including infused drinks for adults, by October 17 -- a year after the country legalized medical and recreational marijuana.

And High Street has laid the groundwork to start cashing in once the government gives the greenlight on cannabis edibles and beverages.

In late May, the company announced it is set to pay C\$16 million for Saskatchewan-based OneLeaf Cannabis Corp as well its assets and debt. But what High Street really wants is OneLeaf's 4,478 square-metre, indoor-growing facility near Regina.

In addition to cultivating cannabis, the production plant is built to European Union standards and will house Hill Street's bottling, canning and infusing lines.

"We needed to find a licensed producer to produce our future cannabis-infused beverages, in order to address the impact of Health Canada's edible regulations," Donnelly said. "Combined with our continued brand-building activities and media partnerships, we're optimistic about expanding our award-winning non-alcoholic beverages to become award-

Price: C\$0.21

Market Cap: C\$20.11M

1 Year Share Price Graph



Share Information

Code: BEER

Listing: TSX-V

52 week High Low
C\$0.51 C\$0.16

Sector: Food & Beverages

Website: www.hillstreetbeverages.com

Company Synopsis:

We believe in supporting folks who suffer from conditions that conflict with alcohol consumption, along with friends who simply have no interest in boozing (yes, we know you're out there). Today there are over 400 medications that come with a bright yellow 'DO NOT TAKE WITH ALCOHOL' warning, and when those little pills are the only things keeping you around, you tend to listen.

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winning cannabis-infused beverages."

The TrueLeaf acquisition isn't a done deal, however. Hill Street is proposing a non-brokered private placement of units to raise up to C\$5 Million, at a price of C\$0.20 per unit.

Donnelly has said that he hopes their cannabis-infused products will be on the shelves by February 2020 -- but that depends on how the Canadian government rolls out edible legalization.

Currently, Hill Street and other companies in the edible space have no idea what the final regulations will be nor do they know if the government will allow sales to commence immediately following legalization or will delay sales months later. "It takes months to build a bottling line," Donnelly said.

In the meantime as it prepares for edible legalization, the company has co-founded the Cannabis Beverage Producers Alliance, a not-for-profit industry coalition to address Canada's edible regulations. And the company has started shipping its alcohol-free drinks to Quebec.

Outlook

According to Hill Street's fiscal third-quarter results released in late May, the company had gross revenue of C\$603,854, a 66% increase year-over-year, and net revenue of C\$428,355, a 73% increase year-over-year.

The company as of March 31 had working capital of \$1.2 million and a cash position of \$442,970. And no debt. However, Hill Street saw a net loss of \$1.1 million, compared to a net loss of C\$600,000 in the prior-year quarter.

"Hill Street's third quarter was largely focused on the expansion and marketing of the alcohol-free product line, coupled with preparations, analysis, and planning for the launch of cannabis-infused beverages upon legalization," Donnelly said.

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