THE TINLEY BEVERAGE COMPANY INC.

Unaudited Condensed Interim Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the Three and Nine Months Ended September 30, 2018 and 2017

NOTICE TO READER

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the condensed interim consolidated financial statements, they must be accompanied by a notice indicating that the condensed interim consolidated financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim consolidated financial statements have been prepared by and are the responsibility of The Tinley Beverage Company Inc.

The Company's independent auditor has not performed a review of these unaudited condensed interim consolidated financial statements in accordance with the standards established by the Canadian Institute of Chartered Professional Accountants for a review of interim financial statements by an entity's auditor.

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

	As at September 30, 2018	As at December 31, 2017
	$	$
Assets		
Current Assets		
Cash and cash equivalents (Note 4)	**6,289,161**	3,584,780
Short-term investments (Note 4)	**710,337**	1,113,337
Accounts receivable (Note 5)	**69,369**	38,497
Inventories (Note 6)	**142,561**	23,579
Prepaid expenses	**58,076**	73,948
Total Current Assets	**7,269,504**	4,834,141
Non-Current Assets		
Fixed assets (Note 7)	**273,479**	28,132
Intangible assets	**12,500**	12,500
Total Assets	**7,555,483**	4,874,773
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities (Note 8)	**158,686**	254,617
Total Liabilities	**158,686**	254,617
Shareholders' Equity		
Share capital (Note 9)	**27,619,020**	23,958,573
Reserve for share-based payments (Note 10)	**2,556,610**	2,154,407
Reserve for warrants (Note 11)	**6,865,066**	5,322,984
Accumulated other comprehensive loss	**(14,501)**	(31,977)
Accumulated deficit	**(29,629,398)**	(26,783,831)
Total Shareholders' Equity	**7,396,797**	4,620,156
Total Liabilities and Shareholders' Equity	**7,555,483**	4,874,773

Going concern (Note 2(b))
Commitments (Note 14)

Approved on behalf of the Board of Directors:

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

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

THE TINLEY BEVERAGE COMPANY INC.

Unaudited Condensed Interim Consolidated Statements of Operations and Comprehensive Loss
For the three and nine months ended September 30, 2018 and 2017
(Expressed in Canadian Dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	**2018**	2017
	$	$	**$**	$
Sales	**52,921**	16,271	**69,660**	66,551
Cost of goods sold (Note 6)	**(112,445)**	(8,986)	**(129,093)**	(47,704)
Gross margin	**(59,524)**	7,285	**(59,433)**	18,847
Operating Expenses				
Sales and marketing	**163,238**	211,709	**454,937**	626,948
General and administration (Note 15)	**617,520**	171,908	**1,603,906**	445,262
Product development	**66,061**	23,422	**254,423**	35,343
Share-based payments (Note 10)	**69,312**	100,602	**423,541**	221,062
Foreign exchange loss (gain)	**130,197**	(30,838)	**77,992**	(13,797)
	(1,046,328)	(476,803)	**(2,814,799)**	(1,314,818)
Net Loss before Other Income	**(1,105,852)**	(469,518)	**(2,874,232)**	(1,295,971)
Other Income				
Interest and other income (Note 4)	**13,306**	5,670	**28,665**	7,072
Net Loss	**(1,092,546)**	(463,848)	**(2,845,567)**	(1,288,899)
Other Comprehensive Income (Loss)				
Gain (loss) on translation of foreign operations	**39,200**	(2,384)	**17,476**	(10,475)
Total Comprehensive Loss	**(1,053,346)**	(466,232)	**(2,828,091)**	(1,299,374)
Weighted Average Number of Common Shares Outstanding	**87,827,034**	72,963,707	**85,671,420**	70,587,482
Net Loss per Share				
Basic and Diluted	**(0.012)**	(0.006)	**(0.033)**	(0.018)

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

THE TINLEY BEVERAGE COMPANY INC.
Unaudited Condensed Interim Consolidated Statements of Changes in Shareholders' Equity
For the nine months ended September 30, 2018 and 2017
(Expressed in Canadian Dollars)

	Share Capital		Reserves					
	Number of shares	Amount	Shares to be issued	Share-based payments	Warrants	Accumulated deficit	Accumulated other comprehensive loss	Total
	#	$	$	$	$	$	$	$
Balance, December 31, 2016	**68,474,886**	**20,009,123**	**150,000**	**1,715,294**	**6,765,962**	**(24,579,224)**	**(13,041)**	**4,048,114**
Share issue costs	-	(193,000)	-	-	193,000	-	-	-
Share-based payments (Note 10)	-	-	-	221,062	-	-	-	221,062
Shares issued on exercise of warrants (Note 9)	5,328,016	1,940,368	-	-	(888,005)	-	-	1,052,363
Shares issued on exercise of options (Note 9)	214,000	33,028	-	(9,487)	-	-	-	23,541
Exchange (loss) on translation of foreign operations	-	-	-	-	-	-	(10,475)	(10,475)
Net loss for the period	-	-	-	-	-	(1,288,899)	-	(1,288,899)
Balance, September 30, 2017	**74,016,902**	**21,789,519**	**150,000**	**1,926,869**	**6,070,957**	**(25,868,123)**	**(23,516)**	**4,045,706**
Balance, December 31, 2017	**80,013,794**	**23,958,573**	**-**	**2,154,407**	**5,322,984**	**(26,783,831)**	**(31,977)**	**4,620,156**
Issuance of units from private placements (Notes 9 and 11)	5,257,200	3,366,524	-		2,168,886	-	-	5,535,410
Share issue costs (Notes 9 and 11)	-	(635,901)	-		(357,129)	-	-	(993,030)
Share-based payments (Note 10)	-	-	-	423,541	-	-	-	423,541
Shares issued on exercise of warrants (Note 9)	2,456,040	878,486	-	-	(269,675)	-	-	608,811
Shares issued on exercise of options (Note 9)	100,000	51,338	-	(21,338)	-	-	-	30,000
Exchange gain on translation of foreign operations	-	-	-	-	-	-	17,476	17,476
Net loss for the period	-	-	-	-	-	(2,845,567)	-	(2,845,567)
Balance, September 30, 2018	**87,827,034**	**27,619,020**	**-**	**2,556,610**	**6,865,066**	**(29,629,398)**	**(14,501)**	**7,396,797**

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

THE TINLEY BEVERAGE COMPANY INC.

Unaudited Condensed Interim Consolidated Statements of Cash Flows
For the three and nine months ended September 30, 2018 and 2017
(Expressed in Canadian Dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	**2018**	2017
	$	$	**$**	$
Operating Activities				
Net loss for the period	**(1,092,546)**	(463,848)	**(2,845,567)**	(1,288,899)
Adjustments for non-cash items:				
Share-based payments (Note 10)	**69,312**	100,602	**423,541**	221,062
Amortization (Notes 7 and 15)	**1,388**	-	**4,103**	-
Accrued interest on short-term investments (Note 4)	**6,206**	-	**3,000**	-
Foreign exchange loss (gain)	**-**	1,110	**-**	(943)
	(1,015,640)	(362,136)	**(2,414,923)**	(1,068,780)
Changes in non-cash working capital:				
Accounts receivable (Note 5)	**(25,362)**	(11,244)	**(30,872)**	(40,712)
Inventories (Note 6)	**26,811**	5,297	**(118,982)**	(22,599)
Prepaid expenses	**45,291**	7,669	**15,872**	(10,177)
Accounts payable and accrued liabilities (Note 8)	**15,378**	(40,800)	**(95,931)**	(59,319)
Cash Flows (used in) Operating Activities	**(953,522)**	(401,214)	**(2,644,836)**	(1,201,587)
Investing Activities				
Increase in fixed assets (Note 7)	**(194,175)**	(12,480)	**(253,064)**	(12,480)
Proceeds from disposals of investments (Note 4)	**400,000**	(513,370)	**400,000**	(513,370)
Cash Flows generated by (used in) Investing Activities	**205,825**	(525,850)	**146,936**	(525,850)
Financing Activities				
Proceeds from private placements (Note 9)	**-**	-	**5,055,000**	-
Share issue costs (Note 9)	**-**	-	**(512,620)**	-
Proceeds from exercise of warrants (Note 9)	**-**	302,770	**608,810**	1,052,363
Proceeds from exercise of options (Note 9)	**-**	4,896	**30,000**	23,541
Cash Flows provided by Financing Activities	**-**	307,666	**5,181,190**	1,075,904
(Decrease) increase in cash and cash equivalents	**(747,697)**	(619,398)	**2,683,290**	(651,533)
Effects of foreign exchange on cash and cash equivalents	**53,760**	(2,384)	**21,091**	(10,475)
Cash and cash equivalents, beginning of period	**6,983,098**	3,946,217	**3,584,780**	3,986,443
Cash and cash equivalents, end of period (Note 4)	**6,289,161**	3,324,435	**6,289,161**	3,324,435

1. NATURE OF OPERATIONS

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

2. BASIS OF PRESENTATION

(a) Statement of Compliance

The Company's unaudited condensed interim consolidated financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standards ("IAS") 34 *'Interim Financial Reporting'*. Accordingly, they do not include all of the information and disclosures required by IFRS for annual financial statements. In the opinion of management, all adjustments considered necessary for fair presentation have been included in these unaudited condensed interim consolidated financial statements. For further information, see the Company's audited consolidated financial statements including the notes thereto for the year ended December 31, 2017.

These unaudited condensed interim consolidated financial statements were reviewed, approved and authorized for issue by the Board of Directors of the Company on November 29, 2018.

(b) Going Concern

These unaudited condensed interim consolidated financial statements have been prepared with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. As at September 30, 2018, the Company had not yet achieved profitable operations, had accumulated losses of $29,629,398 and is dependent upon the Company achieving profitable operations to generate sufficient cash flows to fund continuing operations, or, in the absence of adequate cash flows from operations, obtaining additional financing to support operations for the foreseeable future.

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. In addition, during the nine months ended September 30, 2018, 2,456,040 common shares were issued as a result of the exercise of warrants for cash proceeds of $608,810, and 100,000 common shares were also issued as a result of the exercise of options for cash proceeds of $30,000. As a result, the Company has sufficient cash flows to fund continuing operations through this fiscal year and beyond.

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

(c) Basis of Presentation

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

2. BASIS OF PRESENTATION (continued)

(d) Basis of Consolidation

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

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

(e) Significant Accounting Judgments and Estimates

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

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

3. NEW ACCOUNTING STANDARDS AND RECENT PRONOUNCEMENTS

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

- IFRS 9 *'Financial Instruments'* ("IFRS 9") was issued by IASB in July 2014 and replaces IAS 39 *'Financial Instruments: Recognition and Measurement'*. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value and a new mixed measurement model for debt instruments having only two categories: amortized cost and fair value through profit and loss. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Final amendments released in July 2014 also introduced a new expected credit loss impairment model and limited changes to the classification and measurement requirements for financial assets.

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

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

(Expressed in Canadian Dollars)

3. NEW ACCOUNTING STANDARDS AND RECENT PRONOUNCEMENTS (continued)

- 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.

4. CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

As at September 30, 2018, the Company had invested in various short-term guaranteed investment certificates ("GIC") and fixed-income securities valued at $100,424 and $609,913 (December 31, 2017 – $504,648 and $608,688), respectively. The Company had also invested $3,327,082 (December 31, 2017 – $887,976) in high-interest savings accounts of which the funds were classified as cash equivalents. During the nine months ended September 30, 2018, the Company redeemed certain of its short-term GIC investments for total net proceeds of $400,000 (2017 – $nil).

5. ACCOUNTS RECEIVABLE

	September 30, 2018	December 31, 2017
	$	$
Sales taxes recoverable	**21,571**	24,299
Trade receivables	**47,798**	14,198
	69,369	38,497

The age of accounts receivable is 90 days past due.

6. INVENTORIES

As at September 30, 2018, inventories consisted of the following:

	September 30, 2018	December 31, 2017
	$	$
Raw materials	**68,267**	23,579
Work in progress	**9,996**	-
Finished goods	**64,298**	-
	142,561	23,579

For the nine months ended September 30, 2018, inventories recognized as an expense in cost of good sold amounted to $129,093 (2017 – $47,704). Cost of goods sold includes the cost of purchasing and assembling of finished goods inventories that were sold and allowances for shrinkage. These costs include raw materials, bottling costs, and shipping and handling.

(Expressed in Canadian Dollars)

7. FIXED ASSETS

	Machinery and equipment	Construction in progress	Total
	$	$	**$**
Cost at:			
December 31, 2017	28,132	-	**28,132**
Additions	27,601	218,885	**246,486**
Effects of foreign exchange on translation	3,256	(270)	**2,986**
September 30, 2018	58,989	218,615	**277,604**
Accumulated amortization at:			
December 31, 2017	-	-	**-**
Amortization (Note 15)	4,103	-	**4,103**
Effect of foreign exchange	22	-	**22**
September 30, 2018	4,125	-	**4,125**
Net book value:			
December 31, 2017	28,132	-	**28,132**
September 30, 2018	54,864	218,615	**273,479**

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

As at September 30, 2018, the balance of construction in progress of $218,615 (December 31, 2017 – $nil) was related to engineering and consulting on the design requirements and construction plans of the Company's new bottling facility in Long Beach, California (the "Long Beach facility"), for cannabis beverage production. As the Long Beach Facility is not yet available for use, no amortization or specific asset allocation has been taken on this group of capital expenditures.

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

The following is a maturity analysis of the trade and other payables:

	September 30, 2018	December 31, 2017
	$	$
Less than 90 days	**150,076**	107,426
Greater than 90 days	**8,610**	147,191
	158,686	254,617

(Expressed in Canadian Dollars)

9. SHARE CAPITAL

Authorized share capital

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

	September 30, 2018	December 31, 2017
	$	$
Issued: 87,827,034 common shares (December 31, 2017 – 80,013,794)	**27,619,020**	23,958,573

Issued

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

Share capital transactions for the nine months ended September 30, 2018

On April 6, 2018, the Company closed a brokered private placement of 5,055,000 units at a price of $1.00 per unit, for gross proceeds of $5,055,000. Each unit consists of one (1) common share and one (1) warrant. Each warrant entitles the holder to purchase one common share at a price of $1.35 per common share, for a period of 24 months from closing. 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.

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

Share capital transactions for the nine months ended September 30, 2017

During the nine months ended September 30, 2017, 5,328,017 common shares were issued as a result of the exercise of warrants for cash proceeds of $1,052,363.

During the nine months ended September 30, 2017, 214,000 common shares were also issued as a result of the exercise of options for cash proceeds of $23,541.

9. RESERVE FOR SHARE-BASED PAYMENTS

The Company maintains a stock option plan to provide additional incentive to its officers, directors, employees and consultants in their effort to conduct business on behalf of the Company. Options granted vest over a vesting period between two to five years. All options expire on the fifth anniversary from the date of grant unless otherwise specified.

Option grants for the nine months ended September 30, 2018

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

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.

(Expressed in Canadian Dollars)

10. RESERVE FOR SHARE-BASED PAYMENTS (continued)

Option grants for the nine months ended September 30, 2018 (continued)

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 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 options to a director at an exercise price of $0.79. The options will expire on August 13, 2023. The options vest quarterly over 3 years until fully vested.

Option grants for the nine months ended September 30, 2017

On March 22, 2017, the Company granted 150,000 options to certain employees at an exercise price of $0.33. The options will expire on March 22, 2019 and vest quarterly over 1 year until fully vested.

On July 12, 2017, the Company granted 600,000 options to its officers and directors at an exercise price of $0.35. The options will expire on July 12, 2022 and vest as follows: 150,000 options vested on November 4, 2017, and 150,000 options vesting every 3 months thereafter.

On August 17, 2017, the Company granted 100,000 options to a consultant at an exercise price of $0.30. The options will expire on August 17, 2022. The options vested immediately on grant.

The estimated fair value of the options granted during the nine months ended September 30, 2018 and 2017 was determined using the Black-Scholes valuation model with the following assumptions:

Grant date	August 13, 2018	August 1, 2018	May 11, 2018	April 20, 2018
Number of options	300,000	150,000	150,000	100,000
Exercise price	$0.79	$0.61	$0.72	$0.87
Share price	$0.55	$0.61	$0.72	$0.88
Expected life of options	5 years	5 years	5 years	5 years
Expected volatility	135%	135%	129%	130%
Risk-free interest rate	2.22%	2.25%	2.21%	2.17%
Fair value on grant date	$140,476	$80,199	$92,741	$75,868

Grant date	January 23, 2018	August 17, 2017	July 12, 2017	March 22, 2017
Number of options	275,000	100,000	600,000	150,000
Exercise price	$1.20	$0.30	$0.35	$0.33
Share price	$1.18	$0.245	$0.255	$0.24
Expected life of options	2 and 3 years	5 years	5 years	2 years
Expected volatility	143%-130%	170%	170%	170%
Risk-free interest rate	1.80%-1.85%	1.39%	1.44%	1.05%
Fair value on grant date	$229,201	$21,338	$132,141	$11,197

(Expressed in Canadian Dollars)

10. RESERVE FOR SHARE-BASED PAYMENTS (continued)

The following is a summary of stock options activities for the nine months ended September 30, 2018 and 2017:

	September 30, 2018		September 30, 2017	
	Weighted exercise price	**Number of options**	Weighted exercise price	Number of options
	$	**#**	$	#
Outstanding, beginning of	**0.28**	**3,010,500**	0.17	2,389,500
Granted	**1.20**	**275,000**	0.33	150,000
Granted	**0.87**	**100,000**	0.35	600,000
Granted	**0.72**	**150,000**	0.30	100,000
Granted	**0.61**	**150,000**	-	-
Granted	**0.79**	**300,000**	-	-
Exercised	**0.30**	**(100,000)**	0.11	(214,000)
Forfeited	**1.20**	**(75,000)**	0.19	(215,000)
Outstanding, end of period	**0.40**	**3,810,500**	0.22	2,810,500
Exercisable, end of period	**0.33**	**2,883,000**	0.21	1,589,125

The following table summarizes information of options outstanding as at September 30, 2018:

Date of expiry	**Number of options outstanding**	**Number of options exercisable**	**Exercise price**	**Weighted average remaining life**
	#	**#**	**$**	**Years**
March 22, 2019	75,000	75,000	0.33	0.47
January 23, 2020	200,000	200,000	1.20	1.32
December 23, 2020	910,500	910,500	0.11	2.23
January 27, 2021	25,000	25,000	0.11	2.33
August 4, 2021	350,000	350,000	0.08	2.85
November 3, 2021	600,000	600,000	0.44	3.10
July 12, 2022	600,000	600,000	0.35	3.78
November 22, 2022	350,000	100,000	0.68	4.15
April 20, 2023	100,000	10,000	0.87	4.56
May 11, 2023	150,000	12,500	0.72	4.61
August 1, 2023	150,000	-	0.61	4.84
August 13, 2023	300,000	-	0.79	4.87
	3,810,500	**2,883,000**	**0.40**	**3.23**

11. RESERVE FOR WARRANTS

Warrant issuances for the nine months ended September 30, 2018

On April 6, 2018, the Company issued 5,055,000 warrants, at an exercise price of $1.35, in conjunction with the brokered private placement, as disclosed in Note 9. The grant date fair value of the 5,055,500 warrants issued was estimated to be $1,817,958 using the Black-Scholes valuation model with the following assumptions: expected volatility of 141%, expected dividend yield of nil, risk-free interest rate of 1.79% and an expected life of 2 years. In conjunction with the private placement, 202,200 warrants were issued as part of the Agents' Units as compensation to the private placement offering. In addition, 404,400 broker warrants, exercisable at $1.00 per share expiring in 2 years, were also issued in connection with the finders' involvement in the offering. These finders' warrants were valued at $278,210.

(Expressed in Canadian Dollars)

11. RESERVE FOR WARRANTS (continued)

Warrant issuances for the nine months ended September 30, 2017

During the nine months ended September 30, 2017, 911,137 underlying warrants were issued on exercise of finder warrants originally issued as compensation as part of a private placement which closed on October 27, 2016.

The following summarizes the warrant activities for the nine months ended September 30, 2018 and 2017:

	September 30, 2018		September 30, 2017	
	Number of warrants outstanding	**Fair value**	Number of warrants outstanding	Fair value
	#	**$**	#	$
Balance, beginning of period	**2,446,635**	**5,322,984**	13,178,036	6,765,962
Issued	**5,257,200**	**1,533,547**	911,137	193,000
Issued	**404,400**	**278,210**	-	-
Issued	**64,995**	**-**	-	-
Exercised	**(2,456,040)**	**(269,675)**	(5,328,017)	(888,005)
Expired	**(55,590)**	**-**	(453,738)	-
Balance, end of period	**5,661,600**	**6,865,066**	8,307,418	6,070,957

The following table summarizes information of warrants outstanding as at September 30, 2018:

Date of expiry	**Number of warrants outstanding**	**Exercise price**	**Weighted average**
	#	**$**	**Years**
April 6, 2020	5,257,200	1.35	1.52
April 6, 2020	404,400	1.00	1.52
	5,661,600	**1.33**	**1.52**

12. RELATED PARTY TRANSACTIONS AND KEY MANAGEMENT COMPENSATION

Key management compensation

Key management personnel are persons responsible for planning, directing and controlling activities of an entity, and include executives and non-executive directors, officers and any employees. Compensation provided to key management personnel during the nine months ended September 30, 2018 and 2017 were as follows:

	Nine months ended September 30, 2018	Nine months ended September 30, 2017
	$	$
Short-term employee benefits, including salaries and consulting fees	**375,200**	286,813
Share-based compensation (Note 10)	**125,813**	169,864
	501,013	456,677

(Expressed in Canadian Dollars)

12. RELATED PARTY TRANSACTIONS AND KEY MANAGEMENT COMPENSATION (continued)

Key management compensation (continued)

(i) During the nine months ended September 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 $324,000 (2017 – $286,813) for services rendered. As at September 30, 2018, an amount of $6,500 (December 31, 2017 – $93,092) owing to these directors was included in accounts payable.

(ii) During the nine months ended September 30, 2018, the Chief Financial Officer ("CFO") of the Company was paid consulting fees of $51,200 (2017 – $nil) for services rendered. As at September 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 nine months ended September 30, 2018, directors received stock-based compensation of $125,813 (2017 – $169,864).

13. CAPITAL RISK MANAGEMENT

When managing capital, the Company's objective is to ensure it continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management adjusts the capital structure as necessary in order to support the beverage production.

The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management team to sustain the future development of the business.

As at September 30, 2018, the Company considers its capital to be share capital, reserve for share-based payments, reserve for warrants, and accumulated other comprehensive income, totaling $7,396,797 (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 nine months ended September 30, 2018 and the year ended December 31, 2017.

14. COMMITMENTS

On March 1, 2018, the Company entered into two 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 leases, the Company has paid a security deposit of $130,478 (USD $104,000) and advance rents of $146,788 (USD $117,000) covering the period from inception to May 31, 2018.

As at September 30, 2018, the Company is committed to minimum annual lease payments for its Long Beach facility as follows:

	Total	**Within 1 year**	**1 to 3 years**	**3 to 5 years**
	$	$	$	$
Lease obligations	2,827,188	605,826	1,211,652	1,009,710

15. GENERAL AND ADMINISTRATION EXPENSES

The Company's general and administration expenses incurred for the nine months ended September 30, 2018 and 2017 are as follows:

	Nine months ended September 30, 2018	Nine months ended September 30, 2017
	$	$
Rent	**479,129**	612
Professional fees	**343,348**	65,112
Corporate costs and administration	**270,509**	101,058
Consulting and management fees	**239,593**	227,123
Payroll and salaries	**152,134**	35,635
Travel and promotional	**115,090**	15,722
Amortization	**4,103**	-
	1,603,906	445,263

16. FINANCIAL RISK MANAGEMENT

Fair value

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

Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. Cash is held with reputable Canadian and US chartered banks and in various liquid guaranteed interest-bearing instruments which are closely monitored by management. Management believes that the credit risk concentration with respect to financial instruments is minimal. The maximum exposure to credit risk at year-end is limited to the accounts receivable balance.

Liquidity risk

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. The Company's liquidity and operating results may be adversely affected if the Company's access to the capital market is hindered, whether as a result of a downturn in stock market conditions generally or related to matters specific to the Company. The Company generates cash flow primarily from its financing activities. As at September 30, 2018, the Company had a cash and cash equivalents balance of $6,289,161 (December 31, 2017 – $3,584,780) to settle current liabilities of $158,686 (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 September 30, 2018, the Company has cash and cash equivalents of USD $1,882,532 (December 31, 2017 – USD $505,444) available to use against trade and other payables of USD $92,204 (December 31, 2017 – USD $44,109).

16. FINANCIAL RISK MANAGEMENT (continued)

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 September 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 nine months ended September 30, 2018 would have been approximately $122,940 higher/lower respectively as a result of foreign exchange gains (losses) on translation of USD-denominated financial instruments.

17. COMPARATIVE FIGURES

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