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**THE TINLEY BEVERAGE COMPANY INC.**

**Unaudited Interim Condensed Consolidated Financial Statements**

**(Expressed in Canadian Dollars)**

**For the nine months ended  
September 30, 2017 and 2016**

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## **MANAGEMENT’S RESPONSIBILITY FOR FINANCIAL REPORTING**

The accompanying unaudited interim condensed consolidated financial statements of The Tinley Beverage Company Inc. are the responsibility of the management and Board of Directors of the Company.

The unaudited interim condensed consolidated financial statements have been prepared by management, on behalf of the Board of Directors, in accordance with the accounting policies disclosed in the notes to the consolidated financial statements. Where necessary, management has made informed judgments and estimates in accounting for transactions which were not complete at the date of the statement of financial position. In the opinion of management, the consolidated financial statements have been prepared within acceptable limits of materiality and are in accordance with International Financial Reporting Standards using accounting policies consistent with International Financial Reporting Standards appropriate in the circumstances.

Management has established systems of internal control over the financial reporting process, which are designed to provide reasonable assurance that relevant and reliable financial information is produced.

The Board of Directors is responsible for reviewing and approving the consolidated financial statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities. An Audit Committee assists the Board of Directors in fulfilling this responsibility. The Audit Committee meets with management to review the financial reporting process and the unaudited interim condensed consolidated financial statements together with other financial information of the Company. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the unaudited interim condensed consolidated financial statements together with other financial information of the Company for issuance to the shareholders.

Management recognizes its responsibility for conducting the Company’s affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

” Jeffrey Maser”, CEO  
Jeffrey Maser

“Amy Stephenson”, Interim CFO  
Amy Stephenson

## **NOTICE TO READER**

The accompanying unaudited interim condensed consolidated financial statements of the Company have been prepared by and are the responsibility of management. The unaudited interim condensed consolidated financial statements for the nine months ended September 30, 2017 and 2016 have not been reviewed by the Company’s auditors.

**The Tinley Beverage Company Inc.**

## Unaudited Interim Condensed Consolidated Statements of Financial Position

(Expressed in Canadian Dollars)

As at,

	Notes	September 30, 2017	(Audited) December 31, 2016
		\$	\$
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents	4	3,324,435	3,986,443
Accounts receivable		73,534	32,820
Capital assets		12,480	-
Prepaid expenses		51,536	41,359
Inventory	5	37,378	14,779
		<u>3,499,363</u>	<u>4,075,401</u>
Investments	4	513,990	-
Intangible assets	3	162,500	162,500
		<u>4,175,853</u>	<u>4,237,901</u>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Trade and other payables	6	130,146	189,787
		<u>130,146</u>	<u>189,787</u>
<b>Shareholders' Equity</b>			
Share capital	7	21,789,520	20,009,123
Shares to be issued		150,000	150,000
Reserve for share based payments	8	1,926,869	1,715,294
Reserve for warrants	9	6,070,957	6,765,962
Reserve for foreign exchange losses		(23,516)	(13,041)
Accumulated deficit		(25,868,123)	(24,579,224)
		<u>4,045,707</u>	<u>4,048,114</u>
		<u>4,175,853</u>	<u>4,237,901</u>
Going concern	2.2		

Approved on behalf of the Board of Directors on November 28, 2017:

"Jeffrey Maser" (signed)

CEO and Director

"David Ellison" (signed)

Director*The accompanying notes are an integral part of these consolidated financial statements*

**The Tinley Beverage Company Inc.**

Unaudited Interim Condensed Consolidated Statements of Loss and Comprehensive Loss

(Expressed in Canadian Dollars)

For the three and nine months periods ended September 30, 2017 and 2016

		Three months ended September 30,		Nine months ended September 30,	
	Notes	2017	2016	2017	2016
		\$	\$	\$	\$
<b>Sales (net)</b>		<b>16,271</b>	6,892	<b>66,551</b>	6,892
Cost of goods sold		<b>(8,986)</b>	(4,586)	<b>(47,704)</b>	(4,586)
<b>Gross profit</b>		<b>7,285</b>	2,306	<b>18,847</b>	2,306
<b>Expenses</b>					
Sales and marketing		<b>228,432</b>	49,746	<b>660,622</b>	150,352
Finance and administration		<b>155,185</b>	70,245	<b>411,588</b>	399,646
Operations		-	48,000	-	78,000
Product development		<b>23,422</b>	52,836	<b>35,343</b>	155,357
Share based payments - options	8	<b>100,602</b>	36,554	<b>221,062</b>	124,639
Share based payments - shares		-	3,125	-	7,292
Foreign exchange (gain) loss		<b>(30,838)</b>	(2,366)	<b>(13,797)</b>	(27,531)
		<b>(469,518)</b>	(255,834)	<b>(1,295,971)</b>	(885,449)
Gain on forgiveness of debt		-	-	-	538
Other income		<b>1,378</b>	-	<b>2,780</b>	-
<b>Net income (loss)</b>		<b>(468,140)</b>	(255,834)	<b>(1,293,191)</b>	(884,911)
<b>Other comprehensive loss</b>					
Unrealized gain or loss on investment	4	<b>4,292</b>	-	<b>4,292</b>	-
Exchange differences on translating foreign operations		<b>(2,384)</b>	(1,684)	<b>(10,475)</b>	(34,601)
<b>Net loss and comprehensive loss</b>		<b>(466,232)</b>	(257,518)	<b>(1,299,374)</b>	(919,512)
<b>Loss per share-basic and diluted</b>					
Loss per share – net loss		<b>(0.006)</b>	(0.006)	<b>(0.018)</b>	(0.021)
<b>Weighted average number of shares outstanding</b>		<b>72,963,707</b>	42,606,313	<b>70,587,482</b>	42,417,915

*The accompanying notes are an integral part of these consolidated financial statements*

**The Tinley Beverage Company Inc.**

Unaudited Interim Condensed Consolidated Statements of Changes in Shareholders' Equity

(Expressed in Canadian Dollars)

For the nine months period ended September 30, 2016 and 2017

	Notes	Share Capital			Reserves			Total	
		Number of shares	Amount	shares to be issued	Share based payments	Warrants	Foreign Exchange		Deficit
<b>Balance at December 31, 2015</b>		<b>42,310,480</b>	<b>\$ 16,251,633</b>	<b>\$ 150,000</b>	<b>\$ 1,500,935</b>	<b>\$ 5,633,110</b>	<b>\$ (20,676)</b>	<b>\$ (22,250,637)</b>	<b>\$ 1,264,365</b>
Shares issued pursuant to agreement		150,000	\$ 9,000	-	-	-	-	-	9,000
Share based payment	8	-	-	-	124,639	-	-	-	124,639
Contingent shares issued		145,833	7,292	-	-	-	-	-	7,292
Contingent shares escrowed		-	150,000	(150,000)	-	-	-	-	-
Exchange loss on translating foreign operation		-	-	-	-	-	(34,601)	-	(34,601)
Net loss for the period		-	-	-	-	-	-	(884,911)	(884,911)
<b>Balance at September 30, 2016</b>		<b>42,606,313</b>	<b>16,417,925</b>	<b>-</b>	<b>1,625,574</b>	<b>5,633,110</b>	<b>(55,277)</b>	<b>(23,135,548)</b>	<b>485,784</b>
Share based payments	8	-	-	-	144,417	788,030	-	-	932,447
Private placement	7b(iii)	16,176,470	1,972,556	-	-	777,445	-	-	2,750,001
Share issued on exercise of warrants	9	8,538,104	1,852,744	-	-	(432,623)	-	-	1,420,121
Share issued on exercise of options	8	1,153,999	177,887	-	(54,697)	-	-	-	123,190
Share issue cost		-	(261,989)	-	-	-	-	-	(261,989)
Contigent shares escrowed		-	(150,000)	150,000	-	-	-	-	-
Exchange loss on translating foreign operation		-	-	-	-	-	42,236	-	42,236
Net loss for the year		-	-	-	-	-	-	(1,443,676)	(1,443,676)
<b>Balance at December 31, 2016</b>		<b>68,474,886</b>	<b>\$ 20,009,123</b>	<b>\$ 150,000</b>	<b>\$ 1,715,294</b>	<b>\$ 6,765,962</b>	<b>\$ (13,041)</b>	<b>\$ (24,579,224)</b>	<b>\$ 4,048,114</b>
Share issue cost		-	(193,000)	-	-	193,000	-	-	-
Share based payments		-	-	-	221,062	-	-	-	221,062
Share issued on exercise of warrants	9	5,328,016	1,940,368	-	-	(888,005)	-	-	1,052,363
Share issued on exercise of options	8	214,000	33,028	-	(9,487)	-	-	-	23,541
Exchange loss on translating foreign operation		-	-	-	-	-	(10,475)	-	(10,475)
Net loss and comprehensive loss for the period		-	-	-	-	-	-	(1,288,899)	(1,288,899)
<b>Balance at September 30, 2017</b>		<b>74,016,903</b>	<b>\$ 21,789,520</b>	<b>\$ 150,000</b>	<b>\$ 1,926,869</b>	<b>\$ 6,070,957</b>	<b>\$ (23,516)</b>	<b>\$ (25,868,123)</b>	<b>\$ 4,045,707</b>

*The accompanying notes are an integral part of these consolidated financial statements*

**The Tinley Beverage Company Inc.**

## Unaudited Interim Condensed Consolidated Statements of Cash Flows

(Expressed in Canadian Dollars)

For the nine months ended September 30,

	Notes	2017 \$	2016 \$
<b>Operating Activities</b>			
Net loss		(1,299,374)	(919,512)
Adjustments to reconcile net loss to cash flow from operating activities:			
Share based payments - options	8	221,062	124,639
Share based payments - shares		-	7,290
Unrealized foreign exchange loss (gain)		(322)	(301)
Unrealized loss (gain)		(620)	-
Net change in non-cash working capital items:			
Prepaid expenses		(10,177)	(14,044)
Accounts receivable		(47,527)	-
Inventory	5	(22,599)	(6,560)
Promissory note receivable		-	(1,500)
Sales tax receivable		6,815	40,272
Trade and other payables	6	(59,319)	52,894
<b>Cash flow used in operating activities</b>		<b>(1,212,062)</b>	<b>(716,822)</b>
<b>Investing Activities</b>			
Purchasing of capital assets		(12,480)	-
Investment		(513,370)	-
<b>Cash flow used in investing activities</b>		<b>(525,850)</b>	<b>-</b>
<b>Financing Activities</b>			
Shares issued pursuant to agreement		-	9,000
Shares issued on warrants exercised	9	1,052,363	-
Shares issued on options exercised	8	23,541	-
<b>Cash flow provided from financing activities</b>		<b>1,075,904</b>	<b>9,000</b>
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>(662,008)</b>	<b>(707,822)</b>
<b>Cash at beginning of period</b>		<b>3,986,443</b>	<b>1,011,944</b>
<b>Cash and cash equivalents at end of period</b>		<b>3,324,435</b>	<b>304,122</b>

*The accompanying notes are an integral part of these consolidated financial statements*

## **The Tinley Beverage Company Inc.**

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the nine months ended September 30, 2017 and 2016

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### **1. NATURE OF OPERATIONS**

The Tinley Beverage Company Inc. (the "Company" or "Tinley"), formerly Quia Resources Inc. was incorporated under the laws of the Province of Ontario, Canada by Articles of Incorporation dated October 26, 2007. The Company's objective is to develop and launch a line of hemp oil-based functional beverages. The address of the Company's registered office is Suite 2905 – 77 King Street West Toronto, Ontario, M5K 1H1.

### **2. BASIS OF PRESENTATION**

#### **2.1 Statement of compliance**

The Company's unaudited interim condensed consolidated financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The preparation of financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies. The statements do not include all of the information that would be required for full annual financial statements and should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2016.

These unaudited interim condensed consolidated financial statements were authorized by the Board of Directors of the Company on November 28, 2017.

#### **2.2 Going Concern**

As at September 30, 2017, the Company has a working capital of \$3,369,217 (December 31, 2016 – \$3,885,614), not inclusive of a liquid investment as outlined in Note 4 of \$513,990, has an accumulated deficit of \$25,868,123 (December 31, 2016 - \$24,579,224), with such accumulated deficit primarily from activities of prior management prior to the company's conversion from a mining exploration company to a beverage company, and has a comprehensive loss of \$1,299,374 (2016 – \$919,512) for the nine months ended September 30, 2017. The ability of the Company to ensure continuing operations is dependent on the Company raising sufficient funds to finance development activities, securing distribution channels and achieving profitability. There is doubt as to the Company's ability to continue as a going concern and ultimately the appropriateness of the use of accounting principles applicable to a going concern. Nevertheless, the Company does believe it has sufficient working capital to continue operations through fiscal 2017 and beyond. These unaudited interim condensed consolidated financial statements have been prepared using accounting principles applicable to a going concern and do not reflect adjustments, which could be material, to the carrying values of the assets and liabilities, should the going concern not be appropriate.

#### **2.3 Basis of presentation**

These unaudited interim condensed consolidated financial statements have been prepared on the basis of accounting policies and methods of computation consistent with those applied in the Company's December 31, 2016 annual financial statements.

## The Tinley Beverage Company Inc.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the nine months ended September 30, 2017 and 2016

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### 2. BASIS OF PRESENTATION (continued)

#### 2.4 Basis of consolidation

The unaudited interim condensed consolidated financial statements include the account for the Tinley Beverage Company and its wholly owned subsidiaries: Hemplify Inc., Tinley Collective and its associated management company, as well as legacy, non-operating subsidiaries.

The results of subsidiaries acquired or disposed of during the year are included in the unaudited interim condensed consolidated statements of operations and comprehensive loss from the effective date of acquisition or up to the effective date of disposal as appropriate.

#### 2.5 New standards and interpretations not yet effective

At the date of authorization of these consolidated financial statements, the IASB and IFRIC have issued the following new and revised Standards and Interpretations which are not yet effective for the relevant reporting periods and which the Company has not early adopted.

- IFRS 9 *Financial Instruments: Classification and Measurement* – as issued by IASB in July 2014, and will replace IAS 39, *Financial Instruments: Recognition and Measurement* (“IAS 39”). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value and a new mixed measurement model for debt instruments having only two categories: amortized cost and fair value. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Final amendments released in July 2014 also introduced a new expected loss impairment model and limited changes to the classification and measurement requirements for financial assets.
- IFRS 9 is effective for annual period beginning on or after January 1, 2018, with earlier adoption permitted. The Company will adopt this new standard as of its effective date. The extent of the impact of adoption of standard has not yet been determined.
- IFRS 15 *Revenue From Contracts with Customers* – was issued by IASB in May 2014 and specifies how and when revenue should be recognized based on a five-step model, which is applied to all contracts with customers. IFRS 15 becomes effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Company will adopt this new standard as of its effective date. The Company is currently analyzing the possible impact of this Standard on its consolidated financial statements.
- IFRS 16 *Leases* – was issued in January 2016 and replaces the previous guidance on leases. This standard provides a single recognition and measurement model to be applied to leases, with required recognition of assets and liabilities for most leases. This standard is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted if the Company is also applying IFRS 15, *Revenue from Contracts with Customers*. The Company will adopt this new standard as of its effective date. The Company is currently evaluating the impact of the adoption of this new standard on its consolidated financial statements.
- IFRS 2 *Share-based Payment* – was issued by the IASB in June 2016, clarifying how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share based payments, share-based payment transactions with a net settlement feature or withholding tax obligations, and a modification to the



## The Tinley Beverage Company Inc.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the nine months ended September 30, 2017 and 2016

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### 2. BASIS OF PRESENTATION (continued)

#### 2.5 New standards and interpretations not yet effective (continued)

terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The amendments apply to annual periods beginning on or after January 1, 2018. The Company will adopt the amendments as of the effective date. The Company is currently analyzing the possible impact of the amendments on its consolidated financial statements,

- IAS 7 '*Disclosure Initiative*' – amendments were issued by IASB in January 2016, which include additional disclosures to enable users of the financial statements to evaluate changes in liabilities arising from financing activities, including changes arising from cash flows and non-cash changes. These amendments become effective for annual periods beginning on or after January 1, 2017. The Company will adopt the amendments as of the effective date. The Company is currently analyzing the possible impact of the amendments on its consolidated financial statements.
- IAS 12 '*Recognition of Deferred Tax Asset for Unrealized Losses*' – amendments were issued by the IASB in January 2016, which clarify that the existence of a deductive temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. These amendments become effective for annual periods beginning on or after January 1, 2017. The Company will adopt the amendments as of the effective date. The Company is currently analyzing the possible impact of the amendments on its consolidated financial statements.

### 3. BUSINESS COMBINATION

On October 29, 2015, the Company acquired all of the intangible assets for \$162,500 payable in cash and shares.

The fair value of net assets acquired from Maser is broken down as follows:

	\$
Intangible assets	162,500
Total assets	162,500
Total liabilities	-
Net assets acquired	162,500

The fair value of the net assets acquired was determined using management's estimates. There is no impact of the acquisition on revenues and gross margin.

### 4. INVESTMENTS

In July 2017, the Company allocated \$2,000,000 of its cash to term deposits (74%) and fixed income securities (26%). Term deposits are \$1,486,630 for a one year term with interest ranging from 1.2% to 2.8%. Fixed income securities of \$513,370 mature May 2019 with an interest rate of 2.98%.

The investments are classified as fair value through profit or loss, and measured at fair value with unrealized gains and losses recognized in the statement loss. The unrealized gain for the nine months ended September 30, 2017 is \$4,292.

## The Tinley Beverage Company Inc.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the nine months ended September 30, 2017 and 2016

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### 5. INVENTORY

As at September 30, 2017, inventory was \$37,378 (December 31, 2016 – \$14,779).

During the nine months ended September 30, 2017, inventory recognized as an expense in cost of sales amount to \$47,704 (2016 - \$4,586). Cost of goods sold includes the cost of purchasing and assembling of finished goods inventory. These costs include raw materials, bottling costs, and shipping and handling.

### 6. TRADE AND OTHER PAYABLES

Trade and other payables of the Company are principally comprised of amounts outstanding for trade purchases and other payables. The usual credit period taken for trade purchases is between 30 to 90 days.

The following is an aged analysis of the trade and other payables:

	<u>September 30, 2017</u>	<u>December 31, 2016</u>
	\$	\$
Less than 1 month	<b>79,071</b>	151,616
1 to 3 months	<b>9,538</b>	13,344
Over 3 months	<b>41,537</b>	24,827
<b>Total Trade and Other Payables</b>	<b>130,146</b>	189,787

### 7. SHARE CAPITAL

#### (a) Authorized

Unlimited number of common shares without par value

#### (b) Issued

- (i) On April 13, 2016, the Company issued 150,000 common shares at a deemed price of \$0.06 per share, pursuant to a consulting agreement whereby the Consultants provide the Company with marketing and business development, events and sales management services to the Company.
- (ii) On September 22, 2016, following the resignation of a director, 187,500 escrowed shares were cancelled and returned to treasury. 500,000 shares were originally issued to this director on October 29, 2015 and subject to performance escrow requirements. 312,500 were previously released from escrow.
- (iii) On October 27, 2016, the Company closed a non-brokered private placement of 16,176,470 units for gross proceeds of \$2,750,001. The offering was completed at a price of \$0.17 per unit; each unit comprised of one common share of the Company and one-half of one common share purchase warrant, with each full warrant being exercisable for one common share at an exercise price of \$0.25 per common share for a period of 18 months from the date of closing.

### 8. SHARE BASED PAYMENTS

The Company established a stock option plan to provide additional incentive to its officers, directors, employees and consultants in their effort to conduct business on behalf of the Company. Options issued in 2014 and 2015 vest evenly over five years and two years, respectively. All options expire on the fifth anniversary from the date of issue unless otherwise specified.

**The Tinley Beverage Company Inc.**

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the nine months ended September 30, 2017 and 2016

**8. SHARE BASED PAYMENTS (continued)**

The following summarizes the stock option activities during the nine months ended September 30, 2017 and year ended December 31, 2016:

	September 30, 2017		December 31, 2016	
	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price	Number of Options
	\$	#	\$	#
Outstanding, beginning of period/year	<b>0.17</b>	<b>2,389,500</b>	0.46	2,084,500
Granted (i)	-	-	0.11	2,058,000
Granted (ii) (iii)	-	-	0.08	600,000
Granted (iv)	-	-	0.33	600,000
Granted (v)	<b>0.33</b>	<b>150,000</b>	-	-
Granted (vi)	<b>0.35</b>	<b>600,000</b>	-	-
Granted (vii)	<b>0.30</b>	<b>100,000</b>	-	-
Expired	-	-	31.32	(19,000)
Exercised	<b>0.11</b>	<b>(214,000)</b>	0.11	(1,153,999)
Forfeited	<b>0.19</b>	<b>(215,000)</b>	0.17	(1,780,001)
Outstanding at end of period/year	<b>0.22</b>	<b>2,810,500</b>	0.17	2,389,500
Exercisable at end of period/year	<b>0.21</b>	<b>1,589,125</b>	0.18	828,764

- (i) On January 27, 2016, the Company granted 2,058,000 options exercisable at \$0.11 for a period of 5 years from the date of grant;
- (ii) On March 3, 2016, the Company granted 250,000 options exercisable at \$0.08 per share for a period of 5 years from the date of grant.
- (iii) On August 8, 2016, the Company granted 350,000 options exercisable at \$0.08 per share for a period of 5 years from the date of grant;
- (iv) On November 4, 2016, the Company granted 600,000 options exercisable at \$0.33 per share for a period of 5 years from the date of grant.
- (v) On March 22, 2017, the Company granted 150,000 options exercisable at \$0.33 per share for a period of 2 years from the date of grant.
- (vi) On July 12, 2017, the Company granted 600,000 options exercisable at \$0.35 per share for a period of 5 years from the date of grant.
- (vii) On August 17, 2017, the Company granted 100,000 options exercisable at \$0.30 per share for a period of 5 years from the date of grant.

**Share based payments**

- a. During the nine months ended September 30, 2017, \$105,632 of share based payments expense was recognized in relation to the vesting of the options granted on March 22, 2017, July 12, 2017 and August 17, 2017.
- b. During the nine months ended September 30, 2017, \$98,496 of share based payments expense was recognized in relation to the vesting of the options issued on January 27, 2016, March 3, 2016, August 4, 2016, and November 3, 2016.

**The Tinley Beverage Company Inc.**

## Notes to the Unaudited Interim Condensed Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the nine months ended September 30, 2017 and 2016

**8. SHARE BASED PAYMENTS (continued)**

- c. During the nine months ended September 30, 2017, \$16,934 of share based payments expense was recognized in relation to the vesting of the options issued on December 23, 2015.

The following is a continuity schedule of the options outstanding during the nine months ended September 30, 2017 and December 31, 2016:

Period/Year ended	September 30, 2017		December 31, 2016	
	Number of options (#)	Fair Value \$	Number of options (#)	Fair Value \$
Balance, beginning of period/year	2,389,500	1,715,294	2,084,500	1,500,935
Options granted	850,000	221,062	3,258,000	238,888
Options forfeited	(215,000)	-	(1,780,001)	30,168
Options exercised	(214,000)	(9,487)	(1,153,999)	(54,697)
Options expired	-	-	(19,000)	-
Balance at end of period/year	2,810,500	1,926,869	2,389,500	1,715,294

The following table summarizes outstanding stock options as at September 30, 2017:

Exercise Price Range	Number of Options outstanding	Weighted Average Remaining Life (years)
\$0.08	475,000	3.74
\$0.11	960,500	3.24
\$0.30	100,000	4.88
\$0.33	675,000	3.80
\$0.35	600,000	4.78
<b>\$0.08 - \$0.35</b>	<b>2,810,500</b>	<b>3.85</b>

The estimated fair value of share based compensation was determined using the Black-Scholes option pricing model with the following assumptions. Expected volatility was determined based on historical volatility of the Company and comparable companies.

Grant date	August 17, 2017	July 12, 2017	March 22, 2017	November 4, 2016	August 8, 2016	March 3, 2016	January 27, 2016
Number of options	100,000	600,000	150,000	600,000	350,000	250,000	2,058,000
Exercise price	\$0.30	\$0.35	\$0.33	\$0.33	\$0.08	\$0.08	\$0.11
Share price	\$0.255	\$0.26	\$0.24	\$0.44	\$0.04	\$0.07	\$0.05
Expected life of options	5 years	5 years	2 years	5 years	5 years	5 years	5 years
Expected volatility	230%	230%	230%	230%	230%	230%	230%
Risk-free interest rate	1.47%	1.50%	0.77%	0.63%	0.58%	0.59%	0.51%
Expected dividend yield	0%	0%	0%	0%	0%	0%	0%
Fair Value	\$22,700	\$138,800	\$28,500	\$235,552	\$12,423	\$15,582	\$91,249

**The Tinley Beverage Company Inc.**

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the nine months ended September 30, 2017 and 2016

**9. WARRANTS**

The following summarizes warrant activities for the nine months ended September 30, 2017 and year ended December 31, 2016:

	<b>September 30, 2017</b>		<b>December 31, 2016</b>	
	<b>No. of Warrants</b>	<b>Fair Value</b>	<b>No. of Warrants</b>	<b>Fair Value</b>
Balance, beginning of the period/year	<b>13,178,036</b>	<b>\$ 6,765,962</b>	12,558,710	\$ 5,633,110
Warrants issued	<b>911,137</b>	<b>193,000</b>	9,321,063	1,565,475
Warrants exercised	<b>(5,328,017)</b>	<b>(888,005)</b>	(8,538,104)	(432,623)
Warrants expired	<b>(453,738)</b>	<b>-</b>	(163,633)	-
Balance, the end of the period/year	<b>8,307,418</b>	<b>\$ 6,070,957</b>	13,178,036	\$ 6,765,962

As at September 30, 2017, the Company has the following warrants issued and outstanding:

<b>Expiry date</b>	<b>No. of Warrants outstanding</b>	<b>Weighted Average Exercise Price</b>
	<b>#</b>	<b>(\$)</b>
November 3, 2017	690,000	0.20
December 11, 2017	328,125	0.20
December 18, 2017	100,000	0.20
April 27, 2018	6,867,602	0.25
April 27, 2018	321,691	0.17
Balance September 30, 2017	8,307,418	0.24

The following tables summarize the assumptions used with the Black-Scholes valuation model for nine months ended September 30, 2017, and the year ended December 31, 2016:

<b>Date Issued</b>	<b>Nine months ended September 30, 2017 (ii)</b>	<b>October 27, 2016</b>	<b>October 27, 2016 (i)</b>
No. of warrants	911,137	8,088,235	1,232,828
Exercise price	\$ 0.25	\$ 0.25	\$0.17
Expected life in years	1.0	1.5	1.5
Volatility	230%	230%	230%
Risk-free interest rate	0.68 – 1.57%	0.58%	0.58%
Dividend yield	-	-	-
Fair value	\$193,000	\$777,445	\$788,030

- (i) These are finder warrants issued as compensation as part of the private placement. Each warrant entitles the holder on exercise to receive one unit at a price of \$0.17. Each unit comprises one common share and one warrant exercisable into one common share at an exercise price of \$0.25. The fair value of the finder warrants at the grant date is \$0.64 per warrant.

## The Tinley Beverage Company Inc.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

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### 9. WARRANTS (continued)

- (ii) These are underlying warrants issued as brokers compensation of the private placement expiring April 27, 2018. Each warrant entitles the holder on exercise to receive one common share at a price of \$0.25.

Volatility on the above warrant valuations were based on the historical volatility of the Company and similar companies.

### 10. RELATED PARTY TRANSACTIONS AND KEY MANAGEMENT COMPENSATION

- (a) During the nine months ended September 30, 2017, \$Nil (2016 - \$6,840) was incurred for rent a company in which the Secretary and Director of the Company, has an indirect interest, through a family trust. The Company and this related party also entered into a consulting agreement on May 15, 2015. In consideration for services, the Company agreed to pay a monthly fee of \$10,000 inclusive of rent which was renegotiated to \$7,000 in July 2016. In September 2016, the Company discontinued its engagement. Accordingly, consulting fees for the nine months ended September 30, 2017 was \$Nil (2016 - \$81,000). As at September 30, 2017, \$16,701 (December 31, 2016 - \$16,701) is included in accounts payable.
- (b) During the nine months ended September 30, 2017, \$1,234 (2016 - \$17,808) in legal fees were incurred for services provided by a law firm in which the Secretary and Director of the Company is a partner. As at September 30, 2017, included in accounts payable is \$11 (December 31, 2016 - \$5,249) payable to this law firm.
- (c) During the nine months ended September 30, 2017, directors received stock-based compensation of \$169,864 (2016 - \$24,490) in addition to cash compensation of \$280,313 (2016 - \$162,000) for services rendered. As at September 30, 2017, \$31,640 (December 31, 2016 - \$16,950) payable to the directors of the Company, and \$16,950 (December 31, 2016 - \$16,950) payable to the former director of the Company is included in accounts payable.
- (d) The Company entered into a management services agreement which include the services of the Company's Chief Financial Officer. During the nine months ended September 30, 2017, \$66,500 (2016 - \$45,000) in management, accounting and administrative services were incurred under this agreement. As at September 30, 2017, \$77 (December 31, 2016 - \$Nil) is included in account payable.

#### Key Management compensation

Key management personnel are persons responsible for planning, directing and controlling activities of an entity, and include executive and non-executive directors. Compensation provided to key management is as follows:

Nine months ended September 30,	2017	2016
Short-term employee benefits, including salaries and fees	\$ 346,813	\$ 290,340
Share-based compensation	169,864	24,490
Professional fees	1,234	17,808
	<u>\$ 517,911</u>	<u>\$ 332,638</u>

## **The Tinley Beverage Company Inc.**

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### **11. CAPITAL RISK MANAGEMENT**

The Company considers its capital structure to consist of share capital, shares to be issued, reserve for warrants and reserve for share based payments. When managing capital, the Company's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management adjusts the capital structure as necessary in order to support the exploration and development of mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management team to sustain the future development of the business.

As at September 30, 2017, the Company considers its capital to be share capital, shares to be issued, reserve for warrants, reserve for share based payments, reserve for foreign exchange gains (losses), totaling \$4,045,706 (December 31, 2016 – \$4,048,114).

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the nine months ended September 30, 2017. The Company is not subject to externally imposed capital requirements.

### **12. FINANCIAL AND OTHER RISK FACTORS**

#### **Fair Value**

The carrying amount of due to related parties and trade and other payables approximates fair value due to the relatively short-term maturity of these financial instruments. The carrying value of loans and interest payable approximate the fair value based on discounted cash flows. Fair value represents the amount that would be exchanged in an arm's length transaction between willing parties and is best evidenced by a quoted market price if one exists.

#### **Credit Risk**

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. Cash is held with reputable Canadian and United States chartered banks and in various liquid guaranteed interest-bearing instruments which are closely monitored by management. Management believes that the credit risk concentration with respect to financial instruments is minimal.

#### **Liquidity Risk**

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. The Company's liquidity and operating results may be adversely affected if the Company's access to the capital market is hindered, whether as a result of a downturn in stock market conditions generally or related to matters specific to the Company. The Company generates cash flow primarily from its financing activities. As at September 30, 2017, the Company had a cash and cash equivalents balance of \$3,324,435 (December 31, 2016 - \$3,986,443) to settle current liabilities of \$130,146 (December 31, 2016 - \$189,787). In addition, the Company also owns a cashable debenture presently worth \$513,990, that it can liquidate in active markets prior to maturity in May 2019, if necessary, with minimal cost, thereby providing the Company with total liquidity of \$3,838,425 for working capital and other purposes.

All of the Company's financial liabilities have contractual maturities of less than 365 days and are subject to normal trade terms. The Company feels there is sufficient capital in order to meet short term business requirements, after taking into account cash flows from operations and the Company's holding cash.

## **The Tinley Beverage Company Inc.**

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

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### **12. FINANCIAL AND OTHER RISK FACTORS (continued)**

#### **Foreign Currency Risk**

The Company operates in Canada and the United States and is exposed to foreign exchange risk with respect to US dollars. The Company raises funds in Canadian dollars for its operations in the US. Foreign exchange risk arises on cash and trade payables from operations in the US. The Company believes that its results of operations and cash flows would be affected by a sudden change in foreign exchange rates. The Company mitigates this risk by maintaining sufficient U.S. dollar denominated cash to meet its U.S. dollar denominated obligations. As at September 30, 2017, the Company has U.S. dollar cash of \$954,692 (2016 - \$109,423) available to use against U.S. dollar trade and other payables of \$27,946 (2016 - \$23,100).

#### **Sensitivity Analysis**

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are "reasonably possible" over a twelve-month period:

The Company is exposed to foreign currency risk on fluctuations of financial instruments related to cash, accounts payable, due to related parties, loans and interest payable that are denominated in US dollars. As at September 30, 2017, had the Canadian dollar weakened/strengthened by 10% against the US dollar with all other variables held constant, the Company's comprehensive loss for the nine months ended September 30, 2017 would have been approximately \$97,863 higher/lower respectively as a result of foreign exchange losses/gains on translation of US dollar denominated financial instruments.

### **13. COMPARATIVE FIGURES**

Certain comparative figures have been reclassified to conform to the current period's presentation. Net loss previously reported has not been affected by this reclassification.

### **14. SUBSEQUENT EVENTS**

1. The following are warrant activities subsequent to the nine months period ended September 30, 2017:
  - a. In October 2017, 240,000 warrants were exercised at \$0.20, and 7,700 warrants were exercised at \$0.17 for total proceeds of \$49,309;
  - b. In November 2017, 3,275,005 warrants were exercised at \$0.25, 578,125 warrants were exercised at \$0.20, and 46,655 warrants were exercised at \$0.17 for total proceeds of \$942,308;
  - c. On November 27, 2017, 25,000 options were exercised at \$0.11 for total proceed of \$2,750.