THE TINLEY BEVERAGE COMPANY INC.

Unaudited Condensed Interim Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the Three Months Ended March 31, 2018 and 2017

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

The unaudited condensed interim 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 unaudited condensed interim 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 unaudited condensed interim consolidated statements of financial position. In the opinion of management, the unaudited condensed interim 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 unaudited condensed interim 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 condensed interim 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 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"	*"David Berman"*
Jeffrey Maser, CEO	David Berman, CFO

THE TINLEY BEVERAGE COMPANY INC.
Unaudited Condensed Interim Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

	As at March 31, 2018	As at December 31, 2017
	$	$
	(Unaudited)	(Audited)
Assets		
Current Assets		
Cash and cash equivalents (Note 4)	**3,140,779**	3,584,780
Short-term investments (Note 4)	**1,118,556**	1,113,337
Accounts receivable (Note 5)	**26,192**	38,497
Inventories (Note 6)	**159,564**	23,579
Prepaid expenses (Note 14)	**426,787**	73,948
Total Current Assets	**4,871,878**	4,834,141
Non-Current Assets		
Equipment (Note 7)	**53,418**	28,132
Intangible assets	**12,500**	12,500
Total Assets	**4,937,796**	4,874,773
Liabilities		
Current Liabilities		
Accounts payable (Note 8)	**331,160**	254,617
Total Liabilities	**331,160**	254,617
Shareholders' Equity		
Share capital (Note 9)	**24,714,140**	23,958,573
Reserve for share-based payments (Note 10)	**2,411,169**	2,154,407
Reserve for warrants (Note 11)	**5,124,128**	5,322,984
Accumulated other comprehensive loss	**(7,862)**	(31,977)
Accumulated deficit	**(27,634,939)**	(26,783,831)
Total Shareholders' Equity	**4,606,636**	4,620,156
Total Liabilities and Shareholders' Equity	**4,937,796**	4,874,773

Going concern (Note 2(b))
Commitments (Note 14)
Subsequent events (Note 18)

Approved on behalf of the Board of Directors:

"Jeffrey Maser" (signed)	*"David Ellison" (signed)*
CEO and Director	Director

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements

THE TINLEY BEVERAGE COMPANY INC.
Unaudited Condensed Interim Consolidated Statements of Operations and Comprehensive Loss
For the three months ended March 31, 2018 and 2017
(Expressed in Canadian Dollars)

	Three months ended March 31, 2018	Three months ended March 31, 2017
	$	$
Sales	**4,027**	15,985
Cost of goods sold (Note 6)	**(6,344)**	(14,234)
Gross margin	**(2,317)**	1,751
Operating Expenses		
Sales and marketing	**163,492**	157,655
General and administration (Note 15)	**367,464**	128,733
Product development	**118,382**	(11,297)
Share-based payments – options (Note 10)	**278,100**	83,057
Foreign exchange gain	**(71,212)**	(8,549)
	856,226	349,599
Net Loss before Other Income	**(858,543)**	(347,848)
Other Income		
Interest and other income (Note 4)	**7,435**	-
Net Loss	**(851,108)**	(347,848)
Other Comprehensive Income		
Exchange gain (loss) on translation of foreign operations	**24,115**	(652)
Total Comprehensive Loss	**(826,993)**	(348,500)
Weighted Average Number of Common Shares Outstanding	**81,697,056**	69,252,155
Net Loss per Share		
Basic and Diluted	**(0.010)**	(0.005)

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements

THE TINLEY BEVERAGE COMPANY INC.
Unaudited Condensed Interim Consolidated Statements of Changes in Shareholders' Equity
For the three months ended March 31, 2018 and 2017
(Expressed in Canadian Dollars)

	Share Capital		Reserves					
	Number of shares	Amount	Shares to be issued	Share-based payments	Warrants	Accumulated deficit	Accumulated other comprehensive loss	Total
	#	$	$	$	$	$	$	$
Balance, December 31, 2016	**68,474,886**	**20,009,123**	**150,000**	**1,715,294**	**6,765,962**	**(24,579,224)**	**(13,041)**	**4,048,114**
Share-based payments (Notes 10 and 11)	-	-	-	83,057	-	-	-	83,057
Shares issued on exercise of warrants (Note 9)	1,348,571	343,948	-	-	(79,735)	-	-	264,213
Shares issued on exercise of options (Note 9)	169,500	26,160	-	(7,515)	-	-	-	18,645
Exchange (loss) on translation of foreign operations	-	-	-	-	-	-	(652)	(652)
Net loss for the period	-	-	-	-	-	(347,848)	-	(347,848)
Balance, March 31, 2017	**69,992,957**	**20,379,231**	**150,000**	**1,790,836**	**6,686,227**	**(24,927,072)**	**(13,693)**	**4,065,529**
Balance, December 31, 2017	**80,013,794**	**23,958,573**	**-**	**2,154,407**	**5,322,984**	**(26,783,831)**	**(31,977)**	**4,620,156**
Share-based payments (Notes 10 and 11)	-	-	-	278,100	-	-	-	278,100
Shares issued on exercise of warrants (Note 9)	2,021,492	704,229	-	-	(198,856)	-	-	505,373
Shares issued on exercise of options (Note 9)	100,000	51,338	-	(21,338)	-	-	-	30,000
Exchange gain on translation of foreign operations	-	-	-	-	-	-	24,115	24,115
Net loss for the period	-	-	-	-	-	(851,108)	-	(851,108)
Balance, March 31, 2018	**82,135,286**	**24,714,140**	**-**	**2,411,169**	**5,124,128**	**(27,634,939)**	**(7,862)**	**4,606,636**

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements

THE TINLEY BEVERAGE COMPANY INC.
Unaudited Condensed Interim Consolidated Statements of Cash Flows
For the three months ended March 31, 2018 and 2017
(Expressed in Canadian Dollars)

	Three months ended March 31, 2018	Three months ended March 31, 2017
	$	$
Operating Activities		
Net loss for the period	**(851,108)**	(347,848)
Adjustments for non-cash items:		
Share-based payments – options (Note 10)	**278,100**	83,057
Accrued interest on short-term investments (Note 4)	**(5,219)**	-
Foreign exchange loss (gain)	**8,334**	(2,053)
	(569,893)	(266,844)
Changes in non-cash working capital:		
Accounts receivable (Note 5)	**12,305**	(3,825)
Inventories (Note 6)	**(135,985)**	(11,885)
Prepaid expenses	**(352,839)**	(58,994)
Accounts payable (Note 8)	**76,543**	(34,292)
Cash Flows (Used in) Operating Activities	**(969,869)**	(375,840)
Investing Activities		
Purchases of equipment (Note 7)	**(23,635)**	-
Cash Flows (Used in) Investing Activities	**(23,635)**	-
Financing Activities		
Proceeds from exercise of warrants (Note 9)	**505,373**	264,213
Proceeds from exercise of options (Note 9)	**30,000**	18,645
Cash Flows Provided by Financing Activities	**535,373**	282,858
(Decrease) increase in cash and cash equivalents	**(458,131)**	(92,982)
Effects of foreign exchange on cash and cash equivalents	**14,130**	(652)
Cash and cash equivalents, beginning of period (Note 4)	**3,584,780**	3,986,443
Cash and cash equivalents, end of period (Note 4)	**3,140,779**	3,892,809

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements

1. NATURE OF OPERATIONS

The Tinley Beverage Company Inc. (the "Company" or "Tinley") was incorporated under the laws of the Province of Ontario, Canada by Articles of Incorporation dated October 26, 2007. The Company manufactures a line of liquor-inspired, alcohol-free, cannabis-infused beverages for use in California, United States ("US"). The Company also manufactures the "Hemplify" and "Tinley's Tonics" line of products, which are available in retail locations in California and online throughout the US. The address of the Company's registered office is located at 77 King Street West, Suite 2905, Toronto, Ontario, M5K 1H1, Canada. The Company's common shares are currently listed on the Canadian Securities Exchange under the trading symbol "TNY" and on the OTCQX® under the trading symbol "TNYBF".

2. BASIS OF PRESENTATION

(a) Statement of Compliance

The Company's unaudited condensed interim 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"). These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standards ("IAS") 34 *'Interim Financial Reporting'*. Accordingly, they do not include all of the information and disclosures required by IFRS for annual financial statements. In the opinion of management, all adjustments considered necessary for fair presentation have been included in these unaudited condensed interim consolidated financial statements. Operating results for the period ended March 31, 2018 are not necessarily indicative of the results that may be expected for the full year ended December 31, 2018. For further information, see the Company's audited consolidated financial statements including the notes thereto for the year ended December 31, 2017.

These unaudited condensed interim consolidated financial statements were reviewed, approved and authorized by the Board of Directors of the Company on May 30, 2018.

(b) Going Concern

These unaudited condensed interim consolidated financial statements have been prepared with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. As at March 31, 2018, the Company had not yet achieved profitable operations, had accumulated losses of $27,634,939 and is dependent on the its ability to obtain additional financing. These material uncertainties may cast significant doubt upon the Company's ability to continue as a going concern. In assessing whether the going concern assumption was appropriate, management took into account all relevant information available about the future, which was at least, but not limited to, the 12-month period following March 31, 2018. Subsequent to the period-end, the following financing activities occurred:

- On April 6, 2018, the Company closed a brokered private placement of 5,055,000 units at a price of $1.00 per unit, for gross proceeds of $5,055,000; and
- The Company issued 369,553 common shares as a result of the exercise of 369,553 warrants for total cash proceeds of $92,388, and 64,995 finders' warrants which were exercised for total cash proceeds of $11,049.

2. BASIS OF PRESENTATION (continued)

(b) Going Concern (continued)

These unaudited condensed interim consolidated financial statements do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business and at amounts different from those in the accompanying unaudited condensed interim consolidated financial statements. Such adjustments could be material.

(c) Basis of Presentation

These unaudited condensed interim consolidated financial statements have been prepared in accordance with IFRS using the historical cost basis. In addition, these unaudited condensed interim consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

(d) Basis of Consolidation

These unaudited condensed interim consolidated financial statements include the accounts of Tinley and its wholly-owned subsidiaries: Hemplify Inc., Algonquin Springs Beverage Management LLC and Tinley Collective (a Cooperative Cooperation), as well as certain legacy dormant entities: Bolivar Gold Corp., QBC Holdings Corp., Kulta Corp., San Lucas Gold Corp. and Colombian Mining Corp. (collectively the "Company").

The unaudited condensed interim consolidated financial statements include all the assets, liabilities, revenues, expenses and cash flows of the Company and its subsidiaries after eliminating inter-entity balances and transactions.

(e) Significant Accounting Judgments and Estimates

The preparation of these unaudited condensed interim consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities at the date of the unaudited condensed interim consolidated financial statements and reported amounts of revenue and expenses during the reporting period. Actual outcomes could differ from these estimates. The unaudited condensed interim consolidated financial statements include estimates, which, by their nature, are uncertain. The impact of such estimates are pervasive throughout the unaudited condensed interim consolidated financial statements, and may require accounting adjustments based on future occurrences.

The estimates and underlying assumptions are reviewed on a regular basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected. The areas involving a higher degree of judgment or complexity, or areas where the assumptions and estimates are significant to the financial statements were the same as those applied to the Company's audited consolidated financial statements for the year ended December 31, 2017.

3. NEW ACCOUNTING STANDARDS AND RECENT PRONOUNCEMENTS

The Company adopted the following amendments effective January 1, 2018. The amendments were adopted in accordance with the applicable transitional provisions. There was no material impact on the Company's unaudited condensed interim consolidated financial statements:

3. NEW ACCOUNTING STANDARDS AND RECENT PRONOUNCEMENTS (continued)

- IFRS 9 *'Financial Instruments'* ("IFRS 9") was issued by IASB in July 2014 and replaces IAS 39 *'Financial Instruments: Recognition and Measurement'*. 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 through profit and loss. 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 credit loss impairment model and limited changes to the classification and measurement requirements for financial assets.

- IFRS 15 '*Revenue from Contracts with Customers'* ("IFRS 15") was issued by the IASB in May 2014 and replaces IAS 18 *'Revenue'*, IAS 11 *'Construction Contracts'* and some revenue-related interpretations. IFRS 15 contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based, five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized.

At the date of authorization of these unaudited condensed interim consolidated financial statements, the IASB and International Financial Reporting Interpretations Committee have issued the following new and revised Standards and Interpretations which are not yet effective for the relevant reporting periods and which the Company had not early adopted:

- IFRS 16 *'Leases'* ("IFRS 16") was issued in January 2016 and replaces IAS 17 *'Leases'* as well as some lease related interpretations. With certain exceptions for leases under twelve months in length or for assets of low value, IFRS 16 states that upon lease commencement a lessee recognises a right-of-use asset and a lease liability. The right-of-use asset is initially measured at the amount of the liability plus any initial direct costs. After lease commencement, the lessee shall measure the right-of-use asset at cost less accumulated amortization and accumulated impairment. A lessee shall either apply IFRS 16 with full retrospective effect or alternatively not restate comparative information but recognize the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application. IFRS 16 requires that lessors classify each lease as an operating lease or a finance lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise it is an operating lease. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Earlier adoption is permitted if IFRS 15 has also been applied.

4. CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

As at March 31, 2018, the Company had invested in various short-term guaranteed investment certificates and fixed-income securities valued at $507,052 and $611,504 (December 31, 2017 – $504,648 and $608,688), respectively. The Company had also invested $890,192 (December 31, 2017 – $887,976) in high-interest savings accounts of which the funds were classified as cash equivalents. Interest income of $10,216 had been accrued to the end of the period ended March 31, 2018 (December 31, 2017 – $4,997).

(Expressed in Canadian Dollars)

5. ACCOUNTS RECEIVABLE

	March 31, 2018	December 31, 2017
	$	$
Sales taxes recoverable	**26,192**	24,299
Trade receivables	**-**	14,198
	26,192	38,497

The age of accounts receivable is 90 days past due.

6. INVENTORIES

As at March 31, 2018, inventories consisted of the following:

	March 31, 2018	December 31, 2017
	$	$
Raw materials	**108,184**	23,579
Finished goods	**51,380**	-
	159,564	23,579

For the three months ended March 31, 2018, inventories recognized as an expense in cost of good sold amounted to $6,344 (2017 – $14,234). Cost of goods sold includes the cost of purchasing and assembling of finished goods inventories that were sold. These costs include raw materials, bottling costs, and shipping and handling.

7. EQUIPMENT

	Machinery and equipment	Total
	$	$
Cost at:		
December 31, 2017	**28,132**	28,132
Additions	**26,629**	26,629
March 31, 2018	**54,761**	54,761
Accumulated amortization at:		
December 31, 2017	**-**	-
Amortization (Note 15)	**1,343**	1,343
March 31, 2018	**1,343**	1,343
Net book value:		
December 31, 2017	**28,132**	28,132
March 31, 2018	**53,418**	53,418

Amortization is recorded on a straight-line basis over 10 years.

(Expressed in Canadian Dollars)

8. ACCOUNTS PAYABLE

	March 31, 2018	December 31, 2017
	$	$
Trade payables	**201,198**	107,426
Accrued liabilities	**129,962**	147,191
	331,160	254,617

9. SHARE CAPITAL

Authorized share capital

The Company is authorized to issue an unlimited number of common shares without par value.

	March 31, 2018	December 31, 2017
	$	$
Issued: 82,135,286 common shares (December 31, 2017 – 80,013,794)	**24,714,140**	23,958,573

Issued

Holders of the Company's common shares are entitled to receive dividends which may be declared from time to time and are entitled to one vote per share at meetings of the Company.

Share capital transactions for the three months ended March 31, 2018

During the three months ended March 31, 2018, 2,021,492 common shares were issued as a result of the exercise of warrants for cash proceeds of $505,373.

During the three months ended March 31, 2018, 100,000 common shares were also issued as a result of the exercise of options for cash proceeds of $30,000.

Share capital transactions for the three months ended March 31, 2017

During the three months ended March 31, 2017, 1,348,571 common shares were issued as a result of the exercise of warrants for cash proceeds of $264,213.

During the three months ended March 31, 2017, 169,500 common shares were also issued as a result of the exercise of options for cash proceeds of $18,645.

10. RESERVE FOR SHARE-BASED PAYMENTS

The Company maintains 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 granted vest over a vesting period between two to five years. All options expire on the fifth anniversary from the date of grant unless otherwise specified.

(Expressed in Canadian Dollars)

10. RESERVE FOR SHARE-BASED PAYMENTS (continued)

Option grants for the three months ended March 31, 2018

On January 23, 2018, the Company granted 275,000 options to a number of its employees and consultants at an exercise price of $1.20. 200,000 options will expire on January 23, 2020, and 75,000 options will expire on January 23, 2021. The options vested immediately on grant.

Option grants for the three months ended March 31, 2017

On March 22, 2017, the Company granted 150,000 options exercisable at $0.33 per share with a term of 2 years.

The estimated fair value of the options granted during the three months ended March 31, 2018 and 2017 was determined using the Black-Scholes valuation model with the following assumptions:

Grant date	**January 23, 2018**	**March 22, 2017**
Number of options	275,000	150,000
Exercise price	$1.20	$0.33
Share price	$0.18	$0.24
Expected life of options	2 and 3 years	2 years
Expected volatility	143% - 130%	170%
Risk-free interest rate	1.80% - 1.85%	1.05%
Expected dividend yield	0%	0%
Fair value on grant date	$229,201	$11,197

The following is a summary of stock options activities for the three months ended March 31, 2018 and 2017:

	March 31, 2018		March 31, 2017	
	Weighted average exercise price	**Number of options**	Weighted average exercise price	Number of options
	$	**#**	$	#
Outstanding, beginning of year	**0.28**	**3,010,500**	0.17	2,389,500
Granted	**1.20**	**275,000**	0.33	150,000
Exercised	**0.30**	**(100,000)**	0.11	(169,500)
Forfeited	**-**	**-**	0.17	(140,000)
Outstanding, end of period	**0.38**	**3,185,500**	0.18	2,230,000
Exercisable, end of period	**0.35**	**2,635,500**	0.20	1,333,688

(Expressed in Canadian Dollars)

10. RESERVE FOR SHARE-BASED PAYMENTS (continued)

The following table summarizes information of options outstanding as at March 31, 2018:

Date of expiry	Number of options outstanding	Exercise price	Weighted average remaining life
	#	$	Years
March 22, 2019	75,000	0.33	0.98
January 23, 2020	200,000	1.20	1.82
December 23, 2020	910,500	0.11	2.73
January 23, 2021	75,000	1.20	2.82
January 27, 2021	25,000	0.11	2.83
August 4, 2021	350,000	0.08	3.35
November 3, 2021	600,000	0.44	3.60
July 12, 2022	600,000	0.35	4.28
November 22, 2022	350,000	0.68	4.65
	3,185,500	**0.38**	**3.37**

11. RESERVE FOR WARRANTS

The following summarizes the warrant activities for the three months ended March 31, 2018 and 2017:

	March 31, 2018		March 31, 2017	
	Number of warrants outstanding	**Fair Value**	Number of warrants outstanding	Fair Value
	#	**$**	#	$
Balance, beginning of period	**2,446,635**	**5,322,984**	13,178,036	6,765,962
Warrants exercised	**(2,021,492)**	**(198,856)**	(1,348,571)	(79,735)
Balance, end of period	**425,143**	**5,124,128**	11,829,465	6,686,227

The following table summarizes information of warrants outstanding as at March 31, 2018:

Date of expiry	Number of warrants outstanding	Exercise price	Weighted average remaining life
	#	$	Years
April 27, 2018	339,560	0.25	0.07
April 27, 2018	85,583	0.17	0.07
	425,143	**0.23**	**0.07**

(Expressed in Canadian Dollars)

12. RELATED PARTY TRANSACTIONS AND KEY MANAGEMENT COMPENSATION

Key management compensation

Key management personnel are persons responsible for planning, directing and controlling activities of an entity, and include executives and non-executive directors, officers and any employees. Compensation provided to key management personnel during the three months ended March 31, 2018 and 2017 were as follows:

	Three months ended March 31, 2018	Three months ended March 31, 2017
	$	$
Short-term employee benefits, including salaries and consulting fees	**117,044**	105,488
Share-based compensation (Note 10)	**47,550**	54,557
Professional fees	**-**	4,844
	164,594	164,888

(i) During the three months ended March 31, 2018, the Chief Executive Officer ("CEO") of the Company was paid consulting fees of $39,000 (2017 – $39,000) for services rendered. As at March 31, 2018, an amount of $102,927 (December 31, 2017 – $86,592) owing to the CEO for reimbursement of expenses was included in accounts payable.

(ii) During the three months ended March 31, 2018, the Chief Financial Officer ("CFO") of the Company was paid consulting fees of $16,800 (2017 – $nil) for services rendered. As at March 31, 2018, an amount of $6,328 (December 31, 2017 – $5,630) owing to the CFO for compensation on services rendered was included in accounts payable.

(iii) During the three months ended March 31, 2018, directors considered to be part of key management were paid fees of $61,244 (2017 – $47,063) for services rendered. As at March 31, 2018, $6,500 (December 31, 2017 – $6,500) of this amount was included in accounts payable.

Other related party transactions

(i) During the three months ended March 31, 2018, directors received stock-based compensation of $47,550 (2017 – $54,557).

13. CAPITAL RISK MANAGEMENT

When managing capital, the Company's objective is to ensure it 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 beverage production.

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 March 31, 2018, the Company considers its capital to be share capital, shares to be issued, reserve for share-based payments, reserve for warrants, and accumulated other comprehensive income, totaling $4,606,636 (December 31, 2017 – $4,620,156).

(Expressed in Canadian Dollars)

13. CAPITAL RISK MANAGEMENT (continued)

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

The Company is not subject to externally imposed capital requirements and there were no changes in the Company's approach to capital management during the three months ended March 31, 2018 and the year ended December 31, 2017.

14. COMMITMENTS

On March 1, 2018, the Company entered into two lease agreements for a new 19,760 square feet bottling facility in Long Beach, California, for cannabis beverage production. The leases commenced on March 1, 2018, with a term of 5 years and 3 months ending May 31, 2023, with an option to renew for two (2) additional 36-month periods. Monthly base rent is USD $39,000 and is payable commencing June 1, 2018. In conjunction with the leases, the Company has paid a security deposit of $130,478 (USD $104,000) and advance rents of $146,788 (USD $117,000) covering the period from inception to May 31, 2018.

As at March 31, 2018, the security deposit valued at $134,098 (USD $104,000) and rent advances of $100,573 (USD $78,000) were included in prepaid expenses on the unaudited condensed interim consolidated statements of financial position.

As at March 31, 2018, the Company is committed to minimum annual lease payments for its bottling facility as follows:

	Total	**Within 1 year**	**1 year to 3 years**	**3 years to 5 years**	**Beyond 5 years**
	$	$	$	$	$
Lease obligations	3,017,196	502,866	1,206,878	1,206,878	100,574

15. GENERAL AND ADMINISTRATION EXPENSES

The Company's general and administration expenses incurred for the three months ended March 31, 2018 and 2017 are as follows:

	Three months ended March 31, 2018	Three months ended March 31, 2017
	$	$
Corporate costs and administration	**178,394**	74,317
Consulting and management fees	**102,026**	53,298
Professional fees	**73,403**	229
Travel and promotional	**12,298**	889
Amortization	**1,343**	-
	367,464	128,733

16. FINANCIAL RISK MANAGEMENT

Fair value

The carrying amount of cash and cash equivalents, trade receivables, short-term investments and trade and other payables on the unaudited condensed interim consolidated statements of financial position approximate their fair value due to the relatively short-term maturity of these financial instruments.

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 US 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. The maximum exposure to credit risk at year-end is limited to the accounts receivable balance.

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 March 31, 2018, the Company had a cash and cash equivalents balance of $3,140,779 (December 31, 2017 – $3,584,780) to settle current liabilities of $331,160 (December 31, 2017 – $254,617).

All of the Company's financial liabilities have contractual maturities of less than 365 days and are subject to normal trade terms. Management believes there is sufficient capital in order to meet short-term business obligations, after taking into account cash flows requirements from operations and the Company's cash position as at the reporting date.

Foreign currency risk

The Company operates in Canada and the US and is exposed to foreign exchange risk with respect to USD. 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 USD-denominated cash to meet its USD-denominated obligations. As at March 31, 2018, the Company has cash and cash equivalents of USD $1,492,174 (December 31, 2017 – USD $505,444) available to use against trade and other payables of USD $97,640 (December 31, 2017 – USD $44,109).

Sensitivity analysis

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are "reasonably possible" over a 12-month period:

The Company is exposed to foreign currency risk on fluctuations of financial instruments related to cash, accounts receivable and accounts payable that are denominated in USD. As at March 31, 2018, had the Canadian dollar weakened/strengthened by 10% against the USD with all other variables held constant, the impact on the Company's comprehensive loss for the three months ended March 31, 2018 would have been approximately $179,650 higher/lower respectively as a result of foreign exchange gains (losses) on translation of USD-denominated financial instruments.

17. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current period's presentation on the unaudited condensed interim consolidated financial statements. Net loss previously reported has not been affected by this reclassification.

18. SUBSEQUENT EVENTS

Subsequent to March 31, 2018, 369,553 common shares were issued as a result of the exercise of 369,553 warrants for total cash proceeds of $92,388, and 64,995 finders' warrants which were exercised for total cash proceeds of $11,049. All issued shares are fully paid.

On April 6, 2018, the Company closed a brokered private placement of 5,055,000 units at a price of $1.00 per unit, for gross proceeds of $5,055,000. Each unit consists of one (1) common share and one (1) warrant. Each warrant entitles the holder to purchase one common share at a price of $1.35 per common share, for a period of 24 months from closing of the offering. In conjunction with the brokered offering, the Company paid a cash commission of $404,400, and issued 404,400 Agent Unit Options ("Unit Option") exercisable at $1.00 for 24 months following closing which entitle the Agents to acquire one common share and one warrant, exercisable into one common share at $1.35 for a period of 24 months. The Agents also received a corporate finance fee, payable in 202,200 Agents' Fee Units, comprised of one common share and one warrant exercisable at $1.35 for 24 months.

On April 23, 2018, the Company granted 100,000 options to an employee at an exercise price of $0.87. The options will expire on April 23, 2023 and vest over 3 years as follows: 10,000 options vested immediately on grant, and 30,000 options vesting on each anniversary until fully vested.

On April 27, 2018, 35,000 warrants and 20,588 finders' warrants expired unexercised.

On May 11, 2018, the Company granted 150,000 options to its Advisory Board members at an exercise price of $0.72. The options will expire on May 11, 2023, and vest quarterly over 3 years until fully vested.