THE TINLEY BEVERAGE COMPANY INC.

Management's Discussion and Analysis

For the Six Months ended June 30, 2018

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The following Management's Discussion and Analysis ("MD&A") is current to August 29, 2018 and is management's assessment of the financial position and results of operation together with future prospects of The Tinley Beverage Company Inc. This MD&A should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements for the three and six months ended June 30, 2018, as well as the audited consolidated financial statements for the year ended December 31, 2017. The unaudited condensed interim consolidated financial statements for the period ended June 30, 2018 had been prepared in compliance of International Accounting Standards 34 'Interim Financial Reporting', based on International Financial Reporting Standards ("IFRS"). All figures are in Canadian dollars unless stated otherwise.

This discussion contains forward-looking statements that are not historical in nature and involves risks and uncertainties. Forward-looking statements are not guarantees as to Tinley's future results as there are inherent difficulties in predicting future results. This MD&A includes, but is not limited to, forward-looking statements. Management considers the assumptions on which these forward-looking statements are based to be reasonable at the time the statements were prepared. Accordingly, actual results could differ materially from those expressed or implied in the forward-looking statements. The Company has adopted National Instrument 51-102F1 as the guideline in presenting the MD&A. Additional information relevant to Tinley's activities, including Tinley's press releases can be found on SEDAR at www.sedar.com.

1. Description of Business

The Tinley Beverage Company Inc. ("Tinley" or the "Company") was incorporated under the laws of the Province of Ontario, Canada by Articles of Incorporation dated October 26, 2007. On October 6, 2015, the Company completed a change of business to a pure-play cannabis beverage company (as hereinafter defined), and pursuant to the Articles of Amendment dated October 6, 2015, the Company changed its name to "The Tinley Beverage Company Inc.". The address of the Company's registered office is 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".

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" line of products, which are available in retail locations in California and online throughout the US.

As at August 29, 2018, the directors and officers of the Company were:

Jeffrey Maser	Chief Executive Officer and Director
David Berman	Chief Financial Officer
Andrew Stodart	Director
Theodore Zittell	Director
David Ellison	Director
Curtis Marvis	Director

2. Business Overview

Financing Developments

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.

On March 5, 2018, the Company's common shares have qualified to trade on the OTCQX® Best Market in the US. The Company's common shares were upgraded from the Pink® Open Market and began trading under the symbol "TNYBF".

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 (the "April 2018 Financing"). 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 to the Agents of $404,400 and share issuance costs of $108,220. The Company also paid corporate finance fee to the Agents, in the form of 202,200 units, comprised of one (1) common share and one (1) warrant exercisable at $1.35 for 24 months.

On April 20, 2018, the Company granted 100,000 options to an employee at an exercise price of $0.87. The options will expire on April 20, 2023. The options 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 May 11, 2018, the Company granted 150,000 options to a number of its advisory board members at an exercise price of $0.72. The options will expire on May 11, 2023. The options vest quarterly over 3 years until fully vested.

On June 11, 2018, the Company granted 300,000 options to a director at an exercise price of $0.79. The options will expire on June 11, 2023. The options vest quarterly over 3 years until fully vested.

During the six months ended June 30, 2018, 2,456,040 common shares were issued as a result of the exercise of warrants for cash proceeds of $608,810.

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

On August 1, 2018, the Company granted 150,000 options to an employee at an exercise price of $0.61. The options will expire on August 1, 2023 and vest over 3 years as follows: 50,000 options vest on each anniversary until fully vested.

On August 13, 2018, the Company granted 300,000 to a director at an exercise price of $0.79. The options will expire on August 13, 2023 and vest quarterly over 3 years.

Business Developments

On February 13, 2018, Tinley entered into two lease agreements which commenced on March 1, 2018, for a 20,000 square feet facility in Long Beach, California (the "Long Beach facility") for cannabis beverage production. The Company also announced that the temporary facility in Riverside County (the "Riverside facility") where Tinley's products will be manufactured by a licensed facility operator, in the interim, who has licenses for medicinal and adult-use cannabis manufacturing.

February 27, 2018, the Company announced that the Riverside facility licensed operator has been issued licenses (the "Licenses") for medicinal and adult-use cannabis manufacturing. The Licenses allow for various forms of manufacturing using non-volatile solvents.

On April 19, 2018, the Riverside facility licensed operator and CMX Distribution ("CMX Distribution" or the "Distributor") signed a definitive agreement to carry Tinley™ cannabis-infused products throughout California, and it has taken delivery of an initial batch of the Company's cannabis-infused beverages.

On May 16, 2018, Mark Benadiba and Ben Knight joined the Company's Advisory Board. Mr. Benadiba and Mr. Knight provide extensive knowledge from their previous experience at Cott Corporation and experiences in California's cannabis industry, respectively.

On June 18, 2018, Curt Marvis was appointed to the Company's Board of Directors. Mr. Marvis is an internationally-recognized digital media pioneer and entrepreneur and a MTV Lifetime Achievement Award winner. His experience and relationships in the entertainment and creative industries will enhance Tinley's ability to target key consumer segments.

On August 7, 2018, the Company announced that its Riverside facility licensed operator has added additional distributors to its network. Santa Rosa-based Pacific Expeditors and Coachella Valley-based

Vets Leaf have taken delivery of Tinley's cannabis-infused, alcohol-free margarita. Together with CMX Distribution's core markets, the Riverside facility licensed operator's distributors collectively cover Los Angeles, Orange County, the San Francisco Bay Area, Sacramento, San Diego and Palm Springs/Coachella Valley. This new distribution network gives Tinley's licensed products broad sales resources and fulfillment capability to virtually all of California's approximately 400 licensed dispensaries.

Licensing Requirements

Tinley does not currently have any local or state commercial cannabis licenses, permits or authorizations and is not required to have any local or state commercial cannabis licenses, permits, or other authorizations at this time. Presently, the Company is licensing its proprietary intellectual property to licensed operators, (specifically the Riverside facility licensed operator or the "Manufacturer"), who, utilizing their cannabis licenses, are manufacturing Tinley's products.

As a result of a recent change in state laws and regulations, the Manufacturer is no longer required to have both an adult-use and medical cannabis manufacturing license to manufacture adult-use and medical cannabis. Accordingly, the Manufacturer has an "AM-Type 6" temporary state commercial cannabis manufacturing license to conduct both adult-use and medical cannabis manufacturing using non-volatile solvents.

Tinley relies on the Manufacturer to operate in accordance with all state, local and other relevant laws and regulations. As a licensed operator, the Manufacturer has been subject to periodic, normal course inspections by various state and local agencies, including but not limited to, local fire department, the local health department, and the Department of Public Health Manufactured Cannabis Safety Branch ("DPHMCSB"). The Company has leased an employee to the Manufacturer to oversee the quality of production, however, the Manufacturer provides the ultimate direction and control. Therefore, ongoing compliance resides with the Manufacturer. Tinley has no involvement in relation to the Manufacturer's production of products other than the Tinley-branded products.

Retail Growth Strategy

In 2017, Tinley announced that it was continuing to implement its retail distribution strategy:

1. The Company received an initial purchase order from luckyvitamin.com, a leading online health and wellness store owned by GNC.
2. Hemplify became available in Sprouts Chula Vista and Eastlake in San Diego County, California and the Company was engaged in discussions to seek further expansion in premium grocery stores.
3. The Company added additional salespeople in Southern California and retained a food brokerage firm in Northern California to expand its coverage of natural good and premium grocery stores throughout the state and Nevada.
4. The Company began a trial with a major convenience store chain and expanded that trial by an additional 25 stores. This brought the total number of stores in this chain to 33.

In February 2018, the Company released Hemplify under updated packaging. The Company also updated the berry flavor and added a lemon-lime flavor. The Company feels that these changes better target the premium, health-oriented consumers that have proven to be the key consumers of the product. The Company also diverted a portion of its sales resources to focus on cannabis dispensaries.

During the transition period, which lasted much of the first quarter and a portion of the second quarter of 2018, the Company invested little in marketing or shelf merchandising. In many cases, the Company did not fill orders of product placed by retailers, instead filling them with the new product as part of the overall transition for all stores.

Development of Tinley Cocktails and Tinley'27 Cannabis-infused Beverages

In 2016, the Company began working with a Southern California-based liquor formulator on an initial lineup of cannabis-infused beverages. The initial products included a coconut rum, a cinnamon whisky, an Italian amaretto and a "ready-to-drink" margarita cocktail. All products are alcohol-free however made with the same extracts, essences and flavors as their alcoholic counterparts, and are also infused with high purity THC distillate. This new line of cannabis-infused beverages is being made available for use in jurisdictions where such products are permitted.

The Company had elected to delay production of its cannabis beverages to incorporate certain terpene technology that enables users to enjoy an uplifting, Sativa-like effect, as well as to comply with the significantly revised regulatory requirements for sale and labelling of cannabis products in California. The process overcomes a challenge that is often faced by cannabis edibles, which typically deliver a more neutral, Indica-style effect.

The revised formulations enable Tinley's consumers to enjoy an experience that more closely resembles the social and psychoactive effects of alcoholic beverages. This more directly supports the consumer value proposition of the Tinley Cocktails and Tinley'27 alcohol-inspired product lines.

Further, in response to the evolving regulations in California, the Company completed a search for a facility in the State to house its interim bottling line, which resulted in its Intellectual Property licensing agreement (the "IP Agreement") with the Manufacturer. The Company intends to produce its THC-infused beverages until the Company completes the build-out of the Long Beach facility and obtains the necessary licenses to operate at this new location. The Manufacturer received the Licenses for medicinal and adult-use cannabis manufacturing in late February 2018.

In April 2018, the Manufacturer signed a deal with CMX Distribution to distribute Tinley products. CMX Distribution is based in Costa Mesa, California, and distributes cannabis products throughout the State via a network of affiliate distributors.

In April 2018, CMX Distribution took delivery of a pilot batch of Tinley margarita and coconut rum from the Manufacturer. The batches were used primarily for product feedback, logistic/supply chain control and verification, and additional forms of structured and lifestyle product testing. In accordance with California cannabis regulations, these initial products must be distributed through licensed distributors, such as CMX Distribution and licensed dispensaries, including for the foregoing purposes.

As with the Manufacturer, the Company relies upon its third-party distributors' internal compliance mechanisms, reinforced by various normal course state inspections, to ensure they comply with applicable state and local regulations. The Company has frequent interactions with personnel at the Manufacturer and the Manufacturer's distributors, allowing the Company to monitor their activities, however, this is in a limited capacity.

Tinley is not a party to the agreements with the Manufacturer has with CMX Distribution, or any of the Manufacturer's other distributors. Tinley is informed on interactions between the Manufacturer and the Manufacturer's distributors and believes the contracts between these parties include reasonable provisions to ensure they each operate in compliance with applicable local and state laws and regulations.

CBD Beverages

In October 2017, the Company disclosed that its Hemplify CBD product line was accepted for placement at a 14-store premium grocer, representing the Company's largest customer to date. The chain offers a variety of CBD products in locations in Los Angeles and throughout Southern California. The Company has also placed Hemplify in a 4-location natural grocery store and café chain, as well as in numerous independent grocers and convenience stores throughout Los Angeles and Orange Counties. It has also begun a trial with a Texas distributor, representing the Company's first "bricks and mortar" distribution outside California.

In October 2017, the Company also announced that Hemplify was renewed at all its key accounts and continued to add additional retailers. However, the Company noted that sell-through could remain uneven, consistent with typical early-stage mainstream products. As a result, the Company leveraged consumer and buyer feedback on Hemplify to incorporate into its next-generation versions of the product. These products included an updated berry product and a new lemon-lime flavor, all launched under significantly updated packaging. The Company completed roll out of these products on shelves in March 2018.

In April 2018, the Company began allocating additional sales resources to placing Hemplify in cannabis dispensaries, in preparation for sales of its cannabis-based products in this channel, as well as due to the significant level of consumer awareness of CBD that exists in this channel.

In recognition of the Company's progression from a development-stage to ongoing production-stage venture, the Company has shifted several functions from outsourced consultants to full-time internal team members, primarily in sales and production functions. This includes the hiring of a full-time, senior production manager in April 2018, who previously served in a similar capacity in a large local brewery.

Long-Term Bottling Facility

On March 1, 2018, the Company entered into two new lease agreements for the new 19,760 square feet Long Beach facility, a bottling facility for cannabis beverage production which is situated on approximately 45,000 square feet of land approximately 16 miles from downtown Los Angeles. No operations are currently being conducted at the Long Beach facility, which is intended to be used as the Company's future bottling facility and principal place of business in California.

The Company is retrofitting the existing structure to install batching and bottling equipment that is uniquely designed for the needs of cannabis drinks. This equipment will accommodate the solubilization technology and processes that Tinley uses for its cannabis and terpene-infused, liquor-style beverages. The bottling line will also be designed for a variety of bottle, label and closure styles to accommodate future products as well as enable co-packing services for third-party brands that wish to build cannabis-infused versions of their products. The equipment will enable both carbonated and non-carbonated beverages, as well as those that contain perishable ingredients and that require clean-label claims.

Due to the central location of the Long Beach facility, Tinley also intends to use a portion of the building to build a licensed cannabis distributor which will be equipped to cater to the unique needs of beverage products including refrigeration and large-format packaging. The Company intends to operate the distributor in cooperation with existing local distributors and operators. The facility will also house a beverage R&D and internal testing center to enable continuous product innovation and quality assurance. The Company believes that this lineup of services will enable it to maintain control over all aspects of its supply chain, provide investors with exposure to a broader portfolio of beverage products and offer an end-to-end beverage development solution for third-party brands.

The Company has entered into a Letter of Intent with a national engineering firm for retrofitting the facility. The project is estimated to be operational in Q1/2019.

The Company completed an engineering session to select equipment that can achieve the Company's intended target of 10 million bottles per year capacity, and that will be expandable within the same facility as needed. The retail prices for Tinley's retail products are expected to range from $6 to $30 per bottle. The Company believes that this will provide ample capacity for it to offer co-packing and distribution services to third-party beverage companies to exploit any capacity on the line that is not used for Tinley's own beverages. The Company notes that there can be no assurance that customer demand will require the line to operate at capacity. However, the Company expects the cannabis beverage category to grow significantly and therefore is intending to be positioned to handle this level of demand in the event this product category growth comes to fruition.

The Company will continue producing on a smaller, though increasingly broader scale at the Manufacturer until the Long Beach facility is retrofitted and permitted for operations in accordance with California state regulations.

Territorial Expansion

The Company is pleased with the Canadian Government's decision to allow edibles and drinks within one year of the launch of adult-use ("recreational") cannabis products, expected to occur in October 2018. As previously announced, the Company has been engaged in discussions with Canadian licensed producers and intends to finalize such agreements such that they can be modelled upon the Company's California operations and experience. The Company remains committed to prioritizing its California operations due to the State's market size and regulatory structure. The Company also views Nevada as a priority expansion opportunity due to the State's large tourism industry, year-round warm climate, innovative plans for licensing consumption, and proximity to the California operations.

Canadian Companies with U.S. Marijuana-Related Assets

On February 8, 2018, the Canadian Securities Administrators published Staff Notice 51-352 (Revised) *Issuers with U.S. Marijuana-Related Activities* (the "Staff Notice"), which provides specific disclosure expectations for issuers that currently have, or are in the process of developing, cannabis-related activities in the US as permitted within a particular state's regulatory framework. All issuers with US cannabis-related activities are expected to clearly and prominently disclose certain prescribed information in required disclosure documents.

Such disclosure includes, but is not limited to: (i) a description of the nature of a reporting issuer's involvement in the US marijuana industry; (ii) disclosure that marijuana is illegal under US federal law and that enforcement of relevant laws is a significant risk; (iii) related risks including, among others, the risk that third-party service providers could suspend or withdraw services and the risk that regulatory bodies could impose certain restrictions on the issuer's ability to operate in the US; and (iv) a discussion of the reporting issuer's ability to access public and private capital, including which financing options are and are not available to support continuing operations. Additional disclosures are required to the extent a reporting issuer is deemed to be directly or indirectly engaged in the US marijuana industry, or deemed to have "ancillary industry involvement", all as further described in the Staff Notice. Public reaction to the Staff Notice was generally positive and industry participants welcomed the opportunity to review and provide enhanced disclosure.

As a result of the Company's operations in the US, the Company is properly subject to the Staff Notice and accordingly provides the following disclosure:

I. All Issuers with U.S. Marijuana-Related Activities

A. Nature of the Company Involvement in the U.S. Marijuana Industry

The Company will be offering cannabis-infused products within the State of California. Under California law, the Medical and Adult-Use Cannabis Regulation and Safety Act ("MAUCRSA") only allows license holders to engage in commercial cannabis activities. A pre-condition to obtaining a California commercial cannabis license is obtaining a valid license, permit, or authorization from a local municipal government. With a local license, permit, or authorization, an applicant can apply for a State temporary license, which will allow the applicant to operate for 120 days. During this time, the applicant may submit an application for an annual license.

At this time, the Company's involvement in the US commercial cannabis activity is ancillary, as it does not currently conduct any operations that would require a commercial cannabis license. Tinley has entered into contracts with an operator that is a licensed commercial cannabis manufacturer, to manufacture Tinley-branded products. Specifically, Tinley has licensed certain intellectual property to the Manufacturer and agreed on other production terms as such terms relate to the manufacture of Tinley-branded products, in accordance with the applicable local and state laws and regulations. Tinley has also leased one of its employees to the Manufacturer pursuant to a leased employee agreement to assist with production.

The IP Agreement is typically entered into by consumer-packaged goods companies that use third-party manufacturers to co-package goods on their behalf. The Manufacturer's capacity to produce Tinley's products (and the associated revenue) is relatively small. Tinley has formulated plans to increase capacity at this facility and may also seek to add additional facilities to augment capacity, until the Long Beach facility is fully operational.

If the Company modifies its operations such that commercial cannabis licensure is required, such as the completion of the Long Beach facility, the Company will provide an updated disclosure associated with the legal and regulatory concerns of such modified operations.

B. Marijuana Illegality

In the US, cannabis is largely regulated at the state level. To the Company's knowledge, there are to date a total of 29 states, plus the District of Columbia, Puerto Rico and Guam, which allow their residents to use medical marijuana. Notwithstanding the permissive regulatory environment of medical cannabis at the state level, the Federal Controlled Substances Act (the "FCSA") makes it illegal under federal law to manufacture, distribute or dispense marijuana. 21 U.S.C § 801, et seq. Cannabis is categorized as a Schedule I controlled substance under the FCSA and as such, violates federal law in the US. Companies that engage in any form of commerce in the cannabis industry and individuals investing in a cannabis business may be subject to federal criminal prosecution along with civil fines and penalties. Federal enforcement could lead to dissolution, asset forfeiture and total loss of investment. Thus, enforcement of relevant laws is a significant risk.

C. Guidance from Federal Authorities

The US Supreme Court has ruled in a number of cases that the federal government does not violate the federal constitution by regulating and criminalizing cannabis, even for medical purposes. Therefore, federal law criminalizing the use of marijuana pre-empts state laws that legalizes its use for medicinal and adult-use purposes.

As a result of the conflicting views between state legislatures and the US federal government regarding cannabis, investments in cannabis businesses in the US are subject to inconsistent legislation and regulation. The response to this inconsistency was addressed in August 2013 when then Deputy Attorney General, James Cole, authored a memorandum (the "Cole Memorandum") addressed to all US district attorneys acknowledging that, notwithstanding the designation of cannabis as a controlled substance at the federal level in the US, several US states have enacted laws relating to cannabis for medical purposes, as may be supplemented or amended indicating that federal enforcement of the applicable federal laws against cannabis-related conduct should be focused on eight priorities, which are to prevent:

(1) Distribution of cannabis to minors;
(2) Criminal enterprises, gangs and cartels from receiving revenue from the sale of cannabis;
(3) Transfer of cannabis from States where it is legal to States where it is illegal;
(4) Cannabis activity from being a pretext for trafficking of other illegal drugs or illegal activity;
(5) Violence or use of firearms in cannabis cultivation and distribution;
(6) Drugged driving and adverse public health consequences from cannabis use;
(7) Growth of cannabis on federal lands; and
(8) Cannabis possession or use on federal property.

The Cole Memorandum outlined certain priorities for the US Department of Justice (the "DOJ") relating to the prosecution of cannabis offenses. In particular, the Cole Memorandum noted that, in jurisdictions that have enacted laws legalizing cannabis in some form and that have also implemented strong and effective regulatory and enforcement systems to control the cultivation, distribution, sale and possession of cannabis, conduct in compliance with those laws and regulations is less likely to be a priority at the federal level. Notably, however, the DOJ has never provided specific guidelines for what regulatory and enforcement systems it deems sufficient under the Cole Memorandum standard. In light of limited investigative and prosecutorial resources, the Cole Memorandum concluded that the DOJ should be focused on addressing only the most significant threats related to cannabis. States where medical cannabis had been legalized were not characterized as a high priority.

The DOJ has issued official guidance regarding marijuana enforcement in 2009, 2011, 2013, 2014 and 2018 in response to state laws that legalize medical and adult-use marijuana. In each instance, the DOJ has stated that it is committed to the enforcement of federal laws and regulations related to marijuana. However, the DOJ has also recognized that its investigative and prosecutorial resources are limited. As of January 4, 2018, the DOJ has rescinded all federal enforcement guidance specific to marijuana and has instead directed that federal prosecutors should follow the "Principles of Federal Prosecution" originally set forth in 1980 and subsequently refined over time in chapter 9-27.000 of the US Attorney's Manual creating broader discretion for federal prosecutors to potentially prosecute state-legal medical and adult-use marijuana businesses even if they are not engaged in marijuana-related conduct enumerated by the Cole Memorandum, the memorandum dated August 29, 2013, as being an enforcement priority.

On November 14, 2017, Jeff Sessions, the US Attorney General, made a comment before the House Judiciary Committee about prosecutorial forbearance regarding state-licensed marijuana businesses. In his statement, Attorney General Sessions stated that the US Federal Government's current policy is the same fundamentally as the Holder-Lynch policy, whereby the States may legalize marijuana for its law enforcement purposes, but it remains illegal with regard to federal purposes.

On January 4, 2018, Attorney General Sessions issued a memorandum (the "Sessions Memorandum") that rescinded the Cole Memorandum. The Sessions Memorandum rescinded previous nationwide guidance specific to the prosecutorial authority of US Attorneys relative to cannabis enforcement on the basis that they are unnecessary, given the well-established principles governing federal prosecution that are already in place. Those principals are included in chapter 9.27.000 of the US Attorneys' Manual and require federal prosecutors deciding which cases to prosecute to weigh all relevant considerations, including federal law enforcement priorities set by the Attorney General, the seriousness of the crime, the deterrent effect of criminal prosecution, and the cumulative impact of particular crimes on the community.

As a result of the Sessions Memorandum, federal prosecutors will now be free to utilize their prosecutorial discretion to decide whether to prosecute marijuana activities, despite the existence of state-level laws that may be inconsistent with federal prohibitions. No direction was given to federal prosecutors in the Sessions Memorandum as to the priority they should ascribe to such cannabis activities, and resultantly it is uncertain how actively federal prosecutors will be in relation to such activities. Furthermore, the Sessions Memorandum did not discuss the treatment of medical cannabis by federal prosecutors. Medical cannabis is currently protected against enforcement by enacted legislation from US Congress in the form of the Rohrabacher-Blumenauer Amendment, which similarly prevents federal prosecutors from using federal funds to impede the implementation of medical cannabis laws enacted at the state level, subject to Congress restoring such funding. Due to the ambiguity of the Sessions Memorandum in relation to medical cannabis, there can be no assurance that the federal government will not seek to prosecute cases involving cannabis businesses that are otherwise compliant with state law.

Such potential proceedings could involve significant restrictions being imposed upon the Company or third-parties, and also divert the attention of key executives. Such proceedings could have a material adverse effect on the Company's business, revenues, operating results and financial condition as well as the Company's reputation, even if such proceedings were concluded successfully in favor of the Company.

As the Sessions Memorandum demonstrates, the US approach to enforcement of cannabis violations of the CSA can change at any time. While there is some uncertainty at the federal level, on March 23, 2018, the omnibus spending bill signed into law by President Trump included an updated version of the Rohrabacher-Blumenauer amendment, which, as stated above, prohibits the DOJ from using federal funds to prevent states with medical cannabis regulations from implementing laws that authorize the use, distribution, possession or cultivation of medical cannabis. The amendment applies to medical cannabis but not recreational cannabis and does not change the designation of cannabis as a Schedule I controlled substance under the CSA. This protection is limited to medical cannabis only and the amendment will once again be up for renewal when the bill expires later this year on September 30, 2018.

While there are no explicit federal protections for adult-use commercial cannabis activity, on April 11, 2018, President Trump made a verbal commitment to Republican Senator, Cory Gardner, to not interfere with the Colorado cannabis industry. Further, Senator Gardner stated, "President Trump has assured me that he will support a federalism-based legislative solution to fix this states' rights issue once and for all." At this time, such bipartisan legislation has not yet been finalized, but Senate Garner went on to say, "[m]y colleagues and I are continuing to work diligently on a bipartisan legislative solution that can pass Congress and head to the President's desk to deliver on his campaign position." The Company is pleased to see reports that President Trump has promised top Senate Republicans that he will support congressional efforts to protect states that have legalized marijuana. The Company is cautiously optimistic that it represents a clear and positive sign that the industry is shifting towards a climate where cannabis users and business can participate in the industry without fear of interference from the federal government.

While cannabis remains illegal at the federal level, there have been recent developments relevant to the federal government taking a position that respects states' rights to legalize and regulate commercial cannabis and refrain from prosecuting commercial cannabis businesses. As set forth in Tinley's MD&A, Senator Gardner and Senator Elizabeth Warren have introduced federal legislation that would bar the federal government from interfering with any state-approved cannabis legalization and permit cannabis businesses to use the federal banking system. On June 8, 2018, President Trump was asked about the bill in an interview and replied, "we're looking at it. But I probably will end up supporting that, yes." Such a bill would effectively prevent the federal government from taking any action that interferes with legal commercial cannabis businesses in California.

There is no guarantee that the current presidential administration will not change its stated policy regarding the low-priority enforcement of US federal laws that conflict with State laws. Additionally, any new US federal government administration that follows could change this policy and decide to enforce the US federal law vigorously. **Any such change in the US federal government's enforcement of current US federal law could cause adverse financial impact and remain a significant risk to the Company's businesses**. See "Risk Factors".

D. US Enforcement Proceedings

The US Congress has passed appropriations bills each of the last three years that included the Rohrabacher Amendment Title: H.R.2578 — Commerce, Justice, Science, and Related Agencies Appropriations Act, 2016 ("Rohrabacher-Blumenauer Amendment"), which by its terms does not appropriate any federal funds to the DOJ for the prosecution of medical cannabis offenses of individuals who are in compliance with state medical cannabis laws. Subsequent to the issuance of the Sessions Memorandum on January 4, 2018, the US Congress passed its omnibus appropriations bill, SJ 1662, which for the fourth consecutive year contained the Rohrabacher-Blumenauer Amendment language (referred to in 2018 as the ''Rohrabacher-Leahy Amendment'') and continued the protections for the medical cannabis marketplace and its lawful participants from interference by the DOJ up and through the 2018 appropriations deadline of September 30, 2018. American courts have construed these appropriations bills to prevent the federal government from prosecuting individuals when those individuals comply with state law. However, because this conduct continues to violate federal law, American courts have observed that should Congress at any time choose to appropriate funds to fully prosecute the CSA, any individual or business – even those that have fully complied with state law –

could be prosecuted for violations of federal law. If Congress restores funding, the US States government will have the authority to prosecute individuals for violations of the law before it lacked funding under the CSA's five-year statute of limitations.

E. Related Risks

The MAUCRSA establishes a highly regulated system for all commercial cannabis activities in the state of California. This system requires all commercial cannabis activity to be conducted by licensees who are subject to the laws and regulations of the system. At this time, the Company's products are being produced by the Manufacturer, which holds various licenses, including a Type 6 Manufacturing License, which permits it to manufacture the Company's products. The Manufacturer relies on a variety of third-party licensees to obtain ingredients and get the Company's products to authorized consumers. Each and every third-party licensee contracting with the Manufacturer is be subject to the stringent laws and regulations governing cannabis activities in the State of California. In addition to fines, the penalties for non-compliance range from 5-day license suspension to complete revocation of the license. This creates additional risk for the production and sale of the Company's products.

In addition to the risks associated with third-party licensees, there are also general concerns associated operating in the California cannabis industry. Some, but not all of these concerns are set forth below:

1. Banking – Due to federal laws against marijuana, most banks are unwilling to take deposits, issue credit cards, open bank accounts, or assist with payroll services for cannabis businesses. While efforts are underway to address the banking issue, cannabis businesses deal primarily with cash. This presents numerous risks related to security, managing cash flow and the inability to invest funds. The California Board of Equalization allows for cash payments of tax bills at county branches located throughout the state. Nevertheless, cash-related issues continue to present risks for investors. The Company presently maintains accounts at multiple major banks for redundancy.

2. Taxes – Under Internal Revenue Code Section 280E, cannabis businesses are prohibited from deducting their ordinary and necessary business expenses, except for some "costs of goods sold" by cultivators. This results in cannabis enterprises facing much higher federal tax rates than similar companies in other industries. While opinions differ, experts estimate from 40% to 70% as the effective federal tax rate imposed by Section 280E.

3. Food and Drug Administration – The FDA does not permit or allow any statement that cannabis or cannabinoid is intended to treat or cure any disease. Research and scientific studies are underway throughout the US; however, no product may make statements of diagnosis, treatment, or cure for any disease without FDA approval.

4. Product Liability Claims – Insurance law and available products for cannabis operations, and product liability of cannabis, is a major concern for the industry. Investors should be aware that insurance policies may be limited, or claims may be challenged by insurance carriers.

5. Background Checks – California and some local jurisdictions require background checks for management and employees as well as applicants for licenses and permits. Although some cannabis-related convictions are not prohibited for obtaining licensing, convictions for other offenses may cause a delay or make a company ineligible for licensing.

6. License Issuance and Renewals – At this time, the Manufacturer has only obtained a temporary state license. There is no guarantee that the Manufacturer will obtain an annual license. Even if the Manufacturer obtains an annual license, it must be renewed annually and there is no guarantee that such license will be renewed each year.

F. Ability to Access Public and Private Capital

Tinley has historically, and continues to have, access to both public and private capital in Canada in order to support its continuing operations. In addition, Tinley has established a banking relationship with Canaccord Genuity Group, Inc. ("Canaccord"). Canaccord has recently completed a brokered financing for the Company and Tinley's CEO has over ten years of capital markets experience. Although Tinley has accessed private financing in the past and will be accessing the Canadian public market, there is neither a broad nor deep pool of institutional capital that is available to cannabis license applicants. There can be no assurance that additional financing, if raised privately, will be available to Tinley when needed or on terms which are acceptable. The Company has never needed to access public equity capital in the US.

G. Operating Exposure

The Company currently has no operations in Canada. All of the Company's cannabis-based operations are located within the State of California. In addition to the Company's cannabis-based operations discussed herein, the Company manufactures and sells a CBD-based beverage. This CBD-based beverage is manufactured and sold within the parameters set forth by the FDA. The Company estimates that approximately five percent (5%) of its business will be based on the production and sale of non-cannabis products.

H. Legal Advice, Compliance, and Potential Exposure

The Company is monitoring compliance with California Laws on an ongoing basis. The Company has engaged California-based marijuana regulatory compliance counsel, who have substantial experience advising marijuana companies on how to comply with California law. The Company's counsel has been tasked with monitoring California law on an ongoing basis and ensuring that the Company's operations comply with all California marijuana laws. The Company has regularly scheduled calls with compliance counsel to discuss compliance matters. Nevertheless, there is no assurance that the Company or the Manufacturer will be able to maintain or remain in compliance with California or other state laws.

In connection with the Manufacturer's upcoming annual license application, the Company will provide the Manufacturer with Standard Operating Procedures, which shall include internal compliance procedures. While the Company will maintain and update its Standard Operating Procedures, there is no assurance the Company's Standard Operating Procedures will be sufficiently acceptable in the future. Moreover, even if the Manufacturer complies with each and every law and regulation, they may still be subject to federal criminal prosecution along with civil fines and penalties. Federal enforcement could lead to dissolution, asset forfeiture and total loss of investment.

II. <u>Involvement with Cultivation and Distribution</u>

A. U.S. Marijuana Issuers with Direct Involvement in Cultivation or Distribution

At this time, the Company's involvement in the California cannabis industry is limited to the contractual arrangement it has established with the Manufacturer. In addition to conducting manufacturing activities, the Manufacturer also conducts commercial cannabis cultivation. However, the Company is only contracted with the Manufacturer for manufacturing activities. Further, the Manufacturer typically uses cannabis purchased from third-party licensees in extracted forms, rather than cannabis cultivated under its own licenses, to manufacture the Company's products. The Manufacturer is also contracted directly with several licensed cannabis distributors for delivery of the Company's products. As at the time of writing, the Manufacturer has been approved for a distribution license and may begin delivery of the Company's products in the future. Therefore, the Company does not believe it is subject to the disclosure requirements for "U.S. Marijuana Issuers with Direct Involvement in Cultivation or Distribution" set forth in the Staff Notice. If the Company's operations change in the future, it will provide the appropriate amended version of this disclosure. In the event the Company is subject to these disclosure requirements, the Company reserves the right to update this document accordingly.

B. U.S. Marijuana Issuers with Indirect Involvement in Cultivation or Distribution

As stated above, the Company has no direct involvement in the cultivation or distribution of cannabis or cannabis products. The Company is only indirectly involved in commercial cannabis manufacturing through the Manufacturer's manufacturing of the Company's products. Therefore, the Company believes that it is not subject to the disclosure requirements for "*U.S. Marijuana Issuers with Indirect Involvement in Cultivation or Distribution"* set forth in the Staff Notice. The Company reserves the right to amend these disclosures in the event that it determines that it is subject to these disclosures.

III. U.S. Marijuana Issuers with Material Ancillary Involvement

The DPHMCSB lists the Manufacturer as a temporary state license holder. Further, the Company has been informed by the Manufacturer's attorney that they are operating in compliance with all applicable laws and regulations. On this basis, the Company is informed and believes that the Manufacturer "is in compliance with applicable licensing requirements and the regulatory framework enacted by [California]."

Note: The Company has obtained legal advice regarding compliance with applicable state regulatory frameworks and exposure and implication arising from US federal laws in the states where it conducts operations. As of August 29, 2018, the Company has not received any notices of violation, denial or non-compliance from any US authorities.

IV. State-Level Overview

The following sections present an overview of regulatory conditions for the marijuana industry in US States in which the Company has an operating presence.

California

At this time, Tinley is only operating within the state of California. On November 8, 2016, California voted to approve the "Adult Use of Marijuana Act" ("AUMA") to tax and regulate for all adults 21 years of age and older. In 1996, California was the first US state to pass a medical marijuana law allowing for a not-for-profit patient/caregiver system, but there was no State licensing authority to oversee businesses that emerged. In September of 2015, the California legislature passed three bills collectively known as the "Medical Cannabis Regulation and Safety Act" ("MCRSA"). The MCRSA establishes a licensing and regulatory framework for medical marijuana businesses in California. The system has multiple license types for dispensaries, infused products manufacturers, cultivation facilities, testing laboratories, transportation companies, and distributors. Edible infused product manufacturers will require either volatile solvent or non-volatile solvent manufacturing licenses depending on their specific extraction methodology. Multiple agencies will oversee different aspects of the program and businesses will require a State license and local approval to operate.

On June 27, 2017, California State Legislature passed Senate Bill No. 94, known as the "Medicinal and Adult-Use Cannabis Regulation and Safety Act" ("MAUCRSA"), which amalgamates the MCRSA and AUMA frameworks to provide a set of regulations to govern medical and adult use licensing regime for cannabis businesses in the State of California. On November 16, 2017, the State Government introduced the emergency regulations, which shall be governed by California Bureau of Cannabis Control (the "BCC"), California Department of Public Health and California Department of Food and Agriculture, which provide further clarity on the regulatory framework that will govern cannabis businesses. The regulations build on the regulations provided by MCRSA and AUMA and also specify that the businesses will need to comply with the local law in order to also comply with the State regulations. On January 1, 2018, the new State regulations took effect as California moved to full adult-use state legalization for cannabis products.

To operate legally under state law, cannabis operators must obtain a state license and local approval. Local authorization is a prerequisite to obtaining state licensure, and local governments are permitted to prohibit or otherwise regulate the types and number of cannabis businesses allowed in their locality. The state license approval process is not competitive and there is no limit on the number of state licenses an entity may hold. Although vertical integration across multiple license types is allowed under MAUCRSA, testing laboratory licensees may not hold any other licenses aside from a laboratory license. There are also no residency requirements for ownership under MAUCRSA.

In California, two state leaders had issued statements signaling intent to defend the State's voter-approved law legalizing recreational marijuana, in response to the Sessions Memorandum. California Attorney General Xavier Becerra has stated publicly, "In California, we decided it was best to regulate, not criminalize, cannabis," "We intend to vigorously enforce our state's laws and protect our state's interests." The BCC's Chief Executive Lori Ajax also stated, "We'll continue to move forward with the state's regulatory processes covering both medicinal and adult-use cannabis consistent with the will of California's voters, while defending our state's laws to the fullest extent."

On May 29, 2018, federal and state authorities announced a joint effort to target illegal cannabis grows, with $2.5 million in federal money backing the effort. McGregor Scott, US Attorney for the Eastern District of California, said he will prioritize illegal weed rather than going after the legal recreational marijuana market even though US federal law bans marijuana. He stated, "The reality of the situation is there is so much black-market marijuana in California that we could use all of our resources going after just the black market and never get there," "So for right now, our priorities are to focus on what have been historically our federal law enforcement priorities: interstate trafficking, organized crime, and the federal public lands."

To the knowledge of the Company's management, there have not been any additional statements or guidance made by federal authorities or prosecutors regarding the risk of enforcement action in California.

The Manufacturer is producing Tinley-branded products, pursuant to a Type 6-AM temporary state commercial cannabis manufacturing license. As set forth above, the licensed operator has represented to Tinley that its business is and has been being conducted in compliance with the regulatory framework enacted by the State of California. California has implemented a robust regulatory system designed to ensure, monitor, and enforce compliance with all aspects of a cannabis operator's licensed operations. Compliance with local law is a prerequisite to obtaining and maintaining state licensure, and all three state regulatory agencies require confirmation from the locality that the operator is operating in compliance with local requirements and was granted authorization to continue or commence commercial cannabis operations within the locality's jurisdiction.

Below is an overview of some (cultivation licenses excluded) of the principal license types (each license type can be an "A" for adult-use only, an "M" medical only, or an "AM" for both adult-use and medical"):

- Type 6: authorized to manufacture cannabis products using mechanical or non-volatile solvent extractions.
- Type 7: authorized to manufacture cannabis products using volatile solvent extractions.
- Type N: authorized to manufacture cannabis products (other than extracts or concentrates) using infusion processes - but does not conduct extractions.
- Type P: authorized to only package or repackage cannabis products or relabel the cannabis product container.
- Type 8: authorized to test the chemical composition of cannabis and cannabis products
- Type 9: authorized to conduct retail cannabis sales exclusively by delivery.
- Type 10: authorized to sell cannabis goods to customers.
- Type 11: authorized to transport and store cannabis goods purchased from other licensed entities, and sell them to licensed retailers, and is responsible for laboratory testing and quality assurance to ensure packaging and labeling compliance.
- Type 13: authorized to transport cannabis goods between licensed cultivators, manufacturers, and distributors.

A. Zoning and Land Use Requirements

Commercial cannabis license applicants are required to comply with all local zoning and land use requirements and provide written authorization from the property owner where the commercial cannabis operations are proposed to take place, which must dictate that the applicant has the property owner's authorization to engage in the specific state-sanctioned commercial cannabis activities proposed to occur on the premises.

B. Record-Keeping and Continuous Reporting Requirements

California's state license application process additionally requires comprehensive criminal history, regulatory history, financial and personal disclosures, coupled with stringent monitoring and continuous reporting requirements designed to ensure only good actors are granted licenses and that licensees continue to operate in compliance with the State regulatory program.

C. Operating Procedure Requirements

Commercial cannabis license applicants must submit standard operating procedures describing how the operator will, among other requirements, secure the facility, manage inventory, comply with the State's seed-to-sale tracking requirements, dispense cannabis, and handle waste, as applicable to the license sought. Once the standard operating procedures are determined compliant and approved by the applicable state regulatory agency, the licensee is required to abide by the processes described and seek regulatory agency approval before any changes to such procedures may be made. Licensees are additionally required to train their employees on compliant operations and are only permitted to transact with other legal and licensed businesses.

D. Site-Visits & Inspections

Any licensee manufacturing or transporting Tinley-branded products will not be able to obtain or maintain state licensure, and thus engage in commercial cannabis activities in the state of California without satisfying and maintaining compliance with state and local law. As a condition of state licensure, operators must consent to random and unannounced inspections of the commercial cannabis facility as well as all of the facility's books and records to monitor and enforce compliance with state law. Many localities have also enacted similar standards for inspections, and the state has already commenced site-visits and compliance inspections for operators who have received state temporary or annual licensure.

The following represents the portion of certain assets on Tinley's consolidated statement of financial position that pertain to US cannabis activity as of June 30, 2018:

Balance Sheet Line Item	Percentage (%) which Related to Holdings with US marijuana-related activities
Cash and cash equivalents	3%
Accounts receivable	19%
Inventories	100%
Prepaid expenses	7%
Equipment	100%

Tinley has looked at all its holdings that are based in the US and given that none of these holdings have any Canadian operating activity, Tinley's full investment in such entities was included in its assets. Readers are cautioned that the foregoing financial information, though extracted from the Tinley's financial systems that support its Annual Financial Statements, has not been audited in its presentation format and accordingly is not in compliance with IFRS based on consolidation principles.

3. Overall Performance

Selected Annual Information

The Company's selected annual financial information as at and for the three most recently completed financial years ended December 31 are summarized as follows:

	2017	2016	2015
	$	$	$
Sales	31,095	12,573	-
Operating loss	(2,221,354)	(2,328,587)	(775,795)
Net loss	(2,204,607)	(2,328,587)	(692,778)
Loss per share – basic and diluted	(0.030)	(0.049)	(0.044)
Total assets	4,874,773	4,237,901	1,315,527
Total liabilities	254,617	189,787	51,162
Total shareholders' equity	4,620,156	4,048,114	1,264,365

Selected Quarterly Financial Results

The Company's selected financial information for the eight most recently completed quarters are as follows:

	Q2 2018	Q1 2018	Q4 2017	Q3 2017
	$	$	$	$
Sales	12,712	4,027	(35,456)	16,271
Operating loss	(909,837)	(856,226)	(913,821)	(469,518)
Net loss	(901,913)	(858,543)	(911,416)	(468,140)
Loss per share – basic and diluted	(0.010)	(0.010)	(0.012)	(0.006)
Working capital	8,273,079	4,540,718	4,579,524	3,369,217

	Q2 2017	Q1 2017	Q4 2016	Q3 2016
	$	$	$	$
Sales	34,295	15,985	5,681	6,892
Operating loss	(488,416)	(349,599)	(1,443,676)	(255,834)
Net loss	(477,203)	(347,848)	(1,443,676)	(255,834)
Loss per share – basic and diluted	(0.007)	(0.005)	(0.029)	(0.006)
Working capital	3,941,170	3,903,029	3,885,614	323,282

Three Months ended June 30, 2018

Results of Operations

During the three months ended June 30, 2018 ("Q2 2018"), the Company generated sales of $12,712, as compared to sales of $34,295 for the three months ended June 30, 2017 ("Q2 2017"). The net decrease in sales is a result of Hemplify not being available on many shelves for a portion of the quarter as it completed the rollout that had started in the first quarter of product produced under updated packaging design. A very limited amount of the Tinley THC line of products began to sell through a single pilot store in the second half of the quarter and a fulsome rollout did not occur until after the end of this quarter. While the sales of Hemplify have begun to recover from the inventory replacement that occurred during Q1, the Company is now primarily focused on its cannabis-infused beverages. Accordingly, it is scaling up on all aspects of the THC business while making a limited, measured investment in maintenance of the CBD products.

During Q2 2018, the Company incurred total operating expenses of $912,245, as compared to $488,416 in Q2 2017. The significant increase in operating expenses in the current quarter is primarily due to the increase in stock-based compensation largely from the expanded team that will focus on operations and sales, significant increase in product development (largely for the cannabis-infused beverages) and increased general and administrative ("G&A") costs. The majority of the increase in G&A costs relates to the rent expense and overhead of its Long Beach facility which is not yet operational, as well as costs associated with the interim Riverside facility licensed operators, as well as expanded staff needed for all aspects of California's operational activities, including support for sales and marketing, product research and overall production activity carried out by its Long Beach facility licensed operator. Related to research and development ("R&D") and sales, the Company incurred product development costs of $69,980 (Q2 2017 – $23,218) and sales and marketing expenses of $128,207 (Q2 2017 – $257,584). Stock-based compensation of $76,129 (Q2 2017 – $37,403) related to vesting of stock options was also recorded in Q2 2018.

During Q2 2018, the Company also incurred total G&A expenses of $618,922 (Q2 2017 – $144,621), comprised primarily of:

- rents of $223,377 (Q2 2017 – $nil) incurred from the Long Beach and Riverside facilities;
- professional fees of $131,584 (Q2 2017 – $39,035);
- general office expenses of $97,609 (Q2 2017 – $1,123);
- payroll and salaries of $56,887 (Q2 2017 – $nil);
- travel and promotional expenses of $56,075 (Q2 2017 – $14,265); and
- consulting and management fees of $52,016 (Q2 2017 – $73,246).

Net loss for the three months ended June 30, 2018 was $901,913 ($0.010 per share on a basic and diluted basis), as compared to a net loss of $477,203 ($0.007 per share on a basic and diluted basis) for Q2 2017.

Cash Flows

Net cash used in operating activities for the three months ended June 30, 2018 was $722,788, as compared to net cash flows used in operations of $424,533 in Q2 2017. The higher net cash used in operations is due to deposits on the Long Beach lease, engineering costs related to Long Beach and growth initiatives consistent with the Company's strategy to launch and move forward with its Tinley product line of cannabis-infused drinks.

Net cash used in investing activities for the three months ended June 30, 2018 was $35,254 (2017 – $nil), as a result of additions made on equipment required in the operations and the retrofitting of the Long Beach facility.

Net cash received from financing activities for the three months ended June 30, 2018 was $4,645,817, as compared to $485,380 of net cash flows from financing activities in Q2 2017. The significant increase is related to gross proceeds of $5,055,000 from the private placement which closed on April 6, 2018. In conjunction with the April 2018 Financing, cash commissions and legal costs of $512,620 were paid out. The financing cash inflows from Q2 2018 also comprised of cash proceeds of $103,437 received from various warrants exercised during the quarter. This compares to cash proceeds of $485,380 received from exercises of warrants during Q2 2017.

Six Months ended June 30, 2018

Results of Operations

During the six months ended June 30, 2018, the Company generated sales of $16,739, as compared to sales of $50,280 for the six months ended June 30, 2017. The net decrease in sales is a result of Hemplify generally not being available on shelves for much of the quarter as old products were being replaced with new products. Accordingly, the Company conducted very little marketing and shelf maintenance during this period. While sales of Hemplify have begun to recover with rollout of the updated product complete, the Company is now devoting the majority of its resources on its cannabis-infused beverages.

During the six months ended June 30, 2018, the Company incurred total operating expenses of $1,768,471, as compared to $838,015 in 2017. The significant increase in operating expenses in the current period is primarily due to the increase in stock-based compensation, significant increase in product development (largely for the cannabis-infused beverages) and increased general and administrative costs related to the Long Beach lease, expanded staff and the Company's financing. The majority of the increase in G&A costs relates to the rent expenses and overheads of its Long Beach facility, as well as costs associated with the interim Riverside facility licensed operator, as well as expanded staff needed for the all aspects of California's operational activities, including support for sales and marketing, product research and overall production activity carried out by its Long Beach facility licensed operator. Related to R&D and sales, the Company incurred product development costs of $188,362 (2017 – $11,912) and sales and marketing expenses of $291,699 (2017 – $415,239). Stock-based compensation of $354,229 (2017 – $120,460) related to vesting of stock options was also recorded in the first half of Fiscal 2018.

During the first half of Fiscal 2018, the Company also incurred total G&A expenses of $986,386 (2017 – $273,354), comprised primarily of:

- rents of $280,968 (2017 – $nil) incurred from the Long Beach and Riverside facilities;
- professional fees of $204,987 (2017 – $39,264);
- general office expenses of $199,871 (2017 – $75,441);
- consulting and management fees of $154,041 (2017 – $126,544);
- payroll and salaries of $75,431 (2017 – $16,951); and
- travel and promotional expenses of $68,373 (2017 – $15,154).

Net loss for the six months ended June 30, 2018 was $1,753,021 ($0.021 per share on a basic and diluted basis), as compared to a net loss of $825,051 ($0.012 per share on a basic and diluted basis) in 2017. This increase in net loss is largely a result of the aforementioned increase in investment in temporary cannabis production and costs, and costs related to the Long Beach build-out.

Cash Flows

Net cash used in operating activities for the six months ended June 30, 2018 was $1,691,314, as compared to net cash flows used in operations of $800,373 in the comparative period. The higher net cash used in operations is due to deposits on the Long Beach lease, engineering costs related to Long Beach and growth initiatives consistent with the Company's strategy initiated in 2017.

Net cash used in investing activities for the six months ended June 30, 2018 was $58,889 (2017 – $nil), as a result of additions made on equipment required in the operations at the Manufacturer and the retrofitting of the Long Beach facility.

Net cash received from financing activities for the six months ended June 30, 2018 was $5,181,190, as compared to $768,238 of net cash flows from financing activities in the comparative period. The significant increase is related to gross proceeds of $5,055,000 from the April 2018 Financing, where the Company also paid out cash commissions and legal costs of $512,620. The financing cash inflows from Fiscal 2018 to date also comprised of cash proceeds of $608,810 and $30,000 received from warrants and options exercised during the quarter. This compares to cash proceeds of $749,593 and $18,645 received from exercises of warrants and options, respectively, in the comparative period.

Working Capital and Liquidity Outlook

As at June 30, 2018, the Company had working capital of $8,273,079, as compared to working capital of $4,579,524 as at December 31, 2017.

As at June 30, 2018, the Company had total accessible cash and cash equivalents and liquid investment assets of $8,099,641 available for working capital and other operational purposes, comprised of $6,983,098 in cash and cash equivalents (December 31, 2017 – $3,584,780) and investments in short-term GICs and fixed-income securities valued at $1,116,543 (December 31, 2017 – $1,113,337). The GICs and the fixed-income securities will mature starting in the second half of 2018 and into 2019 but are cashable at an earlier date if necessary.

As at June 30, 2018, the Company had cash and cash equivalents of $6,983,098 (December 31, 2017 – $3,584,780) to settle current liabilities of $143,308 (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 period-end.

4. 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 six months ended June 30, 2018 and 2017 were as follows:

	Six months ended June 30, 2018	Six months ended June 30, 2017
	$	$
Short-term employee benefits, including salaries and consulting fees	**266,113**	217,813
Share-based compensation	**81,326**	91,960
Professional fees	**-**	8,701
	347,439	318,474

(i) During the six months ended June 30, 2018, directors considered to be part of key management, including the Chief Executive Officer ("CEO") of the Company, were paid management compensation and consulting fees of $232,513 (2017 – $182,719) for services rendered. As at June 30, 2018, an amount of $52,107 (December 31, 2017 – $93,092) owing to these directors was included in accounts payable.

(ii) During the six months ended June 30, 2018, David Berman, the Chief Financial Officer ("CFO") of the Company was paid consulting fees of $33,600 (2017 – $nil) for services rendered. As at June 30, 2018, no balance (December 31, 2017 – $5,630 included in accounts payable) was owed to the CFO for compensation on services rendered.

Other related party transactions

(iii) During the six months ended June 30, 2018, directors received stock-based compensation of $81,326 (2017 – $91,960).

5. Financial Risk Management

Fair value

The carrying amount of cash and cash equivalents, trade receivables, short-term investments and accounts 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.

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 June 30, 2018, the Company had a cash and cash equivalents balance of $6,983,098 (December 31, 2017 – $3,584,780) to settle current liabilities of $143,308 (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 June 30, 2018, the Company has cash and cash equivalents of USD $2,300,824 (December 31, 2017 – USD $505,444) available to use against trade and other payables of USD $33,986 (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 June 30, 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 six months ended June 30, 2018 would have been approximately $299,509 higher/lower respectively as a result of foreign exchange gains (losses) on translation of USD-denominated financial instruments.

6. Capital 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 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 June 30, 2018, the Company considers its capital to be share capital, reserve for warrants, reserve for share-based payments, and accumulated other comprehensive loss, totaling $8,380,831 (December 31, 2017 – $4,620,156).

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 six months ended June 30, 2018 and the year ended December 31, 2017.

7. Summary of Significant Accounting Policies

Refer to Note 3 of the audited consolidated financial statements for the year ended December 31, 2017 for a detailed description of significant accounting policies.

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:

- 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 the 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.

Disclosure of Outstanding Share Data August 29, 2018

	Authorized	**Outstanding**
Voting or equity securities issued and outstanding	Unlimited Common Shares	90,827,034 Common Shares
Securities convertible or exercisable into voting or equity shares		Stock Options to acquire up to 4,185,500 Common Shares of the Company; Warrants to acquire up to 5,661,600 Common Shares of the Company.

Off-Balance Sheet Arrangements

As at June 30, 2018 and the date of this MD&A, the Company does not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on the results of operations or financial condition of the Company.

Commitments

On March 1, 2018, the Company entered into two new lease agreements for the Long Beach facility in California, for beverage production and bottling facilities. 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 lease, 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 June 30, 2018, the Company is committed to minimum annual lease payments for its bottling facility as follows:

	Total	Within 1 year	1 to 3 years	3 to 5 years
	$	$	$	$
Lease obligations	3,029,957	616,262	1,232,525	1,181,170

Subsequent Events

On August 1, 2018, the Company granted 150,000 options to an employee at an exercise price of $0.61. The options will expire on August 1, 2023 and vest over 3 years as follows: 50,000 options vest on each anniversary until fully vested.

On August 13, 2018, the Company granted 300,000 to a director at an exercise price of $0.79. The options will expire on August 13, 2023 and vest quarterly over 3 years.

8. Risk Factors

There are numerous and varied risks, known and unknown, that may prevent the Company from achieving its goals. If any of these risks occur, the Company's business, financial condition or results of operation may be materially adversely affected. In such case, the trading price of the Company's common shares could decline, and investors could lose all or part of their investment. The following is a summary of risks that could be applicable to the business of the Company:

Limited operating history in its new area of business

The Company has a limited operating history in its new area of business, is in the early-stage development and must be considered as a start-up company. As such, the Company is subject to many risks common to such enterprises, including under-capitalization, cash shortages, limitations with respect to personnel, financial and other resources and lack of revenue. There is no assurance that the Company will be successful in achieving a return on shareholders' investment and the likelihood of success must be considered in light of its early stage of operations. The Company also has no history of earnings.

Because the Company has a limited operating history in emerging area of business, investors should consider and evaluate its operating prospects in light of the risks and uncertainties frequently encountered by early-stage companies in rapidly evolving markets. These risks may include:

- risks that it may not have sufficient capital to achieve its growth strategy;
- risks that it may not develop its product and service offerings in a manner that enables it to be profitable and meet its customers' requirements;
- risks that its growth strategy may not be successful;
- risks that fluctuations in its operating results will be significant relative to its revenues; and
- risks relating to an evolving regulatory regime.

The Company's future growth will depend substantially on its ability to address these and the other risks described in this section. If it does not successfully address these risks, its business may be significantly harmed.

Additional financing

The Company believes that its raised capital is sufficient to meet its presently anticipated working capital and capital expenditure requirements for the near future. This belief is based on its operating plan which, in turn, is based on assumptions, which may prove to be incorrect. In addition, the Company may need to raise significant additional funds sooner to support its growth, develop new or enhanced services and products, respond to competitive pressures, acquire or invest in complementary or competitive businesses or technologies, or take advantage of unanticipated opportunities. If its financial resources are insufficient, it will require additional financing to meet its plans for expansion. The Company cannot be sure that this additional financing, if needed, will be available on acceptable terms or at all. Furthermore, any debt financing, if available, may involve restrictive covenants, which may limit its operating flexibility with respect to business matters. If additional funds are raised through the issuance of equity securities, the percentage ownership of existing shareholders will be reduced, such shareholders may experience additional dilution in net book value, and such equity securities may have rights, preferences or privileges senior to those of its existing shareholders. If adequate funds are not available on acceptable terms or at all, the Company may be unable to develop or enhance its services and products, take advantage of future opportunities, repay debt obligations as they become due, or respond to competitive pressures, any of which could have a material adverse effect on its business, prospects, financial condition, and results of operations.

Volatile global financial and economic conditions

Current global financial and economic conditions remain extremely volatile. Access to public and private capital and financing continues to be negatively impacted by many factors as a result of the global financial crisis and global recession. Such factors may impact the Company's ability to obtain financing in the future on favorable terms or obtain any financing at all. Additionally, global economic conditions may cause a long-term decrease in asset values. If such global volatility, market turmoil and the global recession continue, the Company's operations and financial condition could be adversely impacted.

Reliance on third-party suppliers, manufacturers, distributors and contractors

Due to the uncertain regulatory landscape for regulating cannabis in Canada and the US, Tinley's third-party suppliers, manufacturers, distributors and contractors may elect, at any time, to decline or withdraw services necessary for Tinley's operations. Loss of these suppliers, manufacturers, distributors and contractors may have a material adverse effect on the Company's business and operational results.

Reliance on securing agreements with Licensed Producers

The regulatory framework in most States restricts the Company from obtaining a License to grow, store and sell marijuana products. As such, the Company relies on securing agreements with Licensed Producers in the targeted jurisdictions that have been able to obtain a License with the appropriate regulatory authorities. Failure of a Licensed Producer to comply with the requirements of their License or any failure to maintain their License would have a material adverse impact on the business, financial condition and operating results of the Company. Should the regulatory authorities not grant a License or grant a License on different terms unfavorable to the Licensed Operators, and should the Company be unable to secure alternative Licensed Operators, the business, financial condition and results of the operation of the Company would be materially adversely affected.

If the US federal government changes its approach to the enforcement of laws relating to marijuana, the Company would need to seek to replace those tenants with non-marijuana tenants, who would likely pay lower rents. It is likely that the Company would realize an economic loss on its capital acquisitions and improvements made to its capital assets specific to the marijuana industry, and the Company would likely lose all or substantially all of its investments in the markets affected by such regulatory changes.

The Company has advanced, and may continue to advance, significant funds to potential sellers in the form of promissory notes, which the Company may not be able to collect if the sellers fails to profitably operate its business. There is no assurance that any or all of the amounts loaned will be recovered by the Company.

Regulation

The activities of the Company are subject to regulation by governmental authorities. Achievement of the Company's business objectives are contingent, in part, upon compliance with regulatory requirements enacted by these governmental authorities and obtaining all regulatory approvals, where necessary, for the sale of its products. The Company cannot predict the time required to secure all appropriate regulatory approvals for its products, or the extent of testing and documentation that may be required by governmental authorities. Any delays in obtaining, or failure to obtain regulatory approvals would significantly delay the development of markets and products and could have a material adverse effect on the business, results of operations and financial condition of the Company.

The Company's operations are subject to a variety of laws, regulations and guidelines relating to the manufacture, management, transportation, storage and disposal of marijuana but also including laws and regulations relating to health and safety, the conduct of operations and the protection of the environment. The Company cannot predict the nature of any future laws, regulations, interpretations, policies or applications, nor can it determine what effect additional governmental regulations or administrative interpretations or procedures, when and if promulgated, could have on the Company's operations. Changes to such laws, regulations and guidelines due to matters beyond the control of the Company may cause adverse effects to the Company's operations.

Local, State and federal laws and regulations governing marijuana for medicinal and adult use purposes are broad in scope and are subject to evolving interpretations, which could require the Company to incur substantial costs associated with bringing the Company's operations into compliance. In addition, violations of these laws, or allegations of such violations, could disrupt the Company's operations and result in a material adverse effect on its financial performance. It is beyond the Company's scope to predict the nature of any future change to the existing laws, regulations, policies, interpretations or applications, nor can the Company determine what effect such changes, when and if promulgated, could have on the Company's business.

U.S. Federal Laws

The business operations of the Company are dependent on State laws pertaining to the marijuana industry. Continued development of the marijuana industry is dependent upon continued legislative authorization of marijuana at the State level. Any number of factors could slow or halt progress in this area. Further, progress, while encouraging, is not assured. While there may be ample public support for legislative action, numerous factors impact the legislative process. Any one of these factors could slow or halt legal manufacturer and sale of marijuana, which would negatively impact the business of the Company.

The concepts of "medical marijuana" and "retail marijuana" do not exist under US federal law. The FCSA classifies "marijuana" as a Schedule I drug. Under US federal law, a Schedule I drug or substance has a high potential for abuse, no accepted medical use in the US, and a lack of safety for the use of the drug under medical supervision. As such, marijuana-related practices or activities, including without limitation, the manufacture, importation, possession, use or distribution of marijuana are illegal under US federal law. Strict compliance with State laws with respect to marijuana will neither absolve the Company of liability under US federal law, nor will it provide a defense to any federal proceeding which may be brought against the Company.

Violations of any US federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from civil proceedings conducted by either the US federal government or private citizens, or criminal charges, including, but not limited to, disgorgement of profits, cessation of business activities or divestiture. This could have a material adverse effect, and as a result the Company, including their reputation and ability to conduct business, their holdings (directly or indirectly) of medical cannabis licenses in the US, and the listing of their securities on various stock exchanges, their financial position, operating results, profitability or liquidity or the market price of their publicly-traded shares. In addition, it is difficult for the Company to estimate the time or resources that would be needed for the investigation of any such matters or its final resolution because, in part, the time and resources that may be needed are dependent on the nature and extent of any information requested by the applicable authorities involved, and such time or resources could be substantial.

As of the date of this MD&A, 29 States, the District of Columbia and Guam allow their residents to use medical marijuana. Voters in the States of Colorado, Washington, Oregon, Alaska, California, Nevada, Massachusetts, and Maine have approved and have implemented or are implementing regulations to legalize cannabis for adult use. The State laws are in conflict with the FCSA, which makes marijuana use and possession illegal on a national level. The Obama administration has made numerous statements indicating that it is not an efficient use of resources to direct federal law enforcement agencies to prosecute those lawfully abiding by State-designated laws allowing the use and distribution of medical marijuana. However, there is no guarantee that the Trump administration will not change the government's stated policy regarding the low-priority enforcement of federal laws and decide to enforce the federal laws to the fullest extent possible. Any such change in the federal government's enforcement of current federal laws could cause significant financial damage to the Company and its stockholders, including the potential exposure to criminal liability.

The constant evolution of laws and regulations affecting the marijuana industry could detrimentally affect the Company's operations. Local, State and federal medical marijuana laws and regulations are broad in scope and subject to changing interpretations. These changes may require the Company to incur substantial costs associated with legal and compliance fees and ultimately require the Company to alter its business plan. Furthermore, violations of these laws, or alleged violations, could disrupt the business of the Company and result in a material adverse effect on operations. In addition, the Company cannot predict the nature of any future laws, regulations, interpretations or applications, and it is possible that regulations may be enacted in the future that will be directly applicable to the business of the Company.

Local regulation could change and negatively impact on the Company's operations

Most US States that permit marijuana for adult use or medical use provide local municipalities with the authority to prevent the establishment of medical or adult use marijuana businesses in their jurisdictions. If local municipalities where the Company or its Licensed Operators have established facilities decide to prohibit marijuana businesses from operating, the Company or its Licensed Operators could be forced to relocate operations at great cost to the Company, and the Company or its Licensed Operators may have to cease operations in such State entirely if alternative facilities cannot be secured.

There are risks associated with removal of U.S. Federal Budget Rider Protections

The US Congress has passed appropriations bills (the "Leahy Amendment") each of the last four years to prevent the federal government from using congressionally appropriated funds to enforce federal marijuana laws against regulated medical marijuana actors operating compliance with state and local laws. The 2018 Consolidated Appropriations Act was passed by Congress on March 23, 2018 and included the re-authorization of the Leahy Amendment. It will continue in effect until September 30, 2018, the last day of fiscal year 2018.

American courts have construed these appropriation bills to prevent the federal government from prosecuting individuals when those individuals comply with state medical cannabis laws. However, because this conduct continues to violate federal law, American courts have observed that should Congress at any time choose to appropriate funds to fully prosecute the CSA, any individual or business-even those that have fully complied with state law-could be prosecuted for violations of federal law. If Congress restores funding, for example by declining to include the Leahy Amendment in the 2019 budget resolution, or by failing to pass necessary budget legislation and causing another government shutdown, the government will have the authority to prosecute individuals for violations of the law before it lacked funding under the five-year statute of limitations applicable to non-capital Controlled Substances Act violations. Additionally, it is important to note that the appropriations protections only apply to medical cannabis operations and provide no protection against businesses operating in compliance with a state's recreational cannabis laws.

Regulation that may hinder the Company's ability to establish and maintain bank accounts

The US federal prohibitions on the sale of marijuana may result in Licensed Operators being restricted from accessing the US banking system and they may be unable to deposit funds in federally insured and licensed banking institutions. While the Company does not anticipate dealing with banking restrictions directly relating to its business, banking restrictions could nevertheless be imposed due to the Company's banking institutions not accepting payments from Licensed Operators. Licensed Operators at times do not have deposit services and are at risk that any bank accounts they have could be closed at any time. Such risks increase costs to the Company and Licensed Operators. Additionally, similar risks are associated with large amounts of cash at these businesses. These businesses require heavy security with respect to holding and transport of cash, whether or not they have bank accounts.

In the event that financial service providers do not accept accounts or transactions related to the marijuana industry, it is possible that Licensed Operators may seek alternative payment solutions, including but not limited to crypto currencies such as Bitcoin. There are risks inherent in crypto currencies, most notably its volatility and security issues.

If the industry was to move towards alternative payment solutions and accept payments in crypto currency the Company would have to adopt policies and protocols to manage its volatility and exchange rate risk exposures. The Company's inability to manage such risks may adversely affect the Company's operations and financial performance.

Taxes

US federal prohibitions on the sale of marijuana may result in the Company not being able to deduct certain costs from its revenue for US federal taxation purposes if the Internal Revenue Service ("IRS") determines that revenue sources of the Company are generated from activities which are not permitted under US federal law. Section 280E of the Internal Revenue Code of 1986 prohibits businesses from deducting certain expenses associated with trafficking controlled substances (within the meaning of Schedule I and II of the FCSA). The IRS has invoked Section 280E in tax audits against various cannabis businesses in the US that are permitted under applicable state laws. Although the IRS issued a clarification allowing the deduction of certain expenses, the scope of such items is interpreted very narrowly, and the bulk of operating costs and general administrative costs are not permitted to be deducted. While there are currently several pending cases before various administrative and federal courts challenging these restrictions, there is no guarantee that these courts will issue an interpretation of Section 280E favorable to cannabis businesses.

Illegal drug dealer could pose threats

Currently, there are many drug dealers and cartels that cultivate, buy, sell and trade marijuana in the US, Canada and worldwide. Many of these dealers and cartels are violent and dangerous, well financed and well organized. It is possible that these dealers and cartels could feel threatened by legalized marijuana businesses such as those with whom the Company does business and could take action against or threaten the Company, its principals, employees and/or agents and this could negatively impact the Company and its business.

Competition

The beverage industry is highly competitive. The Company will compete with numerous other businesses, many of which possess greater financial and marketing resources than the Company. The beverage business is often affected by changes in consumer tastes and discretionary spending patterns, national and regional economic conditions, demographic trends, consumer confidence in the economy, traffic patterns, local competitive factors, cost and availability of raw material and labor, and governmental regulations. Any change in these factors could materially and adversely affect the Company's operations. The Company's operations can also be substantially affected by adverse publicity resulting from quality, illness, injury, health concerns, public opinion, or operating issues. The Company will attempt to manage these factors, but the occurrence of any one or more of these factors could materially and adversely affect the Company's business, financial condition and results of operations.

Reliance on management

The success of the Company is dependent on the performance of its senior management. The loss of services of these persons would have a material adverse effect on the Company's business and prospects in the short-term. There is no assurance the Company can maintain the services of its officers or other qualified personnel required to operate its business. Failure to do so could have a material adverse effect on the Company and its prospects.

Factors which may prevent realization of growth targets

The Company is currently in the early development stage. There is a risk that the additional resources will be needed, and milestones will not be achieved on time, on budget, or at all, as they are can be adversely affected by a variety of factors, including some that are discussed elsewhere in these risk factors and the following as it relates to the Company:

- delays in obtaining, or conditions imposed by, regulatory approvals;
- facility design errors;
- environmental pollution;
- non-performance by third party contractors;
- increases in materials or labour costs;
- construction performance falling below expected levels of output or efficiency;
- breakdown, aging or failure of equipment or processes;
- contractor or operator errors;
- labour disputes, disruptions or declines in productivity;
- inability to attract sufficient numbers of qualified workers;
- disruption in the supply of energy and utilities; and
- major incidents and/or catastrophic events such as fires, explosions, earthquakes or storms.

The products sold by the Company are subject to regulation governing food, dietary supplement, controlled substances and related products

The Company's activities are subject to regulation by governmental authorities. Achievement of the Company's business objectives are contingent, in part, upon compliance with regulatory requirements enacted by these governmental authorities and obtaining all regulatory approvals, where necessary, for the sale of its products. The Company cannot predict the time required to secure all appropriate regulatory approvals for its products, or the extent of testing and documentation that may be required by governmental authorities. Any delays in obtaining, or failure to obtain regulatory approvals would significantly delay the development of markets and products and could have a material adverse effect on the business, results of operations and financial condition of the Company.

While cannabinoids, commonly found in hemp oil, can also be commonly found in certain strains of marijuana, which faces significant restrictions on use and distribution under the FCSA, the Company was not sourcing any derivatives from marijuana as at year end for its hemp products.

While oil derived from industrial hemp stalk that has naturally occurring THC content equal to or less than 0.3% is excluded from the definition of marijuana under the FCSA, there is no certainty that this exclusion could not be altered by court or governmental action or re-interpretation. There is no certainty that the FDA will not regulate the use of hemp oil or components of hemp oil as a drug and prohibit use as a dietary ingredient. There is no certainty that hemp oil will be considered a grandfathered dietary ingredient under the Dietary Supplement Health and Education Act of (1994) ("DSHEA") or would otherwise be permitted for use under the DSHEA. The FDA has stated that cannabidiol, a component of hemp oil, is precluded from the definition of a dietary ingredient as it is the subject of an Investigational New Drug application.

On April 19, 2018, the FDA advisory committee unanimously recommended supporting the approval of the new drug application for Epidiolex, a CBD product for the treatment of seizures associated with Lennox-Gastaut syndrome and Dravet syndrome in patients two years of age and older. Upon the approval of Epidiolex, it is possible that FDA may begin taking enforcement action against companies selling CBD products, although it is unknown what actions and when will be taken.

With respect to the Company's sales of hemp-derived CBD products in California, the Company understands that the Food and Drug Branch of the California Department of Public Health has also begin taking enforcement action against companies selling CBD products in certain instances. On July 6, 2018, the Food and Drug Branch of the California Department of Public Health published a Frequently Asked Questions document (the "FAQ"), which expressed California's concern about the safety of human and animal consumption of hemp-derived CBD food products. The FAQ provides that, until the FDA affirmatively rules that hemp-derived CBD is approved to be used as a food product ingredient, or California makes its own affirmative safety determination relative to consumption of such hemp derived CBD food products, California would take a similar position as the FDA and designate hemp-derived CBD as an unapproved food additive.

The Company relies on the supply of hemp stalk oil extracts, which is imported into the US from other countries. The United States Drug Enforcement Administration ("DEA") and the US Customs and Border Protection Agency will not permit the entry of hemp extract into the US if it contains any amount of THC which is a marijuana derivative and, therefore, a Schedule I drug. Currently, the definition of "marijuana" in the US CSA does not include the plant's "mature stalks", which are used to create hemp (which only contains trace amounts of THC and has no psychoactive effect). Hemp stalk oil is not scheduled under the US CSA and therefore, is also not under the enforcement authority of the DEA. Currently, the DEA does not take jurisdiction over hemp stalk oil products, but controls hemp cultivation, and companies that wish to cultivate hemp in the US must apply for a permit with the DEA. If in the future DEA takes jurisdiction to regulate hemp stalk oil products, the Company may become subject to additional licensing requirements, which may require additional capital. There is no assurance that the Company will be able to obtain any such licenses, or be eligible to apply for such licenses, which would adversely affect the Company's business.

Products containing cannabis and hemp CBD may currently not be manufactured, distributed or sold in Canada unless such activity is undertaken in accordance with the Access to Cannabis for Medical Purposes Regulations or other appropriate regulatory exemptions. The Company is monitoring changes to Canada's regulations with respect to both medical and recreational cannabis and may seek to pursue opportunities to distribute its products in Canada as such regulatory changes permit.

Risks associated with increasing competition

There is potential that the Company will face intense competition from other companies, some of which can be expected to have longer operating histories and more financial resources and manufacturing and marketing experience the Company. Increased competition by larger and better financed competitors could materially and adversely affect the business, financial condition and results of operations of the Company.

Due to the early stage of the industry in which the Company operates, the Company expects to face additional competition from new entrants. To remain competitive, the Company will require a continued high level of investment in research and development, marketing, sales and client support. The Company may not have sufficient resources to maintain research and development, marketing, sales and client support efforts on a competitive basis which could materially and adversely affect the business, financial condition and results of operations the Company.

Risks inherent in an agricultural business

A part of the Company's business revolves around purchasing hemp extract, an agricultural product, although the Company will not itself grow or sell hemp. As such, the business is subject to the risks inherent in the agricultural business, such as insects, plant diseases and similar agricultural risks. Although the Company intends to manufacture its products indoors under climate-controlled conditions, carefully monitors the growing conditions with trained personnel, there can be no assurance that natural elements will not have a material adverse effect on the production of its products.

Product liability

As a manufacturer and distributor of products designed to be ingested by humans, the Company faces an inherent risk of exposure to product liability claims, regulatory action and litigation if its products are alleged to have caused significant loss or injury. In addition, the manufacture and sale of the Company's products involve the risk of injury to consumers due to tampering by unauthorized third parties or product contamination. Previously unknown adverse reactions resulting from human consumption of the Company's products alone or in combination with other medications or substances could occur. The Company may be subject to various product liability claims, including, among others, that the Company's products caused injury or illness, include inadequate instructions for use or include inadequate warnings concerning possible side effects or interactions with other substances. A product liability claim or regulatory action against the Company could result in increased costs, discontinuation of products, adverse impact on the Company's reputation with its clients and consumers generally and could have a material adverse effect on its results of operations and financial condition. There can be no assurances that the Company will be able to obtain or maintain product liability insurance on acceptable terms or with adequate coverage against potential liabilities. Such insurance is expensive and may not be available in the future on acceptable terms, or at all. The inability to obtain sufficient insurance coverage on reasonable terms or to otherwise protect against potential product liability claims could prevent or inhibit the commercialization of the Company potential products.

Product recalls

Manufacturers and distributors of products are sometimes subject to the recall or return of their products for a variety of reasons, including product defects, such as contamination, unintended harmful side effects or interactions with other substances, packaging safety and inadequate or inaccurate labeling disclosure. If any of the products developed by the Company are recalled due to an alleged product defect or for any other reason, the Company could be required to incur the unexpected expense relating to the recall and any legal proceedings that might arise in connection with the recall. The Company may lose a significant amount of revenue and may not be able to replace that revenue at an acceptable margin or at all. In addition, a product recall may require significant management attention. Although the Company is establishing procedures to test finished products, there can be no assurance that any quality, potency or contamination problems will be detected in time to avoid unforeseen product recalls, regulatory action or lawsuits. Additionally, if one of the Company's significant brands were subject to recall, the image of that brand and the Company could be harmed. A recall for any of the foregoing reasons could lead to decreased demand for the Company's products and could have a material adverse effect on the results of operations and financial condition of the Company. Product recalls may lead to increased scrutiny of the Company's operations by the regulatory agencies, requiring further management attention and potential legal fees and other expenses.

The Company may be vulnerable to unfavorable publicity or consumer perception

The Company believes the cannabis industry is highly dependent upon consumer perception regarding the safety, efficacy and quality of the cannabis produced. Consumer perception can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding the consumption of cannabis products.

Future research reports, findings, regulatory proceedings, litigation, media attention or other publicity that are perceived as less favorable than, or that question, earlier research reports, findings or publicity could have a material adverse effect on the demand for cannabis and on the business, results of operations, financial condition and cash flows of the Company.

Further, adverse publicity reports or other media attention regarding the safety, efficacy and quality of cannabis in general, or associating the consumption of cannabis with illness or other negative effects or events, could have such a material adverse effect. Such adverse publicity reports or other media attention could arise hindering market growth and state adoption due to inconsistent public opinion and perception of the medical-use and adult-use cannabis industry. Public opinion and support for medical and adult-use cannabis has traditionally been inconsistent and varies from jurisdiction to jurisdiction. While public opinion and support appears to be rising for legalizing medical and adult-use cannabis, it remains a controversial issue subject to differing opinions surrounding the level of legalization (for example, medical cannabis as opposed to legalization in general).

Dependence on suppliers and skilled labour

The ability of the Company to compete and grow will be dependent on it having access, at a reasonable cost and in a timely manner, to skilled labour, equipment, parts and components. No assurances can be given that the Company will be successful in maintaining its required supply of skilled labour, equipment, parts and components. It is also possible that the final costs of the major equipment contemplated by the Company's capital expenditure program may be significantly greater than anticipated by the Company's management, and may be greater than funds available to the Company, in which circumstance the Company may curtail, or extend the timeframes for completing, its capital expenditure plans. This could have an adverse effect on the financial results of the Company.

Operating risk and insurance coverage

The Company's insurance coverage is intended to address all material risks to which it is exposed and is adequate and customary in its current state of operations. However, such insurance is subject to coverage limits and exclusions and may not be available for the risks and hazards to which the Company is exposed. In addition, no assurance can be given that such insurance will be adequate to cover the Company's liabilities or will be generally available in the future or, if available, that premiums will be commercially justifiable. If the Company were to incur substantial liability and such damages were not covered by insurance or were in excess of policy limits, or if the Company were to incur such liability at a time when it is not able to obtain liability insurance, its business, results of operations and financial condition could be materially adversely affected.

Uninsurable risks

The medical and retail marijuana business is subject to several risks that could result in damage to or destruction of properties or facilities or cause personal injury or death, environmental damage, delays in production and monetary losses and possible legal liability. It is not always possible to fully insure against such risks, and the Company may decide not to take out insurance against such risks as a result of high premiums or other reasons. Should such liabilities arise, they could reduce or eliminate any future profitability and result in increasing costs and a decline in the value of the securities of the Company. The Company does not currently have any insurance policies covering its properties or the operation of its business and any liabilities that may arise as a result any of the above noted risks may cause a material adverse effect on the financial condition of the Company.

Management of growth

The Company may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The ability of the Company to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The inability of the Company to deal with this growth may have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

Dividends

The Company has no earnings or dividend record and does not anticipate paying any dividends on the Company's shares in the foreseeable future. Dividends paid by the Company would be subject to tax and, potentially, withholdings.

Foreign currency exchange rates

Exchange rate fluctuations may adversely affect the Company's financial position and results. It is anticipated that a significant portion of the Company's business will be conducted in the US using US Dollars. The Company's financial results are reported in Canadian Dollars and costs are incurred primarily in US Dollars in its Cannabis Cultivation Segment. The depreciation of the Canadian Dollar against the US Dollar could increase the actual capital and operating costs of the Company's US operations and materially adversely affect the results presented in the Company's consolidated financial statements.

The Market Price of Securities is volatile and may not accurately reflect the long-term value of the Company

Securities markets have a high level of price and volume volatility, and the market price of securities of many companies has experienced substantial volatility in the past. This volatility may affect the ability of holders of Shares or Warrants to sell their securities at an advantageous price. Market price fluctuations in the Shares and Warrants may be due to the Company's operating results failing to meet expectations of securities analysts or investors in any period, downward revision in securities analysts' estimates, adverse changes in general market conditions or economic trends, acquisitions, dispositions or other material public announcements by the Company or its competitors, along with a variety of additional factors. These broad market fluctuations may adversely affect the market price of the Shares and Warrants.

Financial markets historically at times experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities of companies and that have often been unrelated to the operating performance, underlying asset values or prospects of such companies. Accordingly, the market price of the shares and warrants may decline even if the Company's investment results, underlying asset values or prospects have not changed. Additionally, these factors, as well as other related factors, may cause decreases in investment values that are deemed to be other than temporary, which may result in impairment losses. There can be no assurance that continuing fluctuations in price and volume will not occur. If such increased levels of volatility and market turmoil continue, the Company's operations could be adversely impacted and the trading price of the shares and warrants may be materially adversely affected.

Limited market for securities

There can be no assurance that an active and liquid market for the Company's shares will develop or be maintained and an investor may find it difficult to resell any securities of the Company.

Environmental and employee health and safety regulations

The Company's operations are subject to environmental and safety laws and regulations concerning, among other things, emissions and discharges to water, air and land, the handling and disposal of hazardous and non-hazardous materials and wastes, and employee health and safety. The Company will incur ongoing costs and obligations related to compliance with environmental and employee health and safety matters. Failure to comply with environmental and safety laws and regulations may result in additional costs for corrective measures, penalties or in restrictions on our manufacturing operations. In addition, changes in environmental, employee health and safety or other laws, more vigorous enforcement thereof or other unanticipated events could require extensive changes to the Company's operations or give rise to material liabilities, which could have a material adverse effect on the business, results of operations and financial condition of the Company.

Negative publicity or consumer perception may affect the success of our business

The success of the marijuana industry may be significantly influenced by the public's perception of marijuana. Both the medical and recreational use of marijuana are controversial topics, and there is no guarantee that future scientific research, publicity, regulations, medical opinion and public opinion relating to marijuana will be favorable. The marijuana industry is an early-stage business that is constantly evolving with no guarantee of viability. The market for medical and recreational marijuana is uncertain, and any adverse or negative publicity, scientific research, limiting regulations, medical opinion and public opinion (whether or not accurate or with merit) relating to the consumption of marijuana, whether in Canada, the US or elsewhere, may have a material adverse effect on our operational results, consumer base and financial results. Among other things, such a shift in public opinion could cause State jurisdictions to abandon initiatives or proposals to legalize medical cannabis, thereby limiting the number of new State jurisdictions into which the Company could identify potential acquisition opportunities.

Certain events or developments in the cannabis industry more generally may impact the Company's reputation

Damage to the Company's reputation can be the result of the actual or perceived occurrence of any number of events, and could include any negative publicity, whether true or not. Cannabis has often been associated with various other narcotics, violence and criminal activities, the risk of which is that our business might attract negative publicity. There is also risk that the action(s) of other participants, companies and service providers in the cannabis industry may negatively affect the reputation of the industry as a whole and thereby negatively impact the reputation of the Company. The increased usage of social media and other web-based tools used to generate, publish and discuss user-generated content and to connect with other users has made it increasingly easier for individuals and groups to communicate and share opinions and views in regards to the Company and its activities, whether true or not and the cannabis industry in general, whether true or not. The Company does not ultimately have direct control over how it or the cannabis industry is perceived by others. Reputation loss may result in decreased investor confidence, increased challenges in developing and maintaining community relations and an impediment to the Company's overall ability to advance its business strategy and realize on its growth prospects, thereby having a material adverse impact on the Company.

9. Cautionary Note Regarding Forward Looking Statements

This MD&A includes "forward-looking statements", within the meaning of applicable securities legislation, which are based on the opinions and estimates of Management and are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "budget", "plan", "continue", "estimate", "expect", "forecast", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar words suggesting future outcomes or statements regarding an outlook. Such risks and uncertainties include, but are not limited to, risks associated with the mining industry (including operational risks in exploration development and production; delays or changes in plans with respect to exploration or development projects or capital expenditures; the uncertainty of reserve estimates; the uncertainty of estimates and projections in relation to production, costs and expenses; the uncertainty surrounding the ability of the Company to obtain all permits, consents or authorizations required for its operations and activities; and health safety and environmental risks), the risk of commodity price and foreign exchange rate fluctuations, the ability of the Company to fund the capital and operating expenses necessary to achieve the business objectives of the Company, the uncertainty associated with commercial negotiations and negotiating with foreign governments and risks associated with international business activities, as well as those risks described in public disclosure documents filed by the Company. Due to the risks, uncertainties and assumptions inherent in forward-looking statements, prospective investors in securities of the Company should not place undue reliance on these forward-looking statements. Statements in relation to "reserves" are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the reserves described can be profitably produced in the future.

Readers are cautioned that the foregoing lists of risks, uncertainties and other factors are not exhaustive. The forward-looking statements contained in this press release are made as of the date hereof and the Company undertakes no obligation to update publicly or revise any forward-looking statements or in any other documents filed with Canadian securities regulatory authorities, whether as a result of new information, future events or otherwise, except in accordance with applicable securities laws. The forward-looking statements are expressly qualified by this cautionary statement.

Internal Control over Financial Reporting

Internal controls over financial reporting are procedures designed to provide reasonable assurance that transactions are properly authorized, assets are safeguarded against unauthorized or improper use, and transactions are properly recorded and reported. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance with respect to the reliability of financial reporting and financial statement preparation.

During the six months ended June 30, 2018 and from the most recent year-end, there were no changes in the Company's internal control over financial reporting that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Company's President and CEO, and CFO, on a timely basis so that appropriate decisions can be made regarding public disclosure. As at the end of the year covered by this MD&A, management of the Corporation, with the participation of the President and CEO, and CFO, evaluated the effectiveness of the Company's disclosure controls and procedures as required by Canadian securities laws. Based on that evaluation, the President and CEO, and CFO, have concluded that, as of the end of the period covered by this MD&A, the disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the Company's annual filings and interim filings (as such terms are defined under Multilateral Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings) and other reports filed or submitted under Canadian securities laws is recorded, processed, summarized and reported within the time periods specified by those laws and that material information is accumulated and communicated to management of the Company, including the President and CEO, and CFO, as appropriate to allow timely decisions regarding required disclosure.

10. Management's Responsibility for Financial Information

Management is responsible for all information contained in this report. The unaudited condensed interim consolidated financial statements have been prepared in accordance with IFRS and include amounts based on management's informed judgments and estimates. The financial and operating information included in this report is consistent with that contained in the unaudited condensed interim consolidated financial statements in all material aspects. Management maintains internal controls to provide reasonable assurance that financial information is reliable and accurate, and assets are safeguarded.

The Audit Committee has reviewed the unaudited condensed interim consolidated financial statements with management. The Board has approved the unaudited condensed interim consolidated financial statements on the recommendation of the Audit Committee.

August 29, 2018

Jeffrey Maser
Chief Executive Officer