THE TINLEY BEVERAGE COMPANY INC.

Consolidated Financial Statements

(Expressed in Canadian Dollars)

Years Ended December 31, 2018 and 2017

LIPTON
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Independent Auditors' Report

To the Shareholders of
The Tinley Beverage Company Inc.

Opinion

We have audited the consolidated financial statements of The Tinley Beverage Company Inc. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of operations and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of The Tinley Beverage Company Inc. as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 2(b) to the consolidated financial statements, which indicates that during the year ended December 31, 2018, the Company incurred a net loss of $3,660,906 and had negative cash flows from operations of $3,317,262, and its continued existence is dependent on its ability to obtain additional financing. As stated in Note 2(b), these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Management's Discussion and Analysis, but does not include the consolidated financial statements and our auditors' report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

Independent Auditors' Report (Continued)

Other Information (Continued)

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Independent Auditors' Report (Continued)

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (Continued)

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditors' report is Soheil Talebi.

Lipton LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Ontario
April 26, 2019

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

	As at December 31, 2018	As at December 31, 2017
	$	$
Assets		
Current Assets		
Cash	**3,633,275**	3,584,780
Investments (Note 4)	**704,933**	1,113,337
Accounts receivable (Note 5)	**46,154**	38,497
Inventories (Note 6)	**47,555**	23,579
Prepaid expenses	**132,416**	73,948
Total Current Assets	**4,564,333**	4,834,141
Non-Current Assets		
Property and equipment (Note 7)	**2,090,888**	28,132
Security deposits	**144,892**	-
Intangible assets (Note 8)	**12,500**	12,500
Total Assets	**6,812,613**	4,874,773
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities (Note 9)	**185,873**	254,617
Total Current Liabilities	**185,873**	254,617
Non-Current Liabilities		
Deferred lease liabilities	**113,626**	-
Total Liabilities	**299,499**	254,617
Shareholders' Equity		
Share capital (Note 10)	**27,611,385**	23,958,573
Reserve for share-based payments (Note 11)	**2,696,343**	2,154,407
Reserve for warrants (Note 12)	**6,872,702**	5,322,984
Accumulated other comprehensive loss	**(222,579)**	(31,977)
Accumulated deficit	**(30,444,737)**	(26,783,831)
Total Shareholders' Equity	**6,513,114**	4,620,156
Total Liabilities and Shareholders' Equity	**6,812,613**	4,874,773

Nature of operations (Note 1)
Going concern (Note 2(b))
Commitments (Note 16)
Subsequent events (Note 19)

Approved on behalf of the Board of Directors:

"Jeffrey Maser" (signed)
CEO and Director

"David Ellison" (signed)
Director

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

THE TINLEY BEVERAGE COMPANY INC.
Consolidated Statements of Operations and Comprehensive Loss
For the years ended December 31, 2018 and 2017
(Expressed in Canadian Dollars)

	2018	2017
	$	$
Sales	**36,597**	31,095
Cost of goods sold	**(186,158)**	(90,044)
Gross margin	**(149,561)**	(58,949)
Operating Expenses		
Sales and marketing	**598,179**	796,814
General and administration (Note 17)	**2,566,146**	752,464
Product development	**319,213**	100,530
Share-based payments (Note 11)	**563,274**	307,501
Impairment of intangible assets (Note 8)	**-**	150,000
Foreign exchange (gain) loss	**(495,252)**	55,096
	3,551,560	2,162,405
Net Loss before Other Income	**(3,701,121)**	(2,221,354)
Other Income		
Interest and other income	**40,215**	16,747
Net Loss	**(3,660,906)**	(2,204,607)
Other Comprehensive Income (Loss)		
(Loss) gain on translation of foreign operations	**(190,602)**	18,936
Total Comprehensive Loss	**(3,851,508)**	(2,185,671)
Weighted Average Number of Common Shares Outstanding	**86,214,753**	72,542,019
Net Loss per Share		
Basic and Diluted	**(0.042)**	(0.030)

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

THE TINLEY BEVERAGE COMPANY INC.
Consolidated Statements of Changes in Shareholders' Equity
For the years ended December 31, 2018 and 2017
(Expressed in Canadian Dollars)

	Share Capital		Reserves					
	Number of shares	Amount	Shares to be issued	Share-based payments	Warrants	Accumulated deficit	Accumulated other comprehensive loss	Total
	#	$	$	$	$	$	$	$
Balance, December 31, 2016	**68,474,886**	**20,009,123**	**150,000**	**1,715,294**	**6,765,962**	**(24,579,224)**	**(13,041)**	**4,048,114**
Share-based payments (Notes 11 and 12)	-	-	-	307,501	361,725	-	-	669,226
Shares issued on exercise of warrants (Note 12)	11,174,908	3,894,772	-	-	(1,804,703)	-	-	2,090,069
Shares issued on exercise of options (Note 10)	364,000	54,678	-	(18,388)	-	-	-	36,290
Exchange (loss) on translation of foreign operations	-	-	-	-	-	-	(18,936)	(18,936)
Contingent shares to be issued (Note 8)	-	-	(150,000)	150,000	-	-	-	-
Net loss for the year	-	-	-	-	-	(2,204,607)	-	(2,204,607)
Balance, December 31, 2017	**80,013,794**	**23,958,573**	**-**	**2,154,407**	**5,322,984**	**(26,783,831)**	**(31,977)**	**4,620,156**
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 10 and 12)	5,257,200	3,417,920	-	-	2,192,713	-	-	5,610,633
Share issue costs (Notes 10 and 12)	-	(694,932)	-	-	(373,319)	-	-	(1,068,251)
Share-based payments (Note 11)	-	-	-	563,274	-	-	-	563,274
Shares issued on exercise of warrants (Note 10)	2,456,040	878,486	-	-	(269,676)	-	-	608,810
Shares issued on exercise of options (Note 10)	100,000	51,338	-	(21,338)	-	-	-	30,000
Exchange (loss) on translation of foreign operations	-	-	-	-	-	-	(190,602)	(190,602)
Net loss for the year	-	-	-	-	-	(3,660,906)	-	(3,660,906)
Balance, December 31, 2018	**87,827,034**	**27,611,385**	**-**	**2,696,343**	**6,872,702**	**(30,444,737)**	**(222,579)**	**6,513,114**

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

THE TINLEY BEVERAGE COMPANY INC.

Consolidated Statements of Cash Flows
For the years ended December 31, 2018 and 2017
(Expressed in Canadian Dollars)

	2018	2017
	$	$
Operating Activities		
Net loss for the year	**(3,660,906)**	(2,204,607)
Adjustments for non-cash items:		
Share-based payments – options (Note 11)	**563,274**	307,501
Amortization (Notes 7 and 17)	**7,644**	-
Lease payments	**107,921**	-
Interest	**(1,096)**	(217)
Unrealized foreign exchange (gain) loss	**(30,382)**	8,334
Impairment on intangible assets (Note 8)	**-**	150,000
	(3,013,545)	(1,738,989)
Changes in non-cash working capital:		
Accounts receivable (Note 5)	**(7,657)**	(5,677)
Prepaid expenses	**(58,468)**	(32,589)
Inventories (Note 6)	**(23,976)**	(8,800)
Security deposits	**(144,872)**	-
Accounts payable and accrued liabilities (Note 9)	**(68,744)**	64,830
Cash Flows (used in) Operating Activities	**(3,317,262)**	(1,721,225)
Investing Activities		
Purchases of equipment (Note 7)	**(51,334)**	(28,132)
Advances made on facility construction (Note 7)	**(2,017,011)**	-
Proceeds from redemptions of investments	**509,500**	-
Purchases of investments	**(100,000)**	(1,113,120)
Cash Flows (used in) Investing Activities	**(1,658,845)**	(1,141,252)
Financing Activities		
Proceeds from private placements (Note 10)	**5,055,000**	-
Share issue costs (Note 10)	**(512,620)**	-
Proceeds from exercise of warrants (Note 10)	**608,810**	2,451,794
Proceeds from exercise of options (Note 10)	**30,000**	36,290
Cash Flows provided by Financing Activities	**5,181,190**	2,488,084
Increase (Decrease) in cash	**205,083**	(374,393)
Effects of foreign exchange on cash	**(156,588)**	(27,270)
Cash, beginning of year	**3,584,780**	3,986,443
Cash, end of year	**3,633,275**	3,584,780
Supplemental Cash Flows Information		
Interest received	**48,217**	-

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

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, non-alcoholic, 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 consolidated financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The accounting policies set out below were consistently applied to all periods presented unless otherwise noted.

These consolidated financial statements were reviewed, approved and authorized by the Board of Directors of the Company on April 26, 2019.

(b) Going Concern

These 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. The application of the going concern basis 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. It is not possible to predict whether future financing efforts will be successful or if the Company will attain profitable levels of operations.

During the year ended December 31, 2018, the Company had a net loss of $3,660,906, negative cash flow from operations of $3,317,262, and is dependent on its ability to obtain additional financing. These material uncertainties may cast significant doubt upon the Company's ability to continue as a going concern. In assessing whether the going concern assumption was appropriate, management took into account all relevant information available about the future, which was at least, but not limited to, the 12-month period following December 31, 2018.

These 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 consolidated financial statements. Such adjustments could be material.

(c) Basis of Presentation

The consolidated financial statements have been prepared in accordance with IFRS, on the historical cost basis except for certain financial instruments, which are measured at fair value, as explained in the accounting policies set out in Note 3.

In addition, these 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 consolidated financial statements include the accounts of Tinley and its wholly-owned subsidiaries: Hemplify Inc., Algonquin Springs Beverage Management LLC and Tinley Collective (a Cooperative Corporation), 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").

Subsidiaries consist of entities over which the Company is exposed to, or has rights to, variable returns as well as the ability to affect those returns through the power to direct the relevant activities of the entity. Subsidiaries are fully consolidated from the date control is transferred to the Company and are-deconsolidated from the date control ceases. The 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 consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, revenue and expenses. On an ongoing basis, management evaluates its judgments and estimates in relation to assets, liabilities, revenue and expenses. Management uses historical experience and various other factors it believes to be reasonable under the given circumstances as the basis for its judgments and estimates. Actual outcomes may differ from these estimates under different assumptions and conditions. These estimates are reviewed periodically, and adjustments are made to income as appropriate in the period they become known. Items for which actual results may differ materially from these estimates are described as follows:

Impairment of intangible assets

At each reporting date, the Company reviews the carrying amounts of its intangible assets to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit ("CGU") to which the assets belong.

Recoverable amount is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognized immediately in the consolidated statements of operations and comprehensive loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, to the extent of previously recognized impairment losses.

Impairment of long-lived assets

Long-lived assets are defined as property and equipment and intangible assets with finite lives. Impairment is dependent upon estimates of recoverable amounts. These are determined through the exercise of judgments, and are dependent upon estimates that take into account factors such as economic and market conditions, frequency of use, anticipated changes in laws, and technological improvements.

2. BASIS OF PRESENTATION (continued)

(e) Significant Accounting Judgments and Estimates (continued)

Warrants and options

Warrants and options are initially recognized at fair value, based on the application of the Black-Scholes valuation model. This pricing model requires management to make various assumptions and estimates which are susceptible to uncertainty, including the expected volatility of the share price, expected forfeitures, expected dividend yield, expected term of the warrants or option, and expected risk-free interest rate.

Income taxes

Income taxes and tax exposures recognized in the consolidated financial statements reflect management's best estimate of the outcome based on facts known at the reporting date. When the Company anticipates a future income tax payment based on its estimates, it recognizes a liability. The difference between the expected amount and the final tax outcome has an impact on current and deferred taxes when the Company becomes aware of this difference.

In addition, when the Company incurs losses that cannot be associated with current or past profits, it assesses the probability of taxable profits being available in the future based on its budgeted forecasts. These forecasts are adjusted to take account of certain non-taxable income and expenses and specific rules on the use of unused credits and tax losses. When the forecasts indicate the sufficient future taxable income will be available to deduct the temporary differences, a deferred tax asset is recognized for all deductible temporary differences.

Expected credit losses on financial assets

Determining an allowance for expected credit losses ("ECLs") for all debt financial assets not held at fair value through profit or loss ("FVTPL") requires management to make assumptions about the historical patterns for the probability of default, the timing of collection and the amount of incurred credit losses, which are adjusted based on management's judgment about whether economic conditions and credit terms are such that actual losses may be higher or lower than what the historical patterns suggest.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Cash and Cash Equivalents

Cash and cash equivalents consist of bank balances and short-term deposits with an original maturity of three (3) months or less held in Canadian chartered banks and reputable Canadian financial institutions. As at December 31, 2018 and 2017, the Company did not have any cash equivalents.

(b) Inventories

Inventories are initially recognized at cost, and subsequently measured at the lower of cost and net realizable value (the estimate selling price in the ordinary course of business less any applicable selling expenses) using the "first-in-first-out" method. Cost comprises all costs of purchase, and other costs incurred in bringing the inventories to their present location and condition.

(c) Revenue from Contracts with Customers

Revenue is recognized at the transaction price, which is the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods to a customer. Net revenue from sale of goods, as presented in the consolidated statements of operations and comprehensive income (loss), represents revenue from the sale of goods less expected price discounts, and allowances for customer returns.

The Company's contracts with customers for the sales of cannabis-infused beverages consist of one performance obligation. The Company has concluded that revenue from the sale of these products should be recognized at the point in time when control is transferred to the customer, which is on shipment or delivery, depending on the contract.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Revenue from Contracts with Customers (continued)

The Company's payment terms vary by customer types. Typically, payment is due 30 days after the transfer of control.

(d) Intangible Assets

The Company owns a group of intangible assets acquired in a business combination which have an indefinite useful life as there is no foreseeable limit to the cash flows generated by the assets. Factors included in determining that there is no foreseeable limit are as follows:

- There are no technical, technological, commercial or other types of obsolescence;
- The period of control over the asset and legal or similar limits on the use of the assets, such as the expiry dates of related leases are non-existent;
- The useful life of the assets does not depend on the useful life of other assets of the entity.

The useful life of intangible assets that are not being amortized is reviewed each period to determine whether events and circumstances continue to support an indefinite useful life assessment for the assets. If they do not, the change in the useful life assessment from indefinite to finite shall be accounted for as a change in an accounting estimate.

(e) Property and Equipment

Property and equipment are carried at cost less any residual value, accumulated amortization and impairment losses. Cost includes the acquisition costs or construction costs, as well as the costs directly attributable to bringing the asset to the location and condition necessary for its use in operations. When property and equipment include significant components with different useful lives, they are recorded and amortized separately.

Amortization is computed using the straight-line method based on the estimated useful life of the assets, and commences when title and ownership have transferred to the Company, and is readily available for its intended use. The residual value, useful life and amortization methods are reviewed at the end of each reporting period. Such a review takes into consideration the nature of the asset, the intended use and impact of technological changes. Where parts of an item of property and equipment have different useful lives, they are accounted for as separate items of capital assets. Subsequent costs are included in the asset carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

Amortization is recorded on a straight-line basis as follows:

- Machinery and equipment: 10 years

Construction in progress is transferred to the appropriate asset class when the facility is available for use, which is defined as the point at which the build-out and installation is complete and the building receives the licenses to (i) possess cannabis, and (ii) to produce cannabis-infused beverages. Amortization commences at the point the assets are classified as available-for-use.

(f) Income Taxes

Income tax expense comprises current and deferred income tax expense. Current and deferred taxes are recognized in net loss, except to the extent that it relates to items recognized directly in equity or in other comprehensive income (loss).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Income Taxes (continued)

Current income taxes

Current income taxes are recognized and measured at the amount expected to be recovered from, or payable to, the taxation authorities based on the income tax rates enacted or substantively enacted at the end of the reporting period and includes any adjustment to taxes payable in respect of previous years.

Deferred income taxes

Deferred income taxes are recorded for temporary differences at the date of the consolidated statements of financial position between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The carrying amount of a deferred income tax asset is reviewed at the end of the reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at the end of the reporting period and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of the reporting period.

Deferred income tax assets and deferred income tax liabilities are offset if, and only if, they relate to income taxes levied by the same taxation authority and the Company has the legal rights and intent to offset.

(g) Equity

Common shares, stock options and warrants are classified as equity. Incremental costs directly attributable to the issuance of common shares and warrants are recognized as a deduction from equity, net of any tax effects.

(h) Loss per Share

The basic loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding during the period. The diluted loss per share reflects the potential dilution of common share equivalents, such as outstanding stock options and share purchase warrants, in the weighted average number of common shares outstanding during the year, if dilutive. Dilution is calculated based on the net number of common shares issued after proceeds upon the exercise of the options and warrants to purchase common shares at the average market price during the year. During the years ended December 31, 2018 and 2017, all of the outstanding share options and warrants were anti-dilutive.

(i) Share-Based Payments

Employees (including directors and senior executives) of the Company receive a portion of their remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments. The costs of share-based payments are recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("the vesting date"). The cumulative expense is recognized for such transactions at each reporting date until the vesting date and reflects the Company's best estimate of the number of equity instruments that will ultimately vest.

In situations where equity instruments are issued to parties other than employees and the fair value of some or all of the goods or services received by the entity as consideration cannot be reliably measured, the transactions are measured at the fair value of the instruments.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Research and Development

Research costs are expensed as incurred. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and use or sell the asset. Other development expenditures are recognized in net loss as incurred. To date, no development costs have been capitalized.

(k) Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) that has arisen as a result of a past event, it is probable that a future outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The Company had no material provisions as at December 31, 2018 and 2017.

(l) Financial Instruments

All financial instruments are initially recorded at fair value at the time of acquisition. The Company aggregates its financial instruments in accordance with IFRS 9 *'Financial Instruments'* ("IFRS 9"), into classes based on their nature and characteristics. Management determines the classification when the instruments are initially recognized, which is normally the date of the transaction. The Company's accounting policy for each class of financial instruments is as follows:

Classification	Financial Instruments	Accounting Policy
Amortized cost	Cash, accounts receivable, investments, accounts payable and accrued liabilities	These financial instruments are initially recognized at fair value plus directly attributable transaction costs. Subsequently, these instruments are measured at amortized cost using the effective interest method. Financial assets are adjusted for any ECLs.(i) The effective interest method is a method of calculating the amortized cost of a financial instrument and of allocating interest over the relevant period. The effective interest rate is the rate that discounts estimated future cash receipts through the expected life of the financial instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

(i) Critical to the determination of ECLs is the definition of default and the definition of a significant increase in credit risk. The definition of default is used in measuring the amount of ECLs and in the determination of whether the loss allowance is based on a 12-month or lifetime ECLs. The Company considers the following as constituting an event of default: the borrower is past due more than 90 days on any material credit obligation, or the borrower is unlikely to pay its credit obligations to the Company in full. The Company monitors all financial assets that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Company will measure the loss allowance based on lifetime rather than 12-month ECLs. In assessing whether the credit risk on a financial asset has increased significantly since initial recognition, the Company compares the risk of a default occurring on the financial asset at the reporting date based on the remaining maturity of the instrument with the risk of a default occurring that was anticipated for the remaining maturity at the current reporting date when the financial asset was first recognized.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Fair Value Hierarchy

The Company classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. The Company does not have any financial instruments classified as Level 1;
- Level 2 – Valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). The Company does not have any financial instruments classified as Level 2; and
- Level 3 – Valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs). The Company does not have any financial instruments classified as Level 3.

(n) Foreign Currency Transactions

Functional and presentation currency

Items included in the consolidated financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of Tinley is the Canadian Dollar, which is the presentation currency of the consolidated financial statements. The functional currency of all subsidiaries is the US Dollar ("USD").

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains (losses) resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

Translation of foreign operations

The results and financial position of all the entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities are translated at the closing rate at the date of the consolidated statements of financial position;
- Income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate in effect on the dates of the transactions); and
- All resulting exchange differences are recognized as a separate component of equity as accumulated other comprehensive income (loss).

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to accumulated other comprehensive income (loss). When a foreign operation is partially disposed of or sold, exchange differences that were recorded in accumulated other comprehensive income (loss) are recognized in the consolidated statements of operations as part of the gain or loss on sale.

(Expressed in Canadian Dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Leased Assets

The Company leases some items of property and equipment. A lease of property and equipment is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership to the Company. A lease of property and equipment is classified as an operating lease whenever the terms of the lease do not transfer substantially all of the risks and rewards of ownership to the lessee. Lease payments under operating leases are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which the economic benefits are consumed.

(p) Adoption of New Accounting Standards

The Company adopted the following amendments and new standards effective January 1, 2018. The amendments and new standards were adopted in accordance with the applicable transitional provisions:

- IFRS 2 '*Share-based payments'* was amended to clarify how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, share-based payment transactions with a net settlement feature for withholding tax obligations, and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The effective date of these amendments was January 1, 2018. The Company has adopted these amendments as of the effective date and has assessed no significant changes as a result of the adoption of these amendments.

- IFRS 7 *'Financial Instruments: Disclosure'* ("IFRS 7") was amended to require additional disclosures on transition from IAS 39 *'Financial Instruments: Recognition and Measurement'* ("IAS 39") to IFRS 9. IFRS 7 is effective on adoption of IFRS 9, which is effective for annual periods commencing on or after January 1, 2018. The Company has adopted these amendments as of the effective date and has assessed no significant changes as a result of the adoption of these amendments.

- IFRS 9 was issued to address classification and measurement of financial assets, and it replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only three categories: amortized cost, fair value through other comprehensive income ("FVTOCI"), and FVTPL. IFRS 9 also replaces the models for measuring equity instruments and such instruments are either recognized at FVTPL or FVTOCI. The effective date of this standard was January 1, 2018. The Company has adopted this new standard as of its effective date on a retrospective basis with the exception of financial assets that were derecognized at the date of initial application, January 1, 2018.

  The 2017 comparatives were not restated. The new classification and measurement of the Company's financial instruments are as follows:

	IFRS 9	IAS 39
Financial Assets		
Cash	Amortized cost	FVTPL
Investments	Amortized cost	Amortized cost
Trade receivables	Amortized cost	Amortized cost
Financial Liabilities		
Accounts payable and accrued liabilities	Amortized cost	Amortized cost

There were no changes in the carrying amounts of the financial instruments as a result of the adoption of IFRS 9 as at the date of initial application.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Adoption of New Accounting Standards (continued)

Impairment of financial assets

The adoption of IFRS 9 has fundamentally changed the Company's accounting of impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking ECL approach. There were no impairment losses recognized in these consolidated financial statements as a result of the adoption of IFRS 9 as at the date of initial application.

- IFRS 15 '*Revenue from contracts with customers'* ("IFRS 15") was issued by the IASB in May 2014 and specifies how and when revenue should be recognized based on a five-step model, which is applied to all contracts with customers. IFRS 15 became effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company has adopted this new standard as of its effective date using the full retrospective method of adoption, and has assessed no significant changes as a result of the adoption of this new standard.

  Under IFRS 15, the revenue recognition model has changed from one based on the transfer of risks and rewards of ownership, to one based on the transfer of control. The Company's contracts with customers for the sale of cannabis-infused beverages include one performance obligation, a promise in a contract with a customer to transfer a good. As the transfer of risks and rewards generally coincides with the transfer of control at a point in time, upon shipment or delivery, depending on the contract, the timing and amount of revenue considering discounts, returns, and variable consideration, recognized from this principal revenue stream has not changed as a result of the adoption of this new standard.

- IFRIC 22 *'Foreign Currency Transactions and Advance Consideration'* was issued on December 8, 2016 and clarifies which date should be used for translation when a foreign currency transaction involves an advance payment or receipt.

(q) Recent Accounting Pronouncements

At the date of authorization of these consolidated financial statements, the IASB and International Financial Reporting Standards 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 recognizes 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.

  This standard is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted if the Company is also applying IFRS 15. The Company will adopt this new standard as of its effective date.

(Expressed in Canadian Dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Recent Accounting Pronouncements (continued)

The Company has reviewed all of its leasing arrangements outstanding as at December 31, 2018, in respect of the new lease standard. The standard will primarily affect the accounting for the Company's operating leases. As at the reporting date, the Company has non-cancellable operating lease commitments of approximately $3,911,620 (see Note 16). The Company intends to apply the simplified transition approach and will not restate comparative amounts to the year prior to adoption. In respect of these lease commitments, the Company expects to recognize right-of-use assets of approximately $2,801,000, current lease liabilities of $518,000 and non-current lease liabilities of $2,493,000 as at January 1, 2019. Pursuant to the application of the simplified transition approach, the Company expects a one-time adjustment to increase the opening accumulated deficit as at January 1, 2019 of approximately $91,000. The Company expects that profit or loss will decrease by approximately $102,000 for the year ended December 31, 2019 as a result of the application of IFRS 16.

- IFRIC 23 '*Uncertainty over income tax treatments'* ("IFRIC 23") clarifies the application of recognition and measurement requirements in IAS 12 *'Income Taxes'*, when there is uncertainty over income tax treatments. It specifically addresses whether an entity considers each tax treatment independently or collectively, the assumptions an entity makes about the examination of tax treatments by taxation authorities, how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, and how an entity considers changes in facts and circumstances. IFRIC 23 will be effective for the Company's fiscal year beginning on January 1, 2019, with earlier application permitted. The Company will adopt this interpretation as of its effective date. The Company has performed a preliminary analysis and has not assessed any significant impact as a result of the adoption of this standard.

4. INVESTMENTS

As at December 31, 2018, the Company had invested in various short-term guaranteed investment certificates ("GICs") and fixed-income securities valued at $100,988 and $603,945 (December 31, 2017 – $504,648 and $608,688), respectively, which are measured at amortized cost. These investments were held to in order to collect contractual cash flows which are solely payments of principal and interest on the principal amount outstanding.

5. ACCOUNTS RECEIVABLE

	December 31, 2018	December 31, 2017
	$	$
Sales taxes recoverable	**27,894**	24,299
Trade receivables	**18,260**	14,198
	46,154	38,497

The age of trade receivables is 90 days past due.

(Expressed in Canadian Dollars)

6. INVENTORIES

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

	December 31, 2018	December 31, 2017
	$	$
Raw materials	**42,430**	23,579
Finished goods	**5,125**	-
	47,555	23,579

For the year ended December 31, 2018, inventories recognized as an expense in cost of good sold amounted to $107,537 (2017 – $90,044), which include $42,472 (2017 – $44,308) of write-downs to reduce the carrying amount of inventories to net realizable value.

7. PROPERTY AND EQUIPMENT

	Machinery and equipment	**Construction in progress**	**Total**
	$	$	**$**
Cost at:			
December 31, 2017	28,132	-	**28,132**
Additions	51,334	2,017,011	**2,068,345**
Effects of foreign exchange on translation	2,460	-	**2,460**
December 31, 2018	81,926	2,017,011	**2,098,937**
Accumulated amortization at:			
December 31, 2017	-	-	**-**
Amortization (Note 17)	7,644	-	**7,644**
Effect of foreign exchange	405	-	**405**
December 31, 2018	8,049	-	**8,049**
Net book value:			
December 31, 2017	28,132	-	**28,132**
December 31, 2018	73,877	2,017,011	**2,090,888**

As at December 31, 2018, the balance of construction in progress of $2,017,011 (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. BUSINESS COMBINATION AND INTANGIBLE ASSETS

On October 29, 2015, the Company acquired all of the intangible assets from Jeff Maser ("Maser") for $162,500, payable in cash of $12,500 and up to $150,000 in consideration shares. The arrangement between the parties provides for the payment of consideration shares of 3,000,000 common shares at a price of $0.05 per share, to be issued subject to performance escrow based on Tinley meeting a sales target within five years of closing. Over these five (5) years, the Company will release 1,500,000 consideration shares if sales exceed $1 million over any four (4) consecutive quarters. An additional 1,500,000 consideration shares will be released if sales exceed $3 million over any four (4) consecutive quarters.

(Expressed in Canadian Dollars)

8. BUSINESS COMBINATION AND INTANGIBLE ASSETS (continued)

The $162,500 intangible assets have been recorded as a single asset, as the individual assets in the group have indefinite useful lives. The purchased assets include:

- Know-how and intellectual property rights to hemp stalk oil infused beverage formulations developed together by Maser together with third-parties and all business relationships thereto;
- Hemp stalk oil infused beverage business plan;
- Non-binding term sheet with beverage formulator;
- Strategy briefing and work product and all related right to work product from the branding company;
- The domain names; the Twitter handle; the Instagram handle; and the Tinley facebook page;
- Assignment of all right, title and interest in and to any verbal agreements, contract negotiations and purchase order with drink formulators, hemp oil suppliers, packagers, web marketers, distributors and other suppliers and Consultants.

For purposes of impairment testing, intangibles with an indefinite life were allocated to the smallest identifiable group of assets that generate cash flows independently (CGU). These intangible assets are used for product development and therefore, the smallest identifiable group of assets would be the cash flows of the wholly-owned subsidiary, Hemplify, which is developing and selling these products. During the year ended December 31, 2017, management identified that the intangible assets listed above were not generating sufficient cash flows to support their carrying amount, which resulting in an impairment loss, equal to the difference between the carrying amount and the recoverable amount of $12,500.

The recoverable amount of the CGU was determined based on a value-in-use calculation, determined using a three-year cash flow projection. The key assumptions used in the estimation of the recoverable amount are as follows:

- Budgeted earnings before interest, taxes, depreciation and amortization ("EBITDA") was estimated taking into consideration past experience, estimated sales volume, and price changes for the next three (3) years;
- Pre-tax discount rate of 29%; and
- Average growth rate of 1%.

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2018	December 31, 2017
	$	$
Trade payables	**94,747**	107,426
Accrued liabilities	**91,126**	147,191
	185,873	254,617

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:

	December 31, 2018	December 31, 2017
	$	$
Less than 1 month	**135,071**	183,012
1 to 3 months	**49,724**	26,606
Over 3 months	**1,078**	44,999
	185,873	254,617

10. SHARE CAPITAL

Authorized share capital

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

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 (1) vote per share at shareholder meetings of the Company.

2018 share capital transactions

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 (1) common share at a price of $1.35 per common share, for a period of 24 months from closing.

In consideration of the services received by the Agents in connection with the brokered offering, the Company paid a cash commission to the agents of $404,400. Additionally, the Agents received 404,400 broker warrants to acquire units exercisable for a period of 24 months from the closing date at an exercise price of $1.00 per unit. Each broker warrant entitles the Agents to acquire one (1) common share and one (1) warrant, exercisable into one (1) common share at $1.35 for a period of 24 months from the closing date. The Agents also received a corporate finance fee, payable in 202,200 units comprised of one (1) common share and one (1) warrant exercisable $1.35 for a period of 24 months following the closing date.

In addition, the Company paid other share issuance costs of $108,220 in conjunction with the private placement.

During the year ended December 31, 2018, 2,456,040 common shares were issued as a result of the exercise of warrants for cash proceeds of $608,810 (see Note 12).

During the year ended December 31, 2018, 100,000 common shares were also issued as a result of the exercise of options for cash proceeds of $30,000 (see Note 11).

2017 share capital transactions

During the year ended December 31, 2017, 11,174,908 common shares were issued as a result of the exercise of warrants for cash proceeds of $2,451,794 (see Note 12).

During the year ended December 31, 2017, 364,000 common shares were also issued as a result of the exercise of options for cash proceeds of $36,290 (see Note 11).

(Expressed in Canadian Dollars)

11. 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 (2) to five (5) years. All options expire on the fifth anniversary from the date of grant unless otherwise specified.

The following is a summary of stock options activities for the years ended December 31, 2018 and 2017:

	December 31, 2018		December 31, 2017	
	Weighted exercise price	**Number of options**	Weighted exercise price	Number of options
	$	**#**	$	#
Outstanding, beginning of year	**0.28**	**3,010,500**	0.17	2,389,500
Granted	**1.20**	**275,000**	0.33	150,000
Granted	**0.87**	**100,000**	0.35	600,000
Granted	**0.72**	**150,000**	0.30	100,000
Granted	**0.61**	**150,000**	0.68	350,000
Granted	**0.79**	**300,000**	-	-
Granted	**0.58**	**3,650,000**	-	-
Exercised	**0.30**	**(100,000)**	0.10	(364,000)
Forfeited	**1.20**	**(175,000)**	0.19	(215,000)
Expired	**0.61**	**(150,000)**	-	-
Outstanding, end of year	**0.49**	**7,210,500**	0.28	3,010,500
Exercisable, end of year	**0.32**	**2,940,337**	0.24	2,054,250

The weighted average fair value of stock options granted during the year ended December 31, 2018 is $0.46 (2017 – $0.30) per option.

The weighted-average share price at the dates the options were exercised during the year ended December 31, 2018 was $1.67 per share (2017 – $0.56).

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

Options granted in 2018

Grant date	**December 14, 2018**	**December 11, 2018**	**November 30, 2018**	**November 30, 2018**
Number of options	250,000	100,000	1,000,000	2,300,000
Exercise price	$0.58	$0.58	$0.58	$0.58
Share price	$0.55	$0.53	$0.55	$0.55
Expected life of options	5 years	5 years	5 years	5 years
Expected volatility	133%	133%	132%	132%
Risk-free interest rate	2.04%	2.02%	2.20%	2.20%

(Expressed in Canadian Dollars)

11. RESERVE FOR SHARE-BASED PAYMENTS (continued)

Options granted in 2018 (continued)

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%

Grant date	January 23, 2018	January 23, 2018
Number of options	200,000	75,000
Exercise price	$1.20	$1.20
Share price	$1.18	$1.18
Expected life of options	2 years	3 years
Expected volatility	143%	130%
Risk-free interest rate	1.80%	1.85%

Options granted in 2017

Grant date	November 22, 2017	August 17, 2017	July 12, 2017	March 22, 2017
Number of options	350,000	100,000	600,000	150,000
Exercise price	$0.68	$0.30	$0.35	$0.33
Share price	$0.61	$0.245	$0.255	$0.24
Expected life of options	5 years	5 years	5 years	2 years
Expected volatility	170%	170%	170%	170%
Risk-free interest rate	1.69%	1.39%	1.44%	1.05%

(Expressed in Canadian Dollars)

11. RESERVE FOR SHARE-BASED PAYMENTS (continued)

The following table summarizes information of options outstanding as at December 31, 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	0.22
January 23, 2020	100,000	100,000	1.20	1.06
December 23, 2020	910,500	910,500	0.11	1.98
January 27, 2021	25,000	25,000	0.11	2.08
August 4, 2021	350,000	350,000	0.08	2.59
November 3, 2021	600,000	600,000	0.44	2.84
July 12, 2022	600,000	600,000	0.35	3.53
November 22, 2022	350,000	200,000	0.68	3.90
April 20, 2023	100,000	10,000	0.87	4.30
May 11, 2023	150,000	31,793	0.72	4.36
August 13, 2023	300,000	38,043	0.79	4.62
November 30, 2023	2,300,000	-	0.58	4.92
November 30, 2023	1,000,000	-	0.58	4.92
December 11, 2023	100,000	-	0.58	4.95
December 14, 2023	250,000	-	0.58	4.96
	7,210,500	**2,940,336**	**0.32**	**3.95**

12. RESERVE FOR WARRANTS

The following summarizes the warrant activities for the years ended December 31, 2018 and 2017:

	December 31, 2018		December 31, 2017	
	Number of warrants outstanding	**Fair value**	Number of warrants outstanding	Fair value
	#	**$**	#	$
Balance, beginning of year	**2,446,635**	**5,322,984**	13,178,036	6,765,962
Issued [(i)]	**5,257,200**	**1,465,960**	1,147,245	361,725
Issued [(i)]	**404,400**	**353,433**	**-**	**-**
Issued	**64,995**	**20,493**	**-**	**-**
Exercised	**(2,456,040)**	**(290,168)**	(11,174,908)	(1,804,703)
Expired	**(55,590)**	**-**	(703,738)	-
Balance, end of year	**5,661,600**	**6,872,702**	2,446,635	5,322,984

[(i)] 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 10. In addition, 202,200 warrants were issued as part of the Agents' Units as compensation to the private placement offering. 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. As the fair value of the services received cannot be measured reliably, the Company has measured the transaction at the fair value of the instruments granted.

The fair value of the warrants issued was estimated using the Black-Scholes valuation model with the following assumptions. Expected volatility was determined based on historical volatility of the Company and comparable companies.

(Expressed in Canadian Dollars)

12. RESERVE FOR WARRANTS (continued)

Issuance date	April 6, 2018	April 6, 2018	April 6, 2018
Number of warrants	5,055,000	202,200	404,000
Exercise price	$1.35	$1.35	$1.00
Share price	$0.78	$0.78	$0.78
Expected life of warrants	2 years	2 years	2 years
Expected volatility	141%	141%	141%
Risk-free interest rate	1.79%	1.79%	1.79%

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

Date of expiry	Number of warrants outstanding	Exercise price	Weighted average
	#	$	Years
April 6, 2020	5,257,200	1.35	1.27
April 6, 2020	404,400	1.00	1.27
	5,661,600	**1.33**	**1.27**

13. 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 years ended December 31, 2018 and 2017 were as follows:

	Year ended December 31, 2018	Year ended December 31, 2017
	$	$
Short-term employee benefits, including salaries and consulting fees	**504,000**	526,649
Share-based compensation	**144,828**	230,448
	648,828	757,097

(i) During the year ended December 31, 2018, the Chief Executive Officer ("CEO") of the Company was paid consulting fees of $156,000 (2017 – $156,000) for services rendered. As at December 31, 2018, an amount of $nil (December 31, 2017 – $86,592) owing to the CEO for compensation on services rendered was included in accounts payable and accrued liabilities.

(ii) During the year ended December 31, 2018, the Chief Financial Officer ("CFO") of the Company was paid consulting fees of $72,000 (2017 – $48,030) for services rendered. As at December 31, 2018, no balance (December 31, 2017 – $5,630 included in accounts payable) was owed to the CFO for compensation on services rendered.

(iii) During the year ended December 31, 2018, directors considered to be part of key management were paid fees of $276,000 (2017 – $247,119) for services rendered. As at December 31, 2018, an amount of $27,287 (December 31, 2017 – $6,500) owing to these directors was included in accounts payable and accrued liabilities.

(Expressed in Canadian Dollars)

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

Key management compensation (continued)

(iv) The Company and Branson Corporate Services Ltd. ("Branson") previously entered into a management services agreement. During the year ended December 31, 2017, $75,500 in management, accounting and administrative services were provided by Branson while it was affiliated with the former CFO.

Other related party transactions

(v) During the year ended December 31, 2018, directors who are not part of key management received stock-based compensation of $134,792 (2017 – $45,998).

(vi) During the year ended December 31, 2018, $41,622 of legal fees (2017 – $43,339) were incurred for services provided by a law firm in which a director of the Company is a partner.

14. INCOME TAXES

The reported income taxes differ from the amounts obtained by applying domestic rates of the parent company domiciled in Canada of 26.5% (2017 – 26.5%) to the net loss as follows:

	2018	2017
	$	$
Components of income tax provision:		
Income tax at statutory tax rates	**(970,000)**	(583,000)
Difference between Canadian and foreign tax rates	**(76,000)**	(183,000)
Stock-based compensation and other non-deductible expenses	**148,000**	119,000
Change in tax benefits not recognized	**898,000**	647,000
	-	-

The following are temporary differences that gave rise to the deferred tax assets, which have not been recognized in the consolidated financial statements:

	2018	2017
	$	$
Deferred income tax assets:		
Intangible assets	**134,000**	142,000
Share issuance costs	**655,000**	175,000
Mineral properties and others	**1,605,000**	1,783,000
Operating losses carried forward	**18,121,000**	15,220,000

Share issuance costs will be fully amortized in 2022. The mineral properties temporary differences may be carried forward indefinitely. Deferred income tax assets have not been recognized due to the uncertainty of realization.

(Expressed in Canadian Dollars)

14. INCOME TAXES (continued)

Tax losses carried forward

The Company has accumulated non-capital losses for income tax purposes, which can be carried forward to be applied against future taxable income. The right to use the losses expires as follows:

	$
2025	751,000
2026	918,000
2027	890,000
2028	1,880,000
2029	45,000
2030	566,000
2031	732,000
2032	1,168,000
2033	888,000
2034	497,000
2035	967,000
2036	1,270,000
2037	1,364,000
2038	3,317,000
Indefinite	2,868,000
	18,121,000

15. 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 December 31, 2018, the Company considers its capital to be share capital, reserve for share-based payments, reserve for warrants, and accumulated other comprehensive loss, totaling $6,513,114 (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 year ended December 31, 2018.

16. COMMITMENTS

On March 1, 2018, the Company entered into two (2) 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.

As at December 31, 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	3,911,620	851,261	1,759,709	1,300,650

The Company has entered into a contract to complete the build-out and installation of the Long Beach facility by June 30, 2019. As at December 31, 2018, $1,831,944 was paid and included in construction in progress, and the Company is further committed to progress payments of $3,582,045 on completion of this project. The contract is denominated in USD for a total of USD $4,039,612.

17. GENERAL AND ADMINISTRATION EXPENSES

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

	Year ended December 31, 2018	Year ended December 31, 2017
	$	$
Rent	**840,115**	1,730
Professional fees	**523,378**	168,925
Corporate costs and administration	**355,596**	199,092
Consulting and management fees	**347,402**	254,970
Payroll and salaries	**261,339**	62,747
Travel and promotional	**190,168**	65,000
Amortization	**7,644**	-
Other expenses	**40,504**	-
	2,566,146	752,464

18. FINANCIAL RISK MANAGEMENT

Fair value

The carrying amount of cash, trade receivables, investments and trade and other payables on the 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.

18. FINANCIAL RISK MANAGEMENT (continued)

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 December 31, 2018, the Company had a cash balance of $3,633,275 (December 31, 2017 – $3,584,780) to settle current liabilities of $185,873 (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 consideration the 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 December 31, 2018, the Company had cash of USD $2,045,482 (December 31, 2017 – USD $505,444) and trade account receivables of USD $13,385 (December 31, 2017 – USD $11,318) available to use against trade and other payables of USD $71,606 (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 December 31, 2018, had the Canadian dollar weakened/strengthened by 10% against the USD with all other variables held constant, the impact on the Company's net loss and other comprehensive loss for the year ended December 31, 2018 would have been approximately $191,923 and $6,803 higher/lower, respectively, as a result of foreign exchange gains (losses) on translation of USD-denominated financial instruments.

19. SUBSEQUENT EVENTS

On January 22, 2019, the Company entered into a consulting agreement (the "Agreement") with an Investor Relations consulting firm which will provide Tinley with consulting, investor relations and strategic corporate communications services. Under the terms of the Agreement, the Company will pay fees of $6,000 per month for a period of six (6) months, renewable for up to 25 months, and had granted 500,000 stock options, representing 25 months of service (or 20,000 stock options for each month of service) at an exercise price of $0.58. The options will vest in six-month tranches of 120,000 options per 6-month tranche, contingent upon continued service during these periods.

On February 20, 2019, the Company closed a private placement of 600,000 common shares at a price of $0.46 per common share, for gross proceeds of $276,000. The common shares had been subscribed by an officer of the Company.