# THE TINLEY BEVERAGE COMPANY INC.

**Unaudited Condensed Interim Consolidated Financial Statements**

**(Expressed in Canadian Dollars)**

**For the Three Months Ended March 31, 2020 And 2019**

## NOTICE TO READER

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

The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company’s management.

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

# THE TINLEY BEVERAGE COMPANY INC.

**Unaudited Condensed Interim Consolidated Statements of Financial Position**
**(Expressed in Canadian Dollars)**

| | As at March 31, 2020 | As at December 31, 2019 |
|---|---|---|
| | **$** | $ |
| **Assets** | | |
| **Current Assets** | | |
| Cash and cash equivalents | **1,298,886** | 2,614,342 |
| Short-term investments (Note 4) | **943,152** | 998,955 |
| Accounts receivable (Note 5) | **216,424** | 64,269 |
| Inventories (Note 6) | **719,405** | 599,085 |
| Prepaid expenses | **233,423** | 206,291 |
| **Total Current Assets** | **3,411,290** | 4,482,942 |
| **Non-Current Assets** | | |
| Property and equipment (Note 7) | **7,548,778** | 7,149,179 |
| Right-of-use assets (Note 9) | **2,158,294** | 2,131,879 |
| Security deposits | **150,680** | 137,946 |
| **Total Non-Current Assets** | **9,857,752** | 9,419,004 |
| **Total Assets** | **13,269,042** | 13,901,946 |
| **Liabilities** | | |
| **Current Liabilities** | | |
| Accounts payable and accrued liabilities (Note 8) | **989,292** | 871,237 |
| Current portion of lease payable (Note 9) | **685,267** | 604,154 |
| **Total Current Liabilities** | **1,674,559** | 1,475,391 |
| **Non-Current Liabilities** | | |
| Lease payable (Note 9) | **1,865,040** | 1,873,005 |
| **Total Non-Current Liabilities** | **1,865,040** | 1,873,005 |
| **Total Liabilities** | **3,539,599** | 3,348,396 |
| **Shareholders' Equity** | | |
| Share capital (Note 10) | **35,036,761** | 35,036,761 |
| Reserve for share-based payments (Note 11) | **4,021,587** | 3,922,339 |
| Reserve for warrants (Note 12) | **9,619,818** | 9,619,818 |
| Contributed surplus | **458,100** | 157,627 |
| Accumulated other comprehensive income | **524,832** | (212,810) |
| Accumulated deficit | **(39,931,655)** | (37,970,185) |
| **Total Shareholders' Equity** | **9,729,443** | 10,553,550 |
| **Total Liabilities and Shareholders' Equity** | **13,269,042** | 13,901,946 |

Nature of operations (Note 1)
Going concern (Note 2(b))
Contingencies (Note 17)
Subsequent events (Note 18)

**Approved on behalf of the Board of Directors:**

*"Jeffrey Maser" (signed)*
*Director*

*"David Ellison" (signed)*
*Director*

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

## THE TINLEY BEVERAGE COMPANY INC.

**Unaudited Condensed Interim Consolidated Statements of Loss and Comprehensive Loss**
**For the three months ended March 31, 2020 and 2019**
**(Expressed in Canadian Dollars)**

| | 2020 | 2019 |
|---|---|---|
| | $ | $ |
| **Sales** | **173,665** | 232 |
| **Cost of goods sold** | **(102,244)** | (979) |
| Gross Profit | **71,421** | (747) |
| **Operating Expenses** | | |
| General and administration (Note 15) | **1,242,713** | 869,983 |
| Share-based payments (Notes 11 and 13) | **399,721** | 463,745 |
| Sales and marketing | **283,762** | 166,527 |
| Foreign exchange loss | **50,339** | 176,338 |
| Product development | **1,400** | 49,538 |
| | **(1,977,935)** | (1,726,131) |
| **Net Loss before Other Income** | **(1,906,514)** | (1,726,878) |
| **Other Expense** | | |
| Interest and other income | **847** | 2,388 |
| Fair market value changes to short-term investments (Note 4) | **(55,803)** | - |
| **Net Loss** | **(1,961,470)** | (1,724,490) |
| **Other Comprehensive Loss** | | |
| Gain (loss) on translation of foreign operations | **737,642** | (111,290) |
| **Comprehensive Loss** | **(1,223,828)** | (1,835,780) |
| **Weighted Average Number of Common Shares Outstanding** | **110,681,641** | 91,087,034 |
| **Net Loss per Share** | | |
| Basic and Diluted | **(0.018)** | (0.019) |

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

# THE TINLEY BEVERAGE COMPANY INC.
## Unaudited Condensed Interim Consolidated Statements of Changes in Shareholders' Equity
## For the three months ended March 31, 2020 and 2019
## (Expressed in Canadian Dollars)

| | Share Capital | | Reserves | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Number of shares | Amount | Share-based payments | Warrants | Contributed surplus | Accumulated deficit | Accumulated other comprehensive income (loss) | Total |
| | # | $ | $ | $ | $ | $ | $ | $ |
| **Balance, Janaury 1, 2019** | **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 | - | - | - | - | - | (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 shares from private placements (Note 10) | 600,000 | 276,000 | - | - | - | - | - | 276,000 |
| Share-based payments (Note 11) | - | - | 463,745 | - | - | - | - | 463,745 |
| Exchange (loss) on translation of foreign operations | - | - | - | - | - | - | (130,763) | (130,763) |
| Net loss for the period | - | - | - | - | - | (1,724,490) | - | (1,724,490) |
| **Balance, March 31, 2019** | **91,427,034** | **27,887,385** | **3,160,088** | **6,872,702** | **-** | **(32,302,553)** | **(360,391)** | **5,257,231** |
| **Balance, Janaury 1, 2020** | **110,681,641** | **35,036,761** | **3,922,339** | **9,619,818** | **157,627** | **(37,970,185)** | **(212,810)** | **10,553,550** |
| Share-based payments (Note 11) | - | - | 399,721 | - | - | - | - | 399,721 |
| Forfeiture of options (Note 11) | - | - | (300,473) | - | 300,473 | - | - | - |
| Exchange gain on translation of foreign operations | - | - | - | - | - | - | 737,642 | 737,642 |
| Net loss for the period | - | - | - | - | - | (1,961,470) | - | (1,961,470) |
| **Balance, March 31, 2020** | **110,681,641** | **35,036,761** | **4,021,587** | **9,619,818** | **458,100** | **(39,931,655)** | **524,832** | **9,729,443** |

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

## THE TINLEY BEVERAGE COMPANY INC.
**Unaudited Condensed Interim Consolidated Statements of Cash Flows**
**For the three months ended March 31, 2020 and 2019**
**(Expressed in Canadian Dollars)**

| | **2020** | 2019 |
|---|---|---|
| | **$** | $ |
| **Operating Activities** | | |
| Net loss for the period | **(1,961,470)** | (1,724,490) |
| Adjustments for non-cash items: | | |
| Share-based payments (Note 11) | **399,721** | 463,745 |
| Depreciation of property and equipment (Note 7) | **246,839** | 2,129 |
| Depreciation of right-of-use assets (Note 9) | **161,528** | 154,518 |
| Interest on lease obligations (Note 9) | **69,396** | 86,839 |
| Fair market value changes to short-term investments | **55,803** | 4,427 |
| Unrealized foreign currency translation loss | **50,339** | 176,338 |
| | **(977,844)** | (836,494) |
| Changes in non-cash working capital: | | |
| Accounts receivable (Note 5) | **(152,155)** | (1,057) |
| Inventories (Note 6) | **(120,320)** | (45,633) |
| Prepaid expenses | **(27,132)** | (172,664) |
| Accounts payable and accrued liabilities (Note 8) | **67,716** | 9,582 |
| **Cash Flows used in Operating Activities** | **(1,209,735)** | (1,046,266) |
| **Investing Activities** | | |
| Purchases of property and equipment (Note 7) | **-** | (8,686) |
| Advances made on facility construction | **-** | (284,123) |
| Proceeds on redemptions of short-term investments | **-** | 498,115 |
| **Cash Flows provided by Investing Activities** | **-** | 205,306 |
| **Financing Activities** | | |
| Proceeds from private placement (Note 10) | **-** | 276,000 |
| Lease payments (Note 9) | **(216,841)** | (205,292) |
| **Cash Flows (used in) provided by Financing Activities** | **(216,841)** | 70,708 |
| **Decrease in cash** | **(1,426,576)** | (770,252) |
| Effects of foreign currency translation on cash | **111,120** | (56,064) |
| Cash and cash equivalents, beginning of period | **2,614,342** | 3,633,275 |
| **Cash and cash equivalents, end of period** | **1,298,886** | 2,806,959 |

The accompanying notes are an integral part of these unaudited condensed interim 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(d)) (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 unaudited condensed interim consolidated financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standards ("IAS") 34 *'Interim Financial Reporting'*. Accordingly, they do not include all of the information and disclosures required by IFRS for annual financial statements. For further information, see the Company's audited consolidated financial statements including the notes thereto for the year ended December 31, 2019.

These unaudited condensed interim consolidated financial statements were reviewed, approved and authorized for issuance by the Board of Directors (the "Board") of the Company on June 1, 2020.

### (b) Going Concern

These unaudited condensed interim consolidated financial statements have been prepared with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. 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 three months ended March 31, 2020, the Company had a net loss of $1,961,470 and negative cash flow from operations of $1,209,735. 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 12-month period ending March 31, 2021. Management manages its cash flows and if necessary, will host additional private placements to raise necessary capital.

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

### (c) Basis of Presentation

The unaudited condensed interim 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. In addition, these unaudited condensed interim consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

## 2. BASIS OF PRESENTATION (continued)

### (d) Basis of Consolidation

These unaudited condensed interim consolidated financial statements include the accounts of Tinley and its wholly-owned subsidiaries: Hemplify Inc., Algonquin Springs Beverage Management LLC, Beckett Tonics California Inc. (formerly Boardwalk Beverages, Inc.), Lakewood Libations Inc. and Beckett's Tonics Canada Inc., as well as certain legacy dormant entities: Bolivar Gold Corp., QBC Holdings Corp., Kulta Corp., San Lucas Gold Corp. and Colombian Mining Corp.

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

### (e) Significant Accounting Judgments and Estimates

The preparation of these unaudited condensed interim consolidated financial statements in 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 unaudited condensed interim 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.

*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.

*Impairment*

Long-lived assets 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.

## 2. BASIS OF PRESENTATION (continued)

### (e) Significant Accounting Judgments and Estimates (continued)

*Impairment (continued)*

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.

*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

The accounting policies applied by the Company in these unaudited condensed interim consolidated financial statements are the same as those noted in the Company's audited consolidated financial statements for the year ended December 31, 2019, unless otherwise noted below.

### (a) Adoption of New Accounting Standards

The Company adopted the following new standard effective 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. The Company has assessed there was no significant impact on its unaudited condensed interim consolidated financial statements, as a result of the adoption of this standard.

**(Expressed in Canadian Dollars)**

## 4. SHORT-TERM INVESTMENTS

As at March 31, 2020, the Company had invested in various fixed-income securities valued at $943,152 (December 31, 2019 – $998,955). These short-term investments were valued at FVTPL.

## 5. ACCOUNTS RECEIVABLE

| | **March 31, 2020** | December 31, 2019 |
|---|---|---|
| | **$** | $ |
| Sales taxes recoverable | **23,458** | 41,146 |
| Trade receivables | **192,966** | 23,123 |
| | **216,424** | 64,269 |

## 6. INVENTORIES

As at March 31, 2020, inventories consisted of the following:

| | **March 31, 2020** | December 31, 2019 |
|---|---|---|
| | **$** | $ |
| Raw materials | **416,807** | 384,903 |
| Work in process | **24,791** | 22,672 |
| Finished goods | **277,807** | 191,510 |
| | **719,405** | 599,085 |

For the three months ended March 31, 2020, inventories recognized as an expense in cost of good sold amounted to $102,244 (2019 – $979).

## 7. PROPERTY AND EQUIPMENT

| | **Plant equipment** | **Leasehold improvements** | **Vehicle** | **Total** |
|---|---|---|---|---|
| | **$** | **$** | **$** | **$** |
| **Cost at:** | | | | |
| December 31, 2019 | 5,953,786 | 1,461,817 | 170,255 | **7,585,858** |
| Effects of foreign exchange on translation | 541,258 | 134,949 | 15,717 | **691,924** |
| **March 31, 2020** | **6,495,044** | **1,596,766** | **185,972** | **8,277,782** |
| **Accumulated amortization at:** | | | | |
| December 31, 2019 | 292,482 | 130,876 | 13,321 | **436,679** |
| Amortization (Note 15) | 153,929 | 84,095 | 8,815 | **246,839** |
| Effect of foreign exchange on translation | 27,076 | 16,696 | 1,714 | **45,486** |
| **March 31, 2020** | **473,487** | **231,667** | **23,850** | **729,004** |
| **Net book value:** | | | | |
| December 31, 2019 | 5,661,304 | 1,330,941 | 156,934 | **7,149,179** |
| **March 31, 2020** | **6,021,557** | **1,365,099** | **162,122** | **7,548,778** |

**(Expressed in Canadian Dollars)**

## 8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| | **March 31, 2020** | December 31, 2019 |
|---|---|---|
| | **$** | $ |
| Trade payables | **882,170** | 794,460 |
| Accrued liabilities | **107,122** | 76,777 |
| | **989,292** | 871,237 |

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.

A portion of the accounts payables includes completion payments to be made solely upon completion of the commissioning of the Long Beach facility.

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

| | **March 31, 2020** | December 31, 2019 |
|---|---|---|
| | **$** | $ |
| Less than 1 month | **303,224** | 845,179 |
| 1 to 3 months | **25,448** | 15,546 |
| Over 3 months | **660,620** | 10,512 |
| | **989,292** | 871,237 |

## 9. RIGHT-OF-USE ASSETS

On March 1, 2018, the Company entered into two lease agreements for the Long Beach facility in California, for beverage production and bottling facilities. The leases commenced on March 1, 2018, with a term of five years and three months, ending May 31, 2023, with an option to renew for two additional 36-month periods. The lease of the Long Beach facility had been recognized as a right-of-use asset ("RUA") on adoption of IFRS 16 '*Leases*' on January 1, 2019.

The following is a summary of the RUA as at March 31, 2020:

| | **$** |
|---|---|
| **Cost at:** | |
| December 31, 2019 | **3,275,814** |
| Effects of foreign exchange on translation | **302,410** |
| **March 31, 2020** | **3,578,224** |
| | |
| **Accumulated amortization at:** | |
| December 31, 2019 | **1,143,935** |
| Amortization (Note 15) | **161,528** |
| Effect of foreign exchange on translation | **114,467** |
| **March 31, 2020** | **1,419,930** |
| | |
| **Net book value:** | |
| December 31, 2019 | **2,131,879** |
| **March 31, 2020** | **2,158,294** |

(Expressed in Canadian Dollars)

## 9. RIGHT-OF-USE ASSETS (continued)

The following table reflects the reconciliation of the lease payable on the Long Beach facility as at March 31, 2020:

| | $ |
|---|---|
| **Lease liability, December 31, 2019** | **2,477,159** |
| Lease payments | **(216,841)** |
| Interest on lease obligations | **69,396** |
| Effects of foreign exchange on translation | **220,593** |
| **Total lease liability, March 31, 2020** | **2,550,307** |
| **Current** | **685,267** |
| **Non-current** | **1,865,040** |
| | **2,550,307** |

## 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 vote per share at shareholder meetings of the Company.

| | **March 31, 2020** | December 31, 2019 |
|---|---|---|
| | **$** | $ |
| Issued: 110,681,641 common shares (December 31, 2019 – 110,681,641) | **35,036,761** | 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 years of the agreement date October 29, 2015. Over these five years, the Company will release 1,500,000 consideration shares if sales exceed $1 million over any four consecutive quarters. An additional 1,500,000 consideration shares will be released if sales exceed $3 million over any four consecutive quarters. As at March 31, 2020, the shares are expected to be cancelled October 29, 2020.

*Share capital transactions for the three months ended March 31, 2020*

There are no share capital transactions in the three months ended March 31, 2020.

*Share capital transactions for the three months ended March 31, 2019*

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.

## 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 to five years. All options expire on the fifth anniversary from the date of grant unless otherwise specified.

**(Expressed in Canadian Dollars)**

## 11. RESERVE FOR SHARE-BASED PAYMENTS (continued)

*Options grants for the three months ended March 31, 2020*

There were are no options granted in the three months ended March 31, 2020.

*Option grants for the three months ended March 31, 2019*

On January 22, 2019, the Company granted 500,000 stock options to an investor relations consulting firm, at an exercise price of $0.58. The options expire on January 22, 2021. The options vest over 18 months as follows: 120,000 options vested immediately on grant, 120,000 options vesting after six and 12 months, with the remaining 140,000 options vesting after 18 months from the date of grant. These options had since been cancelled.

The following is a summary of stock options activities for the three months ended March 31, 2020 and 2019:

| | **March 31, 2020** | | March 31, 2019 | |
|---|---|---|---|---|
| | **Weighted exercise price** | **Number of options** | Weighted exercise price | Number of options |
| | **$** | **#** | $ | # |
| Outstanding, beginning of period | **0.48** | **11,065,500** | 0.49 | 7,210,500 |
| Granted | **-** | **-** | 0.58 | 500,000 |
| Expired | **-** | **-** | 0.33 | (75,000) |
| Forfeited | **0.58** | **(1,000,000)** | - | - |
| **Outstanding, end of period** | **0.46** | **10,065,500** | 0.50 | 7,635,500 |
| **Exercisable, end of period** | **0.42** | **4,705,917** | 0.36 | 3,309,553 |

The following table summarizes information of options outstanding as at March 31, 2020:

| **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 | 0.73 |
| January 27, 2021 | 25,000 | 25,000 | 0.11 | 0.83 |
| April 10, 2021 | 300,000 | 200,000 | 0.70 | 1.03 |
| August 4, 2021 | 350,000 | 350,000 | 0.08 | 1.35 |
| November 3, 2021 | 600,000 | 600,000 | 0.44 | 1.59 |
| December 2, 2021 | 100,000 | - | 0.50 | 1.67 |
| December 2, 2021 | 100,000 | - | 0.60 | 1.67 |
| December 2, 2021 | 100,000 | - | 0.70 | 1.67 |
| July 12, 2022 | 600,000 | 600,000 | 0.35 | 2.28 |
| November 22, 2022 | 350,000 | 300,000 | 0.68 | 2.65 |
| April 20, 2023 | 100,000 | 40,000 | 0.87 | 3.05 |
| May 11, 2023 | 150,000 | 87,500 | 0.72 | 3.11 |
| August 13, 2023 | 300,000 | 150,000 | 0.79 | 3.37 |
| November 30, 2023 | 2,300,000 | 958,333 | 0.58 | 3.67 |
| December 11, 2023 | 100,000 | 41,667 | 0.58 | 3.70 |
| December 14, 2023 | 250,000 | 104,167 | 0.58 | 3.71 |
| September 4, 2024 | 525,000 | 87,500 | 0.56 | 4.43 |
| November 14, 2024 | 200,000 | 50,000 | 0.37 | 4.63 |
| December 23, 2024 | 2,705,000 | 201,250 | 0.41 | 4.73 |
| | **10,065,500** | **4,705,917** | **0.46** | **3.26** |

**(Expressed in Canadian Dollars)**

## 12. RESERVE FOR WARRANTS

The following summarizes the warrant activities for the three months ended March 31, 2020 and 2019:

| | **March 31, 2020** | | March 31, 2019 | |
|---|---|---|---|---|
| | **Number of warrants outstanding** | **Fair value** | Number of warrants outstanding | Fair value |
| | **#** | **$** | # | $ |
| Balance, beginning of period | **18,707,913** | **9,619,818** | 5,661,600 | 6,872,702 |
| Exercised | **-** | **-** | - | - |
| **Balance, end of period** | **18,707,913** | **9,619,818** | 5,661,600 | 6,872,702 |

The following table summarizes information of warrants outstanding as at March 31, 2020:

| **Date of expiry** | **Number of warrants outstanding** | **Exercise price** | **Weighted average remaining life** |
|---|---|---|---|
| | **#** | **$** | **Years** |
| April 6, 2020 | 5,257,200 | 1.35 | 0.02 |
| April 6, 2020 | 404,400 | 1.00 | 0.02 |
| April 30, 2021 | 4,514,350 | 0.90 | 1.08 |
| April 30, 2021 | 505,917 | 0.60 | 1.08 |
| May 10, 2021 | 2,894,204 | 0.90 | 1.11 |
| May 10, 2021 | 404,279 | 0.60 | 1.11 |
| November 14, 2022 | 1,250,000 | 0.60 | 2.62 |
| November 14, 2022 | 87,500 | 0.40 | 2.62 |
| November 26, 2022 | 2,125,000 | 0.60 | 2.66 |
| November 26, 2022 | 128,188 | 0.40 | 2.66 |
| December 24, 2022 | 1,062,500 | 0.60 | 2.73 |
| December 24, 2022 | 74,375 | 0.40 | 2.73 |
| | **18,707,913** | **0.94** | **1.16** |

## 13. KEY MANAGEMENT COMPENSATION AND RELATED PARTY TRANSACTIONS

*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 three months ended March 31, 2020 and 2019 were as follows:

| | **2019** | 2018 |
|---|---|---|
| | **$** | $ |
| Short-term employee benefits, including salaries and consulting fees | **227,981** | 98,000 |
| Share-based compensation | **283,636** | 324,511 |
| | **511,617** | 422,511 |

(i) During the three months March 31, 2020, the Company incurred consulting fee expenses with the CEO of $39,000 (2019 – $156,000) for services rendered. As at March 31, 2020, no balance (December 31, 2019 – $nil) was owed to the CEO for compensation on services rendered.

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

*Key management compensation (continued)*

(ii) During the three months ended March 31, 2020, the Company incurred consulting fee expenses with the Chief Financial Officer ("CFO") of $19,200 (2019 – $20,000) for services rendered. As at March 31, 2020, no balance (December 31, 2019 – $nil) was owed to the CFO for compensation on services rendered.

(iii) During the three months ended March 31, 2020, the Company incurred wages expenses with the President – Western US of approximately $80,694 (2019 – $79,614) for services rendered. As at March 31, 2020, an amount of $10,239 (December 31, 2019 – $10,239) 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 10).

(iv) During the three months ended March 31, 2020, the Company incurred consulting fee expenses with the Acting Chief Operating Officer ("Acting COO"), who is also a director of the Company, of $50,087 (2019 – $nil) for services rendered. As at March 31, 2020, no balance (December 31, 2019 – $nil) was owed to the Acting COO for compensation on services rendered.

(v) During the three months ended March 31, 2020, the Company incurred consulting fee expenses with directors considered to be part of key management $39,000 (2019 – $39,000) for services rendered. As at March 31, 2019, an amount of $6,500 (December 31, 2019 – $6,500) incurred to these directors was included in accounts payable and accrued liabilities.

*Other related party transactions*

(vi) During the three months ended March 31, 2020, directors who are not part of key management received stock-based compensation of $69,393 (2019 – $69,366).

(vii) During the three months ended March 31, 2020, $3,356 of legal fees (2019 – $nil) were incurred for services provided by a law firm in which a director of the Company is a partner.

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

As at March 31, 2020, 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 income, totaling $9,729,443 (December 31, 2019 – $10,553,550).

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 three months ended March 31, 2020 and the year ended December 31, 2019.

**(Expressed in Canadian Dollars)**

## 15. GENERAL AND ADMINISTRATION EXPENSES

The Company's general and administration expenses incurred for the three months ended March 31, 2020 and 2019 are as follows:

| | **2020** | 2019 |
|---|---|---|
| | **$** | $ |
| Depreciation of property and equipment | **246,839** | - |
| Payroll and salaries | **219,011** | 122,825 |
| Corporate costs and administration | **169,724** | 133,538 |
| Depreciation of RUA | **161,528** | 156,647 |
| Occupancy cost | **150,365** | 80,699 |
| Professional fees | **106,486** | 139,035 |
| Consulting and management fees | **88,211** | 98,176 |
| Interest on lease liabilities | **69,396** | 86,839 |
| Travel and promotional | **31,153** | 52,224 |
| | **1,242,713** | 869,983 |

## 16. FINANCIAL RISK MANAGEMENT

*Fair value*

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

*Credit risk*

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. Cash is held with reputable Canadian and US chartered banks and in various liquid guaranteed interest-bearing instruments which are closely monitored by management. Management believes that the credit risk concentration with respect to financial instruments is minimal. The maximum exposure to credit risk at period-end is limited to the accounts receivable balance. No ECL has been recorded as at March 31, 2020.

*Liquidity risk*

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. The Company's liquidity and operating results may be adversely affected if the Company's access to the capital market is hindered, whether as a result of a downturn in stock market conditions generally or related to matters specific to the Company. The Company generates cash flow primarily from its financing activities.

As at March 31, 2020, the Company had a cash and cash equivalents balance of $1,298,886 (December 31, 2019 – $2,614,342), as well as liquid Short-term investments of $943,152 (December 31, 2019 – $998,955) to settle current liabilities of $1,674,559 (December 31, 2019 – $1,475,391). 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 year** | **1 to 3 years** | **3 to 5 years** |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Accounts payable and accrued liabilities | 989,292 | - | - | - |
| Lease payable | 3,024,184 | 932,013 | 1,932,433 | 159,738 |
| **Total** | **4,013,476** | **932,013** | **1,932,433** | **159,738** |

## 16. FINANCIAL RISK MANAGEMENT (continued)

*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. Had the value of the market increased or decreased by 1%, the return would change by approximately $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 March 31, 2020.

*Foreign currency risk*

The Company operates in Canada and the US and is exposed to foreign exchange risk with respect to USD. The Company raises funds in Canadian dollars for its operations in the US. Foreign exchange risk arises on cash and trade payables from operations in the US. The Company believes that its results of operations and cash flows would be affected by a sudden change in foreign exchange rates. The Company mitigates this risk by maintaining sufficient USD-denominated cash to meet its USD-denominated obligations. As at March 31, 2020, the Company had the following assets and liabilities in USD:

| | **March 31, 2020** | December 31, 2019 |
|---|---|---|
| | **$** | $ |
| Cash | **138,305** | 220,942 |
| Trade receivables | **136,016** | 17,804 |
| Trade and other payables | **(541,618)** | (522,246) |
| **Net exposure to USD** | **(267,297)** | (283,500) |

Had the value of the USD increased or decreased by 1%, the net loss and comprehensive loss would have increased or decreased by USD $2,673 (December 31, 2019 – USD $2,835), respectively, as a result of this exposure.

## 17. 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 as at March 31, 2020, 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.

## 18. SUBSEQUENT EVENTS

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