THE TINLEY BEVERAGE COMPANY INC.

Consolidated Financial Statements

(Expressed in Canadian Dollars)

Years Ended December 31, 2019 and 2018

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December 31, 2019

Zeifmans

INDEPENDENT AUDITORS' REPORT

To the Shareholders of The Tinley Beverage Company Inc.

Opinion

We have audited the accompanying consolidated financial statements of The Tinley Beverage Company Inc. (the "Company"), which comprise the consolidated statement of financial position as at December 31, 2019, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the year then ended, and notes to the 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 Company as at December 31, 2019 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis of Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("GAAS"). 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 for the year ended December 31, 2019, the Company incurred a net loss of $7,392,122 and had negative cash flows from operations of $4,549,490. The Company's 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 Matter

The consolidated financial statements of the Company as at and for the year ended December 31, 2018 were audited by another auditor who expressed an unmodified opinion on those statements on April 26, 2019.

Other Information

Management is responsible for the other information. The other information comprises the information included in Management's Discussion and Analysis ("MD&A"), 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.

In connection with our audit of the 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 misstated.

We obtained the MD&A prior to the date of this auditors' report. 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 in this auditors' report. We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of 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 GAAS 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 GAAS, we exercise professional judgment and maintain professional skepticism 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 override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 financial statements or, if such disclosure is 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 Ahmad Aslam, CPA, CA.

Zeifmans LLP

Toronto, Ontario
May 26, 2020

Chartered Professional Accountants
Licensed Public Accountants

THE TINLEY BEVERAGE COMPANY INC.
Consolidated Statements of Financial Position
As at December 31, 2019 and 2018
(Expressed in Canadian Dollars)

	2019	2018
	$	$
Assets		
Current Assets		
Cash and cash equivalents	**2,614,342**	3,633,275
Short-term investments (Note 4)	**998,955**	704,933
Accounts receivable (Note 5)	**64,269**	46,154
Inventories (Note 6)	**599,085**	47,555
Prepaid expenses	**206,291**	132,416
Total Current Assets	**4,482,942**	4,564,333
Non-Current Assets		
Property and equipment (Note 7)	**7,149,179**	2,090,888
Right-of-use assets (Notes 3(a) and 10)	**2,131,879**	-
Security deposits	**137,946**	144,892
Intangible assets (Note 8)	**-**	12,500
Total Non-Current Assets	**9,419,004**	2,248,280
Total Assets	**13,901,946**	6,812,613

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

THE TINLEY BEVERAGE COMPANY INC.
Consolidated Statements of Financial Position
As at December 31, 2019 and 2018
(Expressed in Canadian Dollars)

Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities (Note 9)	**871,237**	185,873
Current portion of lease payable (Note 10)	**604,154**	-
Total Current Liabilities	**1,475,391**	185,873
Non-Current Liabilities		
Lease payable (Note 10)	**1,873,005**	-
Deferred lease liabilities	**-**	113,626
Total Non-Current Liabilities	**1,873,005**	113,626
Total Liabilities	**3,348,396**	299,499
Shareholders' Equity		
Share capital (Note 11)	**35,036,761**	27,611,385
Reserve for share-based payments (Note 12)	**3,922,339**	2,696,343
Reserve for warrants (Note 13)	**9,619,818**	6,872,702
Contributed surplus	**157,627**	-
Accumulated other comprehensive loss	**(212,810)**	(222,579)
Accumulated deficit	**(37,970,185)**	(30,444,737)
Total Shareholders' Equity	**10,553,550**	6,513,114
Total Liabilities and Shareholders' Equity	**13,901,946**	6,812,613

Nature of operations (Note 1)
Going concern (Note 2(b))
Contingencies (Note 20)
Subsequent events (Note 21)

Approved on behalf of the Board of Directors May 26, 2020:

"Jeffrey Maser" (signed)
Director

"David Ellison" (signed)
Director

THE TINLEY BEVERAGE COMPANY INC.

Consolidated Statements of Loss and Comprehensive Loss
For the years ended December 31, 2019 and 2018
(Expressed in Canadian Dollars)

	2019	2018
	$	$
Sales	**85,128**	36,597
Cost of goods sold (Note 17)	**(115,282)**	(186,158)
Gross loss	**(30,154)**	(149,561)
Operating Expenses		
General and administration (Note 18)	**4,323,058**	2,566,146
Share-based payments (Note 11)	**1,383,623**	563,274
Sales and marketing	**1,062,704**	598,179
Foreign exchange loss (gain)	**371,042**	(495,252)
Product development	**218,502**	319,213
Impairment of intangible assets	**12,500**	-
	7,371,429	3,551,560
Net Loss before Other Income	**(7,401,583)**	(3,701,121)
Other Income		
Interest and other income	**9,461**	40,215
Net Loss	**(7,392,122)**	(3,660,906)
Other Comprehensive Loss		
Gain (loss) on translation of foreign operations	**16,818**	(190,602)
Comprehensive Loss	**(7,375,304)**	(3,851,508)
Weighted Average Number of Common Shares Outstanding	**98,515,444**	86,214,753
Net Loss per Share		
Basic and Diluted	**(0.075)**	(0.042)

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, 2019 and 2018
(Expressed in Canadian Dollars)

	Share Capital		Reserves					
	Number of shares	Amount	Share-based payments	Warrants	Contributed surplus	Accumulated deficit	Accumulated other comprehensive loss	Total
	#	$	$	$	$	$	$	$
Balance, December 31, 2017	**83,013,794**	**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 period	-	-	-	-	-	(3,660,906)	-	(3,660,906)
Balance, December 31, 2018	**90,827,034**	**27,611,384**	**2,696,343**	**6,872,702**	**-**	**(30,444,737)**	**(222,579)**	**6,513,114**
Balance, Janaury 1, 2019 as previously reported	**90,827,034**	**27,611,385**	**2,696,343**	**6,872,702**	**-**	**(30,444,737)**	**(222,579)**	**6,513,114**
Impact on adoption of IFRS 16 (Note 3(a))	-	-	-	-	-	(133,326)	(7,049)	(140,375)
Balance, January 1, 2019 as restated	**90,827,034**	**27,611,385**	**2,696,343**	**6,872,702**	**-**	**(30,578,063)**	**(229,628)**	6,372,739
Issuance of units from private placements (Notes 10 and 12)	19,854,607	8,556,613	-	3,075,051	-	-	-	11,631,664
Share issue costs (Notes 10 and 12)	-	(1,131,237)	-	(327,935)	-	-	-	(1,459,172)
Share-based payments (Note 11)	-	-	1,383,623	-	-	-	-	1,383,623
Forfeiture of options	-	-	(157,627)	-	157,627	-	-	-
Exchange gain on translation of foreign operations	-	-	-	-	-	-	16,818	16,818
Net loss for the period	-	-	-	-	-	(7,392,122)	-	(7,392,122)
Balance, December 31, 2019	**110,681,641**	**35,036,761**	**3,922,339**	**9,619,818**	**157,627**	**(37,970,185)**	**(212,810)**	**10,553,550**

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, 2019 and 2018
(Expressed in Canadian Dollars)

	2019	2018
	$	$
Operating Activities		
Net loss for the year	**(7,392,122)**	(3,660,906)
Adjustments for non-cash items:		
Share-based payments – options (Note 11)	**1,383,623**	563,274
Depreciation of property and equipment (Notes 7 and 18)	**429,015**	7,644
Depreciation of right-of-use assets (Note 10)	**637,368**	-
Deferred lease	**-**	107,921
Interest on lease obligations (Note 10)	**313,419**	-
Fair market value changes to short-term investments	**1,100**	(1,096)
Unrealized foreign currency translation (gain) loss	**16,818**	(30,382)
Impairment of intangible assets (Note 8)	**12,500**	-
	(4,598,279)	(3,013,545)
Changes in non-cash working capital:		
Accounts receivable (Note 5)	**(18,115)**	(7,657)
Prepaid expenses	**(73,876)**	(58,468)
Inventories (Note 6)	**(551,530)**	(23,976)
Security deposits	**6,946**	(144,872)
Accounts payable and accrued liabilities (Note 9)	**685,364**	(68,744)
Cash Flows (used in) Operating Activities	**(4,549,490)**	(3,317,262)
Investing Activities		
Purchases of property and equipment (Note 7)	**(5,587,545)**	(2,068,345)
Proceeds on redemptions of short-term investments	**704,933**	509,500
Purchases of short-term investments	**(1,000,055)**	(100,000)
Cash Flows (used in) Investing Activities	**(5,882,667)**	(1,658,845)
Financing Activities		
Proceeds from private placements (Note 11)	**10,941,264**	5,055,000
Share issue costs (Note 11)	**(768,771)**	(512,620)
Lease payments	**(845,235)**	-
Proceeds from exercise of warrants (Note 11)	**-**	608,810
Proceeds from exercise of options (Note 11)	**-**	30,000
Cash Flows provided by Financing Activities	**9,327,258**	5,181,190
Increase (decrease) in cash	**(1,104,899)**	205,083
Effects of foreign currency translation on cash	**85,966**	(156,588)
Cash and cash equivalents, beginning of year	**3,633,275**	3,584,780
Cash and cash equivalents, end of year	**2,614,342**	3,633,275
Supplemental Cash Flows Information		
Interest received	**11,266**	48,217

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

1. NATURE OF OPERATIONS

The Tinley Beverage Company Inc. ("Tinley") was incorporated under the laws of the Province of Ontario, Canada by Articles of Incorporation dated October 26, 2007. Tinley, with its subsidiaries (see note 2) (together, the "Company") manufacture a line of liquor-inspired, non-alcoholic, cannabis-infused beverages for use in California, United States ("US"). The Company also manufactures the "Tinley™ Tonics" and "Tinley™ '27" 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 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") as at May 26, 2020. 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 for issue by the Board of Directors (the "Board") of the Company on May 26, 2020.

(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.

For the year ended December 31, 2019, the Company had a net loss of $7,392,122 and negative cash flow from operations of $4,549,490. The Company 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 year ending December 31, 2020. Management manages its cash flows to and if necessary will host additional private placements to raise necessary capital.

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. ("Hemplify"), Algonquin Springs Beverage Management LLC and Boardwalk Beverages, Inc., as well as certain legacy dormant entities: Bolivar Gold Corp., QBC Holdings Corp., Kulta Corp., San Lucas Gold Corp. and Colombian Mining Corp.

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 Tinley 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:

Going concern

At the end of each reporting period, management exercises judgment in assessing the Company's ability to continue as a going concern by reviewing its performance, resources and future obligations.

Fair value of financial assets and financial liabilities

Fair value of financial assets and financial liabilities on the consolidated statements of financial position that cannot be derived from active markets, are determined using a variety of techniques including the use of valuation models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. Judgments include, but are not limited to, consideration of model inputs such as volatility, estimated life and discount rates.

Intangible assets

Purchased intangible assets are recognized as assets in accordance with IAS 38 *'Intangible Assets'*, where it is probable that the use of the asset will generate future economic benefits and where the cost of the asset can be determined reliably. Intangible assets acquired are initially recognized at cost of purchase and are subsequently carried at cost less accumulated impairment losses.

Determination of cash generating units

For the purpose of impairment testing, assets that cannot be tested individually are grouped at the lowest levels for which there are largely independent cash inflows. The Company determines which groups of assets (each a "Cash-Generating Unit or a "CGU") can generate cash flows that are largely independent of other operations within the Company. Management exercises judgment in assessing where active markets exist including an analysis of the degree of autonomy each operation has in negotiating prices with customers. The Company has identified each product line as a separate CGU, based on the nature of the business and the assessment that the CGUs generate cash flows that are largely independent of the cash flows from other assets deployed in the Company.

2. BASIS OF PRESENTATION (continued)

(e) Significant Accounting Judgments and Estimates (continued)

Impairment

Long-lived assets except indefinite life intangible assets and goodwill, including property and equipment, are reviewed for indicators of impairment at each reporting period or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of an asset or a CGU is the higher of its fair value, less costs to sell, and its value in use. If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is recognized immediately in profit or loss by the amount by which the carrying amount of the asset exceeds the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount, and the carrying amount that would have been recorded had no impairment loss been recognized previously.

Indefinite life intangible assets are tested for impairment annually and whenever events or changes in circumstances indicate that the carrying amount has been impaired. In order to determine if the value has been impaired, the CGU must be valued using present value techniques. When applying this valuation technique, the Company relies on a number of factors, including historical results, business plans, forecasts and market data. Changes in the conditions for these judgments and estimates can significantly affect the assessed value of indefinite life intangible assets.

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.

Share-based payment transactions and warrants

The Company measures the cost of equity-settled transactions with officers and directors by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining and making assumptions about the most appropriate inputs to the valuation model including the expected life, volatility, dividend yield of the share option and forfeiture rate. Similar calculations are made in order to value warrants. Such judgments and assumptions are inherently uncertain. Changes in these assumptions will affect the fair value estimates.

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.

(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 estimated costs of completion and estimated costs necessary to make the sale) using the "weighted average cost" 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 loss and comprehensive loss, represents revenue from the sale of goods less expected price discounts.

The Company's contracts with customers for the sales of cannabis-infused beverages consist of one (1) 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.

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 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Property and Equipment (continued)

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
- Leasehold improvements: Straight-line over the term of the lease
- Vehicles: 5 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).

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 for 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 for 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 for the year. For the years ended December 31, 2019 and 2018, 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.

(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.

As at December 31, 2019 and 2018, the Company had no material provisions.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Financial Instruments

Financial assets and financial liabilities, including derivatives, are recognized on the statements of financial position when the Company becomes a party to the financial instrument or derivative contract.

Classification

The Company classifies its financial instruments in the following measurement categories: (a) those to be measured subsequently at FVTPL; (b) those to be measured subsequently at fair value through other comprehensive income ("FVTOCI"); and (c) those to be measured at amortized cost. The classification of financial assets depends on the business model for managing the financial assets and the contractual terms of the cash flows. Financial liabilities are classified as those to be measured at amortized cost unless they are designated as those to be measured subsequently at FVTPL (irrevocable election at the time of recognition). For assets and liabilities measured at FVTPL, gains and losses are recorded in profit and loss.

The Company reclassifies financial assets when its business model for managing those assets changes. Financial liabilities are not reclassified.

Amortized cost

This category includes financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the solely principal and interest ("SPPI") criterion. Financial asset classified in this category are measured at amortized cost using the effective interest method.

Expected credit loss impairment model

IFRS 9 *'Financial Instruments'* introduced a single ECL impairment model, which is based on changes in credit quality since initial application. The adoption of the ECL impairment model had resulted in a provision of ECL recorded on the Company's consolidated statements of loss and comprehensive loss.

- A maximum 12-month allowance for ECL is recognized from initial recognition reflecting the portion of lifetime cash shortfalls that would result if a default occurs in the 12 months after the reporting date, weighted by the risk of a default occurring.
- A lifetime ECL allowance is recognized if a significant increase in credit risk is detected subsequent to the instruments initial recognition reflecting lifetime cash shortfalls that would result over the expected life of a financial instrument.
- A lifetime ECL allowance is recognized for credit impaired financial instruments.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due. The Company considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Company in full or when the financial asset is more than 90 days past due.

The carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts.

FVTPL

This category includes derivative instruments as well as quoted equity instruments which the Company has not irrevocably elected, at initial recognition or transition, to classify at FVTOCI. This category would also include debt instruments whose cash flow characteristics fail the SPPI criterion or are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell. Financial assets in this category are recorded at fair value with changes recognized in profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Financial Instruments (continued)

FVTOCI

Equity instruments that are not held-for-trading can be irrevocably designated to have their change in FVTOCI instead of through profit or loss. This election can be made on individual instruments and is not required to be made for the entire class of instruments. Attributable transaction costs are included in the carrying value of the instruments. Financial assets at FVTOCI are initially measured at fair value and changes therein are recognized in other comprehensive income (loss).

Measurement

All financial instruments are required to be measured at fair value on initial recognition, plus, in the case of a financial asset or financial liability not at FVTPL, transaction costs that are directly attributable to the acquisition or issuance of the financial asset or financial liability. Transaction costs of financial assets and financial liabilities carried at FVTPL are expensed in profit or loss. Financial assets and financial liabilities with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of the subsequent accounting periods. All other financial assets including equity investments are measured at their fair values at the end of subsequent accounting periods, with any changes taken through profit and loss or other comprehensive income (loss) (irrevocable election at the time of recognition). For financial liabilities measured subsequently at FVTPL, changes in fair value due to credit risk are recorded in other comprehensive income (loss).

The Company's classification of financial assets and liabilities is summarized below:

	Classification
Cash	Amortized cost
Short-term investments	FVTPL
Security deposits	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Lease payable	Amortized cost

Derecognition

Financial assets

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are generally recognized in the consolidated statements of loss and comprehensive loss.

Financial liabilities

The Company derecognizes financial liabilities only when its obligation under the financial liabilities are discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable, including any non-cash assets transferred or liabilities assumed, is recognized in the consolidated statements of loss and comprehensive loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Financial Instruments (continued)

Fair value hierarchy

The determination of fair value requires judgment and is based on market information, where available and appropriate. 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.
- Level 2 – 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); and
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

(m) 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 loss and comprehensive loss as part of the gain or loss on sale.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Leased Assets

At inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company then recognizes a right-of-use asset ("RUA") and a lease liability at the lease commencement date. The RUA is initially measured based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The assets are depreciated to the earlier of the end of the useful life of the RUA or the lease term using the straight-line method. The lease term includes periods covered by an option to extend if the Company is reasonably certain to exercise that option.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if there is a change in future lease payments arising from a change in an index or rate, or if the Company changes its assessment whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured, the amount of the remeasurement is recognized as a corresponding adjustment to the carrying amount of the RUA, or is recorded in profit or loss if the carrying amount of the RUA has been reduced to zero.

(o) Adoption of New Accounting Standards

The Company adopted the following amendments and new standards effective January 1, 2019:

IFRS 16 *'Leases'* ("IFRS 16") was issued in January 2016 and replaced IAS 17 *'Leases'* ("IAS 17") as well as some lease related interpretations. With certain exceptions for leases under 12 months in length or for assets of low value, IFRS 16 states that upon lease commencement a lessee recognizes a RUA and a lease liability. The RUA is initially measured at the amount of the liability plus any initial direct costs. After lease commencement, the lessee shall measure the RUA at cost less accumulated amortization and accumulated impairment. A lessee must 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.

The Company has applied IFRS 16 with an initial application date of January 1, 2019, in accordance with the transitional provisions specified in IFRS 16. The Company applied the simplified transition approach and did not restate comparative amounts to the year prior to adoption.

(Expressed in Canadian Dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Adoption of New Accounting Standards (continued)

The impact of the adoption of IFRS 16 is to increase (decrease) the following statements of financial position line items:

	Balance at December 31, 2018 prior to adoption	Effect of adoption	Opening balance restated at January 1, 2019 under IFRS 16
	$	$	$
Right of use assets	-	2,894,611	2,894,611
Deferred lease liability	113,626	(113,626)	-
Current portion of lease payable	-	546,717	546,717
Lease payable	-	2,601,894	2,601,894
Accumulated deficit	30,444,737	133,325	30,578,062
Accumulated other comprehensive loss	222,579	7,049	229,628

The reconciliation of the lease liability upon the adoption of IFRS 16 is as follows:

	As at January 1, 2019
	$
Total undiscounted lease commitments December 31, 2018 prior to adoption of IFRS 16	3,911,620
Total discounting Impact	(763,009)
Opening lease liability January 1, 2019 on adoption of IFRS 16	3,148,611.00

The Company has recognized lease liabilities and RUA at the date of initial application for leases previously classified as operating leases in accordance with IAS 17. The Company has elected to measure the RUAs at the carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the Company's incremental borrowing rate at the date of initial application. For the lease previously classified as a finance lease under IAS 17, the carrying amount of the RUA and the lease liability at the date of initial application is equal to the carrying amount of the leased asset and lease liability immediately before the date of initial application.

The adjustments are due to the recognition of RUAs and lease obligations for lease contracts previously classified as operating leases under IAS 17 prior to the date of initial application. The weighted average incremental borrowing rate applied to the lease liabilities recognized at the date of initial application is 12%.

IFRIC 23 '*Uncertainty over income tax treatments'* 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. The Company has assessed there was no significant impact on its consolidated financial statements, as a result of the adoption of this standard.

(Expressed in Canadian Dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Recent Accounting Pronouncements

At the date of authorization of these consolidated financial statements, the IASB and IFRS Interpretations Committee have issued the following new and revised standard which is effective for annual periods beginning on or after January 1, 2020:

IAS 1 *'Presentation of Financial Statements'* and IAS 8 – *'Accounting Policies, Changes in Accounting Estimates and Errors'* were amended in October 2018 to refine the definition of materiality and clarify its characteristics. The revised definition focuses on the idea that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements. Management does not anticipate any impact on its financial reporting from the adoption of this standard.

4. SHORT-TERM INVESTMENTS

As at December 31, 2019, the Company had invested in various fixed-income securities valued at $998,955 (December 31, 2018 – $603,945) and short-term guaranteed investment certificates of $nil (December 31, 2018 – $100,988). As at December 31, 2019, the Company had short-term investments valued at FVTPL of $998,955 (December 31, 2018 – $nil) and investments measured at amortized cost of $nil (December 31, 2018 – $704,933).

5. ACCOUNTS RECEIVABLE

	2019	2018
	$	$
Sales taxes recoverable	**41,146**	27,894
Trade receivables	**23,123**	18,260
	64,269	46,154

6. INVENTORIES

As at December 31, 2019, inventories consisted of the following:

	2019	2018
	$	$
Raw materials	**384,903**	42,430
Work in process	**22,672**	-
Finished goods	**191,511**	5,125
	599,085	47,555

For the year ended December 31, 2019, inventories recognized as an expense in cost of good sold amounted to $115,282 (2018 – $186,158).

(Expressed in Canadian Dollars)

7. PROPERTY AND EQUIPMENT

	Plant equipment	Construction in progress	Leashold improvements	Vehicle	Total
	$	$	$	$	$
Cost					
As 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 depreciation at:					
December 31, 2017	-	-	-	-	-
Depreciation (Note 17)	8,049	-	-	-	8,049
December 31, 2018	8,049	-	-	-	8,049
Cost at:					
December 31, 2018	81,926	2,017,011	-	-	**2,098,937**
Additions	450,481	4,506,316	460,493	170,255	**5,587,545**
Reclassification on build-out completion	5,425,306	(6,426,630)	1,001,324	-	-
Effects of foreign exchange on translation	(3,927)	(96,697)		-	**(100,624)**
December 31, 2019	**5,953,786**	-	**1,461,817**	**170,255**	**7,585,858**
Accumulated depreciation at:					
December 31, 2018	8,049	-	-	-	8,049
Depreciation (Note 16)	284,818	-	130,876	13,321	**429,015**
Effect of foreign exchange translation	(385)			-	**(385)**
December 31, 2019	**292,482**	-	**130,876**	**13,321**	**436,679**
Net book value:					
December 31, 2018	73,877	2,017,011		-	2,090,888
December 31, 2019	**5,661,304**	-	**1,330,941**	**156,934**	**7,149,179**

For the year ended December 31, 2019, depreciation of $42,606 (2018 – $nil) was recognized into cost of goods sold.

8. INTANGIBLE ASSETS

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. For the year ended December 31, 2019, 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 $nil.

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%.

(Expressed in Canadian Dollars)

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2019	2018
	$	$
Trade payables	**794,460**	94,747
Accrued liabilities	**76,777**	91,126
	871,237	185,873

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:

	2019	2018
	$	$
Less than 1 month	**845,179**	135,071
1 to 3 months	**15,546**	49,724
Over 3 months	**10,512**	1,078
	871,237	185,873

10. RIGHT-OF-USE ASSETS

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 five (5) years and three (3) months, ending May 31, 2023, with an option to renew for two (2) additional 36-month periods. On adoption of IFRS 16, the lease of the Long Beach facility had been recognized as RUAs as follows:

	$
Cost at:	
January 1, 2019	**3,440,764**
Additions	**-**
Effects of foreign exchange on translation	**(164,950)**
December 31, 2019	**3,275,814**
Accumulated amortization at:	
January 1, 2019	**546,153**
Amortization (Note 18)	**637,368**
Effect of foreign exchange	**(39,586)**
December 31, 2019	**1,143,935**
Net book value:	
January 1, 2019	**2,894,611**
December 31, 2019	**2,131,879**

(Expressed in Canadian Dollars)

10. RIGHT-OF-USE ASSETS (continued)

The following table reflects the reconciliation of the lease payable on the Long Beach facility as at December 31, 2019:

	$
Lease liability, January 1, 2019	**3,148,611**
Lease payments	**(845,235)**
Interest on lease obligations	**313,419**
Effects of foreign exchange	**(139,636)**
Total lease liability, December 31, 2019	**2,477,159**
Current	**604,154**
Non-current	**1,873,005**
	2,477,159

11. 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.

	Shares	Proceeds	Share issuance costs	Allocated (to) from reserve for wrrants	Allocated (to) from reserve for share based compensation	Amount
	#	$	$	$	$	$
Balance, December 31, 2017	**83,013,794**	**-**	**-**	**-**	**-**	**23,958,573**
Issuance on private placement - Units April 6, 2018 (a)	5,055,000	5,055,000	(694,931)	(1,766,563)	-	2,593,506
Issuance on private placement - Agent Units April 6, 2018 (a)	202,200	-	-	-	-	129,482
Issuance on exercise of warrants December 31, 2018 (b)	2,456,040	608,810	-	269,676	-	878,486
Issuance on exercise of options December 31, 2018 (c)	100,000	30,000	-	-	21,338	51,338
Balance, December 31, 2018	**90,827,034**	**5,693,810**	**(694,931)**	**(2,055,424)**	**21,338**	**27,611,385**
Issuance on private placement February 20, 2019 (d)	600,000	276,000	-	-	-	276,000
Issuance on private placement April 30, 2019 (e)	9,028,699	5,417,219	(560,841)	(1,118,040)	-	3,738,338
Issuance on private placement May 10, 2019 (f)	5,788,408	3,473,045	(402,048)	(650,500)	-	2,420,498
Issuance on private placement Nov 14, 2019 (g)	1,250,000	500,000	(47,509)	(188,006)	-	280,474
Issuance on private placement Nov 26, 2019 (h)	2,125,000	850,000	(70,379)	(325,678)	-	477,864
Issuance on private placement Dec 24, 2019 (i)	1,062,500	425,000	(43,589)	(161,084)	-	232,202
Balance, December 31, 2019	**110,681,641**	**10,941,264**	**(1,124,366)**	**(2,443,308)**	**-**	**35,036,761**

Included in the number of shares outstanding above, at no cost, are 3,000,000 common shares in escrow for the Chief Executive Officer ("CEO") of the Company. The 3,000,000 common shares are to be issued at a price of \$0.05 per share, subject to performance based on the Company meeting a sales target within five (5) years of the agreement date October 29, 2015. 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. As at December 31, 2019 the shares are expected to be cancelled October 29, 2020.

11. SHARE CAPITAL (continued)

2018 share capital transactions

(a) 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 and issued 404,400 broker warrants exercisable at $1.00 per share expiring in 2 years.

Additionally, 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.

(b) For 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 13). In connection with the exercise of broker warrants, 64,995 underlying warrants were issued and exercised in the period.

(c) For 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 12).

2019 share capital transactions

(d) On February 20, 2019, the Company closed a non-brokered private placement of 600,000 common shares at a price of $0.46 per share, for gross proceeds of $276,000 (also see Note 14(ii)).

(e) On April 30, 2019, the Company closed the first tranche ("Tranche 1") of a non-brokered private placement (the "Q2 2019 Private Placement Offering") through the issuance of 9,028,699 Units at a price of $0.60 per Unit, for gross proceeds of $5,417,219. Each Unit consists of one (1) common share and one half (1/2) warrant. Each warrant entitles the holder to purchase one (1) common share at a price of $0.90 per common share, for a period of 24 months from closing. In consideration of the services provided by agents (the "Agents") and in connection with Tranche 1 of the Q2 2019 Private Placement Offering, the Company paid cash commissions of $307,739 to the Agents. In addition, 505,917 broker warrants were issued as compensation to Agents, to acquire Units for a period of 24 months from the closing date at an exercise price of $0.60 per Unit. Each broker warrant entitles the Agents to acquire one (1) common share and one half (1/2) warrant, exercisable into one (1) common share at $0.90 for a period of 24 months from the closing date.

(f) On May 10, 2019, the Company completed a second tranche ("Tranche 2") of the Q2 2019 Private Placement Offering through issuance of 5,788,408 Units and a price of $0.60 per Unit, for total gross proceeds of $3,473,044. Each Unit was comprised of one (1) common share of and one half (1/2) warrant. Each warrant entitles the holder to purchase one (1) common share at a price of $0.90 per common share, for a period of 24 months from closing. In consideration of the services provided by the Agents in connection with Tranche 2 of the Q2 2019 Private Placement Offering, the Company paid cash commissions of $261,333 to the Agents. In addition, 404,279 broker warrants were issued as compensation to Agents, to acquire Units for a period of 24 months from the closing date at an exercise price of $0.60 per Unit. Each broker warrant entitles the Agents to acquire one (1) common share and one half (1/2) warrant, exercisable into one (1) common share at $0.90 for a period of 24 months from the closing date.

11. SHARE CAPITAL (continued)

2019 share capital transactions (continued)

(g) On November 14, 2019, the Company completed Tranche 1 of another non-brokered private placement (the "Q4 Private Placement Offering") through issuance of 1,250,000 Units at a price of $0.40 per Unit, for total gross proceeds of $500,000. Each Unit was comprised of one (1) common share and one (1) warrant. Each warrant entitles the holder to purchase one (1) common share at a price of $0.60 per common share, for a period of 36 months from closing. In consideration of the services provided by the Agents in connection with Tranche 1 of the Q4 2019 Private Placement Offering, the Company paid cash commission of $35,000 to the Agent. In addition, 87,500 broker warrants were issued as compensation to Agents, to acquire Units for a period of 36 months from the closing date at an exercise price of $0.40 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 $0.60 for a period of 36 months from the closing date.

(h) On November 26, 2019, the Company completed Tranche 2 of the Q4 2019 Private Placement Offering through issuance of 2,125,000 Units at a price of $0.40 per Unit, for total gross proceeds of $850,000. Each Unit was comprised of one (1) common share and one (1) warrant. Each warrant entitles the holder to purchase one (1) common share at a price of $0.60 per common share, for a period of 36 months from closing. In connection with Tranche 2 of the Q4 2019 Private Placement Offering, the Company paid cash commission of $51,275 to the Agents. In addition, 128,188 broker warrants were issued as compensation to Agents, to acquire Units for a period of 36 months from the closing date at an exercise price of $0.40 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 $0.60 for a period of 36 months from the closing date.

(i) On December 24, 2019, the Company completed the final tranche of the Q4 2019 Private Placement Offering through issuance of 1,062,500 Units at a price of $0.40 per Unit, for total gross proceeds of $425,000. Each Unit is comprised of one (1) common share and one (1) warrant at a price of $0.60 per common share, for a period of 36 months from closing. In consideration of the services provided by Agents, the Company paid cash commission of $29,750. In addition, 74,735 broker warrants were issued as compensation to Agents, to acquire Units for a period of 36 months from the closing date at an exercise price of $0.40 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 $0.60 for a period of 36 months from the closing date.

(Expressed in Canadian Dollars)

12. 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, 2019 and 2018:

	2019		2018	
	Weighted exercise price	**Number of options**	Weighted exercise price	Number of options
	$	**#**	$	#
Outstanding, beginning of year	**0.49**	**7,210,500**	0.28	3,010,500
Granted	**0.58**	**500,000**	1.20	275,000
Granted	**0.70**	**300,000**	0.87	100,000
Granted	**0.56**	**625,000**	0.72	150,000
Granted	**0.37**	**200,000**	0.61	150,000
Granted	**0.50**	**100,000**	0.79	300,000
Granted	**0.60**	**100,000**	0.58	3,650,000
Granted	**0.70**	**100,000**	-	-
Granted	**0.41**	**2,705,000**	-	-
Exercised	-	-	0.30	(100,000)
Forfeited	**1.20**	**(100,000)**	1.20	(175,000)
Expired	**0.33**	**(75,000)**	0.61	(150,000)
Forfeited	**0.58**	**(500,000)**	-	-
Forfeited	**0.33**	**(100,000)**	-	-
Outstanding, end of year	**0.48**	**11,065,500**	0.49	7,210,500
Exercisable, end of year	**0.42**	**4,485,250**	0.32	2,940,337

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 2019

Grant date	**December 23, 2019**	**December 23, 2019**	**December 23, 2019**	**December 2, 2019**
Number of options	290,000	75,000	2,340,000	100,000
Exercise price	$0.41	$0.41	$0.41	$0.70
Share price	$0.405	$0.405	$0.405	$0.36
Expected life of options	5 years	5 years	5 years	2 years
Expected volatility	126%	126%	126%	102%
Risk-free interest rate	1.65%	1.65%	1.65%	1.61%
Forfeiture rate	10%	10%	10%	10%

(Expressed in Canadian Dollars)

12. RESERVE FOR SHARE-BASED PAYMENTS (continued)

Options granted in 2019 (continued)

Grant date	December 2, 2019	December 2, 2019	November 11, 2019	September 4, 2019
Number of options	100,000	100,000	200,000	625,000
Exercise price	$0.60	$0.50	$0.37	$0.56
Share price	$0.36	$0.36	$0.435	$0.56
Expected life of options	2 years	2 years	5 years	5 years
Expected volatility	102%	102%	126%	125%
Risk-free interest rate	1.61%	1.61%	1.47%	1.15%
Forfeiture rate	10%	10%	10%	10%

Grant date	April 10, 2019	January 17, 2019
Number of options	300,000	500,000
Exercise price	$0.70	$0.58
Share price	$0.67	$0.59
Expected life of options	2 years	2 years
Expected volatility	109%	104%
Risk-free interest rate	1.58%	1.90%
Forfeiture rate	10%	10%

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%
Forfeiture rate	10%	10%	10%	10%

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%
Forfeiture rate	10%	10%	10%	10%

(Expressed in Canadian Dollars)

12. RESERVE FOR SHARE-BASED PAYMENTS (continued)

Options granted in 2018 (continued)

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%
Forfeiture rate	10%	10%

The following table summarizes information of options outstanding as at December 31, 2019:

Date of expiry	Number of options outstanding	Number of options exercisable	Exercise price	Weighted average remaining life
	#	#	$	Years
December 23, 2020	910,500	910,500	0.11	0.98
January 27, 2021	25,000	25,000	0.11	1.08
April 10, 2021	300,000	200,000	0.70	1.28
August 4, 2021	350,000	350,000	0.08	1.59
November 3, 2021	600,000	600,000	0.44	1.84
December 2, 2021	100,000	-	0.50	1.92
December 2, 2021	100,000	-	0.60	1.92
December 2, 2021	100,000	-	0.70	1.92
July 12, 2022	600,000	600,000	0.35	2.53
November 22, 2022	350,000	300,000	0.68	2.90
April 20, 2023	100,000	40,000	0.87	3.30
May 11, 2023	150,000	75,000	0.72	3.36
August 13, 2023	300,000	125,000	0.79	3.62
November 30, 2023	3,300,000	1,100,000	0.58	3.92
December 11, 2023	100,000	33,000	0.58	3.95
December 14, 2023	250,000	83,000	0.58	3.96
September 4, 2024	525,000	43,750	0.56	4.68
November 14, 2024	200,000	-	0.37	4.88
December 23, 2024	2,705,000	-	0.41	4.98
	11,815,500	**4,485,250**	**0.42**	**3.54**

(Expressed in Canadian Dollars)

13. RESERVE FOR WARRANTS

The following summarizes the warrant activities for the years ended December 31, 2019 and 2018:

	2019		2018	
	Number of warrants	**Amount**	Number of warrants	Amount
	#	**$**	#	$
Balance, beginning of year	**5,661,600**	**6,872,702**	2,446,635	5,322,984
Issued April 6, 2018 (Note 11(a))	-	-	5,257,200	1,465,960
Issued April 6, 2018 (Note 11(a))	-	-	404,400	353,433
Issued April 6, 2018	-	-	64,995	20,493
Exercised December 31, 2018 (Note 11(b))	-	-	(2,456,040)	(290,168)
Issued April 30, 2019 (Note 11(e))	**5,020,267**	**1,338,806**	-	-
Issued May 10, 2019 (Note 11(f))	**3,298,483**	**761,349**	-	-
Issued November 14, 2019 (Note 11(g))	**1,337,500**	**179,755**	-	-
Issued November 26, 2019 (Note 11(h))	**2,253,188**	**311,158**	-	-
Issued December 24, 2019 (Note 11(i))	**1,136,875**	**156,048**	-	-
Expired	-	-	(55,590)	-
Balance, end of year	**18,707,913**	**9,619,818**	5,661,600	6,872,702

Black-Scholes valuation assumptions

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.

Warrants issued in 2019

Issuance date	**December 24, 2019**	**December 24, 2019**	**November 26, 2019**	**November 26, 2019**
Number of warrants	1,062,500	74,375	2,125,000	128,188
Exercise price	0.60	0.60	0.60	0.60
Share price	0.395	0.395	0.41	0.41
Expected life of warrants	3 years	3 years	3 years	3 years
Expected volatility	98%	98%	99%	99%
Risk-free interest rate	1.66%	1.66%	1.55%	1.55%

Issuance date	**November 14, 2019**	**November 14, 2019**	**May 10, 2019**	**May 10, 2019**
Number of warrants	1,250,000	87,500	2,894,204	404,279
Exercise price	0.40	0.40	$0.90	$0.60
Share price	0.37	0.37	$0.64	$0.64
Expected life of warrants	3 years	3 years	2 years	2 years
Expected volatility	99%	99%	103%	103%
Risk-free interest rate	1.53%	1.53%	1.64%	1.64%

(Expressed in Canadian Dollars)

13. RESERVE FOR WARRANTS (continued)

Warrants issued in 2019(continued)

Issuance date	April 30, 2019	April 30, 2019
Number of warrants	4,514,350	505,917
Exercise price	$0.90	$0.60
Share price	$0.83	$0.83
Expected life of warrants	2 years	2 years
Expected volatility	103%	103%
Risk-free interest rate	1.56%	1.56%

Warrants issued in 2018

Issuance date	April 6, 2018	April 6, 2018	April 6, 2018
Number of warrants	5,055,000	202,200	404,400
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%

Underlying warrants issued on exercise of broker warrants

Issuance date	April 6, 2018
Number of warrants	64,995
Exercise price	$0.25
Share price	$0.40
Expected life of warrants	1.5 years
Expected volatility	230%
Risk-free interest rate	0.58%

(Expressed in Canadian Dollars)

13. RESERVE FOR WARRANTS (continued)

The following table summarizes information of warrants outstanding as at December 31, 2019:

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
April 30, 2021	4,514,350	0.90	1.33
April 30, 2021	505,917	0.60	1.33
May 10, 2021	2,894,204	0.90	1.36
May 10, 2021	404,279	0.60	1.36
November 14, 2022	1,250,000	0.60	2.87
November 14, 2022	87,500	0.40	2.87
November 26, 2022	2,125,000	0.60	2.91
November 26, 2022	128,188	0.40	2.91
December 24, 2022	1,062,500	0.60	2.98
December 24, 2022	74,375	0.40	2.98
	18,707,913	**0.83**	**1.41**

14. 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 for the years ended December 31, 2019 and 2018 were as follows:

	2019	2018
	$	$
Short-term employee benefits, including salaries and consulting fees	**714,056**	504,000
Share-based compensation	**989,675**	144,828
	1,703,731	648,828

(i) For the year ended December 31, 2019, the Company incurred consulting fee expenses with the CEO of $156,000 (2018 – $156,000) for services rendered. As at December 31, 2019, no balance (December 31, 2018 – $nil) was owed to the CEO for compensation on services rendered.

(ii) For the year ended December 31, 2019, the Company incurred consulting fee expenses with the Chief Financial Officer ("CFO") of $83,600 (2018 – $72,000) for services rendered. As at December 31, 2019, no balance (December 31, 2018 – $nil) was owed to the CFO for compensation on services rendered.

(iii) For the year ended December 31, 2019, the Company incurred wages expenses with the President – Western US of approximately $318,456 (USD $240,000) (2018 – $nil) for services rendered. As at December 31, 2019, an amount of $10,239 (December 31, 2018 – $nil) was owed to the President – Western US for an overpayment due to foreign exchange difference from the February 20, 2019 non-brokered private placement of 600,000 common shares at a price $0.46 per share, for gross proceeds of $276,000 (see Note 11(d)). Additionally, on April 30, 2019 the President – Western US purchased 400,000 units consisting of one (1) common share and one (1) warrant for the purchase of a common share at the price of $240,000.

(Expressed in Canadian Dollars)

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

Key management compensation (continued)

(iv) For the year ended December 31, 2019, the Company incurred consulting fee expenses with directors considered to be part of key management $156,000 (2018 – $276,000) for services rendered. As at December 31, 2019, an amount of $6,500 (December 31, 2018 – $27,287) incurred to these directors was included in accounts payable and accrued liabilities.

Other related party transactions

(v) For the year ended December 31, 2019, directors who are not part of key management received stock-based compensation of $262,017 (2018 – $134,792).

(vi) For the year ended December 31, 2019, $12,004 of legal fees (2018 – $41,622) were incurred for services provided by a law firm in which a director of the Company is a partner.

15. INCOME TAXES

The reported income taxes differ from the amounts obtained by applying domestic rates of Tinley domiciled in Canada of 26.5% (2018 – 26.5%) to the net loss as follows:

	2019	2018
	$	$
Components of income tax provision:		
Income tax at statutory tax rates	**(1,942,000)**	(970,000)
IRC 280(e) deductions [(a)]	**812,000**	346,000
Difference between Canadian and foreign tax rates	**(343,000)**	(246,000)
Stock-based compensation and other non-deductible expenses	**371,000**	148,000
Change in tax benefits not recognized	**1,102,000**	722,000
Recovery of income taxes	**-**	**-**

(a) As the Company operates in the cannabis industry, it is subject to the limitations of US Internal Revenue Code Section 280(e) ("280(e)") under which the Company is only allowed to deduct expenses directly related to sales of product. This results in permanent differences between ordinary and necessary business expenses deemed non-allowable under 280(e). Therefore, the effective tax rate can be highly variable and may not necessarily correlate with pre-tax income or loss.

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

	2019	2018
	$	$
Deferred income tax assets:		
Intangible assets	**41,000**	35,000
Share issuance costs	**284,400**	174,000
Mineral properties and others	**955,000**	955,000
Operating losses carried forward	**5,636,000**	4,650,000
Total	**6,917,000**	5,815,000
Valuation allowance	**(6,917,000)**	(5,815,000)
Deferred tax asset	**-**	**-**

Share issuance costs are to 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)

15. 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:

	Canadian	Californian	Federal US	Columbian
	$	**$**	**$**	**$**
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	1,076,000	193,000	44,000	-
2037	709,000	860,000	45,000	-
2038	1,770,000	1,751,000	99,000	-
2039	2,418,000	36,000	-	-
Indefinite	-	-	-	2,868,000
	15,275,000	**2,840,000**	**188,000**	**2,868,000**

16. 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 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, 2019, the Company considers its capital to be share capital, reserve for share-based payments, reserve for warrants, and reduced by accumulated deficit and accumulated other comprehensive loss, totaling $10,553,550 (December 31, 2018 – $6,513,114).

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

The Company is not subject to externally imposed capital requirements, and there were no changes in the Company's approach to capital management for the year ended December 31, 2019.

(Expressed in Canadian Dollars)

17. COST OF SALES

The Company's cost of sales expense incurred for the years ended December 31, 2019 and 2018 are as follows:

	2019	2018
	$	$
Depreciation	**42,606**	-
Raw materials	**30,381**	106,552
Quality control and testing	**24,848**	3,118
Labour	**15,967**	55,936
Shipping and freight	**1,480**	20,552
	115,282	186,158

18. GENERAL AND ADMINISTRATION EXPENSES

The Company's general and administration expenses incurred for the years ended December 31, 2019 and 2018 are as follows:

	2019	2018
	$	$
Corporate costs and administration	**775,114**	396,100
Payroll and salaries	**637,592**	261,339
Depreciation of RUA	**637,368**	-
Occupancy cost	**545,917**	840,115
Professional fees	**503,394**	523,378
Depreciation of property and equipment	**387,863**	7,644
Interest on lease liabilities	**313,419**	-
Consulting and management fees	**307,549**	347,402
Travel and promotional	**214,842**	190,168
	4,323,058	2,566,146

19. FINANCIAL RISK MANAGEMENT

Fair value

The carrying amount of cash, trade receivables, investments, trade and other payables and lease payable 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. No ECL has been recorded as at December 31, 2019.

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.

19. FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk (continued)

As at December 31, 2019, the Company had a cash and cash equivalents balance of $2,614,342 (December 31, 2018 – $3,633,275) to settle current liabilities of $1,475,391 (December 31, 2018 – $185,873). 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 its cash position as at the reporting date. The undiscounted contractual maturity of all financial liabilities is as follows:

	Total	**Within 1**	**1 to 3 years**	**3 to 5 years**
	$	$	$	$
Accounts payable and accrued liabilities	871,237	-	-	-
Lease payable	2,980,860	848,012	1,760,118	372,730
Total	**3,852,097**	**848,012**	**1,760,118**	**372,730**

Market risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is subject to market risk on future cash flows through its short-term investments indexed to S&P/TSX Composite. The due from related party is interest free. Had the value of the market increased or decreased by 1%, the return would change by $10,000, respectively.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company does not hold any instruments subject to interest rate risk as at December 31, 2019.

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, 2019, the Company had the following USD assets and liabilities in Canadian dollars:

	2019	2018
	$	$
Cash	**220,942**	2,045,482
Trade receivables	**17,804**	13,385
Trade and other payables	**(522,246)**	(71,606)
Net exposure to USD	**(283,500)**	1,987,261

Had the value of the USD increased or decreased by 1%, the net loss and comprehensive loss would have increased or decreased by $2,835, respectively, as a result of this exposure.

20. CONTINGENCIES

Although the possession, cultivation, and distribution of cannabis for recreational and medical use is permitted in the State of California, cannabis is a Schedule-I controlled substance and its use remains a violation of federal law in the US.

The Company's operations are subject to a variety of local and state regulation. Failure to comply with one or more of those regulations could result in fines, restrictions on its operations, or losses of permits that could result in the Company ceasing operations in that specific state or local jurisdiction. While management of the Company believes that the Company is in compliance with applicable local and state regulations at December 31, 2019, cannabis regulations continue to evolve and are subject to differing interpretations. As a result, the Company may be subject to regulatory fines, penalties, or restrictions in the future.

21. SUBSEQUENT EVENTS

Beginning in March 2020, several governments instituted emergency measures as a result of the COVID-19 virus. The virus has had a major impact on international securities and currency markets and consumer activity which may impact the Company's financial position, its results of operations and its cash flows significantly. As these are subsequent events, these financial statements do not reflect such impact. As at May 26, 2020, it is also not possible to accurately quantify or estimate that impact.

On April 6, 2020, 5,257,000 units of warrants, exercisable at $1.35 per unit and 404,400 units of warrants, exercisable at $1.00 per unit, expired unexercised.