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**THE TINLEY BEVERAGE COMPANY INC.**

**Unaudited Condensed Interim Consolidated Financial Statements**

**(Expressed in Canadian Dollars)**

**For the Three and Nine Months Ended September 30, 2020 and 2019**

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**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 management of The Tinley Beverage Company Inc.

The Company's independent auditor has not performed a review of these unaudited condensed interim consolidated financial statements in accordance with the standards established by the 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<br>September 30,<br>2020 | As at<br>December 31,<br>2019 |
|---|--------------------------------|-------------------------------|
|   | \$                             | \$                            |
| <b><u>Assets</u></b>                              |                                |                               |
| <b>Current Assets</b>                             |                                |                               |
| Cash and cash equivalents                         | 1,971,153                      | 2,614,342                     |
| Short-term investments (Note 4)                   | 377,231                        | 998,955                       |
| Accounts receivable (Note 5)                      | 36,986                         | 64,269                        |
| Inventories (Note 6)                              | 592,310                        | 599,085                       |
| Prepaid expenses                                  | 232,982                        | 206,291                       |
| <b>Total Current Assets</b>                       | <b>3,210,662</b>               | <b>4,482,942</b>              |
| <b>Non-Current Assets</b>                         |                                |                               |
| Property and equipment (Note 7)                   | 6,926,420                      | 7,149,179                     |
| Right-of-use assets (Note 9)                      | 1,708,872                      | 2,131,879                     |
| Security deposits                                 | 141,674                        | 137,946                       |
| <b>Total Non-Current Assets</b>                   | <b>8,776,966</b>               | <b>9,419,004</b>              |
| <b>Total Assets</b>                               | <b>11,987,628</b>              | <b>13,901,946</b>             |
| <b><u>Liabilities</u></b>                         |                                |                               |
| <b>Current Liabilities</b>                        |                                |                               |
| Accounts payable and accrued liabilities (Note 8) | 1,102,118                      | 871,237                       |
| Unearned Revenue                                  | 59,697                         | -                             |
| Current portion of lease liabilities (Note 9)     | 693,270                        | 604,154                       |
| <b>Total Current Liabilities</b>                  | <b>1,855,085</b>               | <b>1,475,391</b>              |
| <b>Non-Current Liabilities</b>                    |                                |                               |
| Lease liabilities (Note 9)                        | 1,392,740                      | 1,873,005                     |
| <b>Total Non-Current Liabilities</b>              | <b>1,392,740</b>               | <b>1,873,005</b>              |
| <b>Total Liabilities</b>                          | <b>3,247,825</b>               | <b>3,348,396</b>              |
| <b><u>Shareholders' Equity</u></b>                |                                |                               |
| Share capital (Note 10)                           | 36,849,452                     | 35,036,761                    |
| Reserve for share-based payments (Note 11)        | 4,537,651                      | 3,922,339                     |
| Reserve for warrants (Note 12)                    | 8,663,359                      | 9,619,818                     |
| Contributed surplus                               | 2,277,493                      | 157,627                       |
| Accumulated other comprehensive loss              | (98,819)                       | (212,810)                     |
| Accumulated deficit                               | (43,489,333)                   | (37,970,185)                  |
| <b>Total Shareholders' Equity</b>                 | <b>8,739,803</b>               | <b>10,553,550</b>             |
| <b>Total Liabilities and Shareholders' Equity</b> | <b>11,987,628</b>              | <b>13,901,946</b>             |

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 and nine months ended September 30, 2020 and 2019****(Expressed in Canadian Dollars)**

|  | Three months ended<br>September 30, |             | Nine months ended<br>September 30, |             |
|--|-------------------------------------|-------------|------------------------------------|-------------|
|  | 2020                                | 2019        | 2020                               | 2019        |
|  | \$                                  | \$          | \$                                 | \$          |
| <b>Sales</b>                                     | <b>34,628</b>                       | 21,664      | <b>243,040</b>                     | 22,665      |
| <b>Cost of goods sold</b> (Note 6)               | <b>(100,423)</b>                    | (74,125)    | <b>(250,286)</b>                   | (80,543)    |
| Gross margin                                     | <b>(65,795)</b>                     | (52,461)    | <b>(7,246)</b>                     | (57,878)    |
| <b>Operating Expenses</b>                        |                                     |             |                                    |             |
| General and administrative (Note 15)             | <b>981,299</b>                      | 942,993     | <b>2,503,585</b>                   | 2,557,153   |
| Share-based payments (Notes 11 and 13)           | <b>236,607</b>                      | 328,123     | <b>915,785</b>                     | 1,171,256   |
| Sales and marketing                              | <b>141,944</b>                      | 191,868     | <b>575,713</b>                     | 568,317     |
| Depreciation of property and equipment (Note 7)  | <b>259,555</b>                      | 175,638     | <b>763,210</b>                     | 182,409     |
| Depreciation of right-of-use assets (Note 9)     | <b>159,991</b>                      | 162,148     | <b>487,899</b>                     | 472,137     |
| Foreign exchange loss (gain)                     | <b>388,909</b>                      | (65,127)    | <b>(54,572)</b>                    | 360,867     |
| Product development                              | <b>219,647</b>                      | 81,538      | <b>300,825</b>                     | 149,933     |
|  | <b>(2,387,952)</b>                  | (1,817,181) | <b>(5,492,445)</b>                 | (5,462,072) |
| <b>Net Loss before Other Income</b>              | <b>(2,453,747)</b>                  | (1,869,642) | <b>(5,499,691)</b>                 | (5,519,950) |
| <b>Other Income</b>                              |                                     |             |                                    |             |
| Interest and other income                        | <b>(30)</b>                         | 11,642      | <b>1,062</b>                       | 15,137      |
| FMV changes to short-term investments (Note 4)   | <b>7,334</b>                        | -           | <b>(20,519)</b>                    | -           |
| <b>Net Loss</b>                                  | <b>(2,446,443)</b>                  | (1,858,000) | <b>(5,519,148)</b>                 | (5,504,813) |
| <b>Other Comprehensive Income (Loss)</b>         |                                     |             |                                    |             |
| Gain (loss) on translation of foreign operations | <b>222,409</b>                      | (17,428)    | <b>113,991</b>                     | (6,826)     |
| <b>Total Comprehensive Loss</b>                  | <b>(2,224,034)</b>                  | (1,875,428) | <b>(5,405,157)</b>                 | (5,511,639) |
| <b>Weighted Average Number of Common Shares</b>  | <b>112,059,902</b>                  | 106,244,141 | <b>109,602,238</b>                 | 99,407,009  |
| <b>Net Loss per Share</b>                        |                                     |             |                                    |             |
| Basic and Diluted                                | <b>(0.020)</b>                      | (0.018)     | <b>(0.050)</b>                     | (0.055)     |

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

**THE TINLEY BEVERAGE COMPANY INC.**  
**Unaudited Condensed Interim Consolidated Statements of Changes in Shareholders' Equity**  
**For the nine months ended September 30, 2020 and 2019**  
**(Expressed in Canadian Dollars)**

|  | Share Capital      |                   | Reserves             |                  | Contributed surplus | Accumulated deficit | Accumulated other comprehensive loss | Total             |
|--|--------------------|-------------------|----------------------|------------------|---------------------|---------------------|--------------------------------------|-------------------|
|  | Number of shares   | Amount            | Share-based payments | Warrants         |                     |                     |                                      |                   |
|  | #                  | \$                | \$                   | \$               |                     |                     |                                      |                   |
| <b>Balance, January 1, 2019</b>                      | <b>90,827,034</b>  | <b>27,611,385</b> | <b>2,696,343</b>     | <b>6,872,702</b> | -                   | <b>(30,444,737)</b> | <b>(222,579)</b>                     | <b>6,513,114</b>  |
| Impact on adoption of IFRS 16                        | -                  | -                 | -                    | -                | -                   | (133,326)           | (7,049)                              | (140,375)         |
| <b>Balance, January 1, 2019 as restated</b>          | <b>90,827,034</b>  | <b>27,611,385</b> | <b>2,696,343</b>     | <b>6,872,702</b> | -                   | <b>(30,578,063)</b> | <b>(229,628)</b>                     | <b>6,372,739</b>  |
| Issuance of shares from private placements (Note 10) | 15,417,107         | 7,397,724         | -                    | 2,338,665        | -                   | -                   | -                                    | 9,736,389         |
| Share issue costs (Notes 10 and 12)                  | -                  | (912,955)         | -                    | (226,243)        | -                   | -                   | -                                    | (1,139,198)       |
| Share-based payments (Note 11)                       | -                  | -                 | 1,171,256            | -                | -                   | -                   | -                                    | 1,171,256         |
| Exchange loss on translation of foreign operations   | -                  | -                 | -                    | -                | -                   | -                   | (6,826)                              | (6,826)           |
| Net loss for the period                              | -                  | -                 | -                    | -                | -                   | (5,504,813)         | -                                    | (5,504,813)       |
| <b>Balance, September 30, 2019</b>                   | <b>106,244,141</b> | <b>34,096,154</b> | <b>3,867,599</b>     | <b>8,985,124</b> | -                   | <b>(36,082,876)</b> | <b>(236,454)</b>                     | <b>10,629,547</b> |
| <b>Balance, January 1, 2020</b>                      | <b>110,681,641</b> | <b>35,036,761</b> | <b>3,922,339</b>     | <b>9,619,818</b> | <b>157,627</b>      | <b>(37,970,185)</b> | <b>(212,810)</b>                     | <b>10,553,550</b> |
| Issuance of shares from private placements (Note 10) | 5,780,000          | 2,088,308         | -                    | 970,394          | -                   | -                   | -                                    | 3,058,702         |
| Share issue costs (Notes 10 and 12)                  | -                  | (275,617)         | -                    | (107,460)        | -                   | -                   | -                                    | (383,077)         |
| Share-based payments (Note 11)                       | -                  | -                 | 915,785              | -                | -                   | -                   | -                                    | 915,785           |
| Forfeiture of options (Note 11)                      | -                  | -                 | (300,473)            | -                | 300,473             | -                   | -                                    | -                 |
| Expiry of warrants (Note 12)                         | -                  | -                 | -                    | (1,819,393)      | 1,819,393           | -                   | -                                    | -                 |
| Exchange gain on translation of foreign operations   | -                  | -                 | -                    | -                | -                   | -                   | 113,991                              | 113,991           |
| Net loss for the period                              | -                  | -                 | -                    | -                | -                   | (5,519,148)         | -                                    | (5,519,148)       |
| <b>Balance, September 30, 2020</b>                   | <b>116,461,641</b> | <b>36,849,452</b> | <b>4,537,651</b>     | <b>8,663,359</b> | <b>2,277,493</b>    | <b>(43,489,333)</b> | <b>(98,819)</b>                      | <b>8,739,803</b>  |

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

**THE TINLEY BEVERAGE COMPANY INC.**  
**Unaudited Condensed Interim Consolidated Statements of Cash Flows**  
**For the three and nine months ended September 30, 2020 and 2019**  
**(Expressed in Canadian Dollars)**

|  | <b>Three months ended</b> |                    | <b>Nine months ended</b> |                    |
|--|---------------------------|--------------------|--------------------------|--------------------|
|  | <b>September 30,</b>      |                    | <b>September 30,</b>     |                    |
|  | <b>2020</b>               | <b>2019</b>        | <b>2020</b>              | <b>2019</b>        |
|  | \$                        | \$                 | \$                       | \$                 |
| <b><u>Operating Activities</u></b>                           |                           |                    |                          |                    |
| Net loss for the period                                      | (2,446,443)               | (1,858,000)        | (5,519,148)              | (5,504,813)        |
| Adjustments for non-cash items:                              |                           |                    |                          |                    |
| Share-based payments (Note 11)                               | 236,607                   | 328,123            | 915,785                  | 1,171,256          |
| Depreciation of property and equipment (Note 7)              | 259,555                   | 175,637            | 763,210                  | 182,409            |
| Depreciation of right-of-use assets (Note 9)                 | 159,991                   | 162,148            | 487,899                  | 472,137            |
| Interest on lease obligations (Note 9)                       | 60,653                    | 84,703             | 197,154                  | 255,252            |
| FMV changes to short-term investments (Note 4)               | (6,069)                   | (6,803)            | 21,754                   | (3,475)            |
| Unrealized foreign exchange loss (gain)                      | 388,909                   | (65,127)           | (54,572)                 | 360,867            |
|  | <b>(1,346,797)</b>        | <b>(1,179,319)</b> | <b>(3,187,918)</b>       | <b>(3,066,367)</b> |
| Changes in non-cash working capital:                         |                           |                    |                          |                    |
| Accounts receivable (Note 5)                                 | 25,240                    | 13,306             | 27,283                   | 14,425             |
| Inventories (Note 6)   | 183,193                   | (72,360)           | 6,775                    | (385,528)          |
| Prepaid expenses   | 3,783                     | 44,828             | (26,691)                 | (79,508)           |
| Unearned Revenue   | 59,696                    | -                  | 59,696                   | -                  |
| Accounts payable and accrued liabilities (Note 8)            | (345,431)                 | (325,595)          | 285,453                  | (64,331)           |
| <b>Cash Flows used in Operating Activities</b>               | <b>(1,420,316)</b>        | <b>(1,519,140)</b> | <b>(2,835,402)</b>       | <b>(3,581,309)</b> |
| <b><u>Financing Activities</u></b>                           |                           |                    |                          |                    |
| Proceeds from private placements (Note 10)                   | 1,040,000                 | -                  | 2,890,000                | 9,166,263          |
| Share issue costs (Note 10)                                  | (84,224)                  | -                  | (214,376)                | (569,072)          |
| Lease payments   | (218,355)                 | (218,078)          | (662,187)                | (632,051)          |
| <b>Cash Flows provided by (used in) Financing Activities</b> | <b>737,421</b>            | <b>(218,078)</b>   | <b>2,013,437</b>         | <b>7,965,140</b>   |
| <b><u>Investing Activities</u></b>                           |                           |                    |                          |                    |
| Purchases of property and equipment (Note 7)                 | (294,849)                 | (1,988,691)        | (340,972)                | (5,037,553)        |
| Proceeds from redemptions of investments                     | 299,970                   | (899,999)          | 599,970                  | (401,885)          |
| <b>Cash Flows provided by (used in) Investing Activities</b> | <b>5,121</b>              | <b>(2,888,690)</b> | <b>258,998</b>           | <b>(5,439,438)</b> |
| <b>Decrease in cash and cash equivalents</b>                 | <b>(677,774)</b>          | <b>(4,625,909)</b> | <b>(562,967)</b>         | <b>(1,055,607)</b> |
| Effects of foreign exchange on cash                          | 371,067                   | 410,989            | (80,222)                 | (22,475)           |
| Cash and cash equivalents, beginning of period               | 2,277,860                 | 6,770,113          | 2,614,342                | 3,633,275          |
| <b>Cash and cash equivalents, end of period</b>              | <b>1,971,153</b>          | <b>2,555,193</b>   | <b>1,971,153</b>         | <b>2,555,193</b>   |

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

# THE TINLEY BEVERAGE COMPANY INC.

## Notes to the Unaudited Condensed Interim Consolidated Financial Statements

September 30, 2020 and 2019

(Expressed in Canadian Dollars)

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### 1. Nature of Operations

The Tinley Beverage Company Inc. (“Tinley” or the “Company”) was incorporated under the laws of the Province of Ontario, Canada by Articles of Incorporation dated October 26, 2007. 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 November 30, 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 nine months ended September 30, 2020, the Company had a net loss of \$5,519,148, incurred negative cash flow from operations of \$2,835,402, and had total accumulated losses of \$43,489,333 as at September 30, 2020 (including approximately \$22 million in accumulated losses when the Company was engaged in mining and other business unrelated to Tinley’s current operations). The Company is dependent on its ability to obtain additional financing. 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 September 30, 2021. Subsequent to the period-end, the Company completed a private placement of units (“Units”) through the issuance of 2,222,300 Units at a price of \$0.45 for total gross proceeds of \$1,000,035 (see Note 18).

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.

**THE TINLEY BEVERAGE COMPANY INC.**  
**Notes to the Unaudited Condensed Interim Consolidated Financial Statements**  
**September 30, 2020 and 2019**  
**(Expressed in Canadian Dollars)**

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**2. Basis of Presentation**

**(c) Basis of Measurement**

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.

**(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.



**THE TINLEY BEVERAGE COMPANY INC.**  
**Notes to the Unaudited Condensed Interim Consolidated Financial Statements**  
**September 30, 2020 and 2019**  
**(Expressed in Canadian Dollars)**

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**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.

*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.

**THE TINLEY BEVERAGE COMPANY INC.**  
**Notes to the Unaudited Condensed Interim Consolidated Financial Statements**  
**September 30, 2020 and 2019**  
**(Expressed in Canadian Dollars)**

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**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 amendments 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 these amendments.

**4. Short-Term Investments**

As at September 30, 2020, the Company had invested in various fixed-income securities valued at \$377,231 (December 31, 2019 – \$998,955). These short-term investments were valued at FVTPL.

**5. Accounts Receivable**

|                         | <b>September 30, 2020</b> | December 31, 2019 |
|-------------------------|---------------------------|-------------------|
|                         | \$                        | \$                |
| Sales taxes recoverable | <b>22,116</b>             | 41,146            |
| Trade receivables       | <b>14,870</b>             | 23,123            |
|                         | <b>36,986</b>             | 64,269            |

**6. Inventories**

As at September 30, 2020, inventories consisted of the following:

|                 | <b>September 30, 2020</b> | December 31, 2019 |
|-----------------|---------------------------|-------------------|
|                 | \$                        | \$                |
| Raw materials   | <b>485,372</b>            | 384,903           |
| Work in process | -                         | 22,672            |
| Finished goods  | <b>106,938</b>            | 191,510           |
|                 | <b>592,310</b>            | 599,085           |

For the nine months ended September 30, 2020, inventories recognized as an expense in cost of good sold amounted to \$250,286 (2019 – \$80,543).

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**7. Property and Equipment**

|  | <b>Plant<br/>equipment</b> | <b>Leasehold<br/>improvements</b> | <b>Vehicle</b> | <b>Total</b>     |
|--|----------------------------|-----------------------------------|----------------|------------------|
|  | \$                         | \$                                | \$             | \$               |
| <b>Cost at:</b>                            |                            |                                   |                |                  |
| December 31, 2019                          | 5,953,786                  | 1,461,817                         | 170,255        | <b>7,585,858</b> |
| Additions                                  | 34,839                     | 306,133                           | -              | <b>340,972</b>   |
| Effects of foreign exchange on translation | 152,510                    | 34,939                            | 4,574          | <b>192,023</b>   |
| <b>September 30, 2020</b>                  | <b>6,141,135</b>           | <b>1,802,889</b>                  | <b>174,829</b> | <b>8,118,853</b> |
| <b>Accumulated amortization at:</b>        |                            |                                   |                |                  |
| December 31, 2019                          | 292,482                    | 130,876                           | 13,321         | <b>436,679</b>   |
| Depreciation (Note 15)                     | 465,818                    | 270,766                           | 26,626         | <b>763,210</b>   |
| Effect of foreign exchange on translation  | (6,916)                    | (502)                             | (38)           | <b>(7,456)</b>   |
| <b>September 30, 2020</b>                  | <b>751,384</b>             | <b>401,140</b>                    | <b>39,909</b>  | <b>1,192,433</b> |
| <b>Net book value:</b>                     |                            |                                   |                |                  |
| December 31, 2019                          | 5,661,304                  | 1,330,941                         | 156,934        | <b>7,149,179</b> |
| <b>September 30, 2020</b>                  | <b>5,389,751</b>           | <b>1,401,749</b>                  | <b>134,920</b> | <b>6,926,420</b> |

**8. Accounts Payable and Accrued Liabilities**

|                     | <b>September 30, 2020</b> | December 31, 2019 |
|---------------------|---------------------------|-------------------|
|                     | \$                        | \$                |
| Trade payables      | <b>936,879</b>            | 794,460           |
| Accrued liabilities | <b>165,239</b>            | 76,777            |
|                     | <b>1,102,118</b>          | 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.

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

|                   | <b>September 30, 2020</b> | December 31, 2019 |
|-------------------|---------------------------|-------------------|
|                   | \$                        | \$                |
| Less than 1 month | <b>434,635</b>            | 845,179           |
| 1 to 3 months     | <b>33,420</b>             | 15,546            |
| Over 3 months     | <b>634,063</b>            | 10,512            |
|                   | <b>1,102,118</b>          | 871,237           |

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**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 (“ROU”) asset on adoption of IFRS 16 ‘Leases’ on January 1, 2019.

The following is a summary of the ROU asset as at September 30, 2020:

|  | \$               |
|--|------------------|
| <b>Cost at:</b>                            |                  |
| December 31, 2019                          | 3,275,814        |
| Effects of foreign exchange on translation | 88,528           |
| <b>September 30, 2020</b>                  | <b>3,364,342</b> |
| <b>Accumulated amortization at:</b>        |                  |
| December 31, 2019                          | 1,143,935        |
| Depreciation                               | 487,899          |
| Effect of foreign exchange on translation  | 23,636           |
| <b>September 30, 2020</b>                  | <b>1,655,470</b> |
| <b>Net book value:</b>                     |                  |
| December 31, 2019                          | 2,131,879        |
| <b>September 30, 2020</b>                  | <b>1,708,872</b> |

The following table reflects the reconciliation of the lease payable on the Long Beach facility as at September 30, 2020:

|  | \$               |
|--|------------------|
| <b>Lease liability, December 31, 2019</b>        | <b>2,477,159</b> |
| Lease payments                                   | (662,187)        |
| Interest on lease obligations                    | 197,154          |
| Effects of foreign exchange on translation       | 73,884           |
| <b>Total lease liability, September 30, 2020</b> | <b>2,086,010</b> |
| <b>Current</b>                                   | <b>693,270</b>   |
| <b>Non-current</b>                               | <b>1,392,740</b> |
|  | <b>2,086,010</b> |

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**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.

|  | <b>September 30, 2020</b> | December 31, 2019 |
|--|---------------------------|-------------------|
|  | \$                        | \$                |
| Issued: 116,461,641 common shares<br>(December 31, 2019 – 110,681,641 common shares) | <b>36,849,452</b>         | 35,036,761        |

Included in the number of shares outstanding above, at no cost, are 3,000,000 common shares in escrow ("Escrow Shares") for the Chief Executive Officer ("CEO") of the Company. Under the consulting agreement (the "Agreement") entered between the Company and the CEO, dated October 29, 2015, the 3,000,000 Escrow Shares were originally 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. The Company has elected to extend the deadline for achieving these sales targets by two years. During the term of the Agreement, the Company will release 1,500,000 Escrow 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 September 30, 2020, the Escrow Shares are expected to be cancelled on October 29, 2022.

*Share capital transactions for the nine months ended September 30, 2020*

On June 30, 2020, the Company closed a non-brokered private placement (the "Q2 2020 Private Placement Offering") through the issuance of 3,700,000 Units at a price of \$0.50 per Unit, for gross proceeds of \$1,850,000. Each Unit is comprised of one common share of the Company and one common share purchase warrant ("Warrant"). Each Warrant entitles the holder to purchase one common share at a price of \$0.70 for a period of 24 months following from closing. In connection with the Q2 2020 Private Placement Offering, the Company paid cash commissions of \$130,152 to agents (the "Agents"). In addition, 260,304 broker warrants ("Broker Warrants") were issued as compensation to the Agents (see Note 12 for details).

On August 31, 2020, the Company closed another non-brokered private placement (the "Q3 2020 Private Placement Offering") through the issuance of 2,080,000 Units at a price \$0.50 per Unit, for gross proceeds of \$1,040,000. Each Unit is comprised of one common share of the Company and one Warrant. Each Warrant is exercisable into one common share at a price of \$0.70 for a period of 24 months following the closing. In connection with the Q3 2020 Private Placement Offering, the Company paid cash commissions of \$77,200 to the Agents. In addition, 154,400 Broker Warrants were issued as compensation to the Agents (see Note 12 for details).

*Share capital transactions for the nine months ended September 30, 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.

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 common share and one half (1/2) Warrant. Each Warrant entitles the holder to purchase one 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 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 (see Note 12 for details).

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**10. Share Capital (continued)**

*Share capital transactions for the nine months ended September 30, 2019 (continued)*

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 common share of and one-half Warrant. Each Warrant entitles the holder to purchase one 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 (see Note 12 for details).

**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.

*Options grants for the nine months ended September 30, 2020*

On July 10, 2020, the Company granted 50,000 stock options to an employee, at an exercise price of \$0.44. The options expire on July 9, 2025. The options vest quarterly over three years until fully vested.

On August 16, 2020, the Company granted 350,000 stock options to an employee, at an exercise price of \$0.46. The options expire on August 16, 2030. The options vest in 11 quarterly instalments of 29,166 options followed by a final quarterly instalment of 29,174 options. The first quarterly instalment vest on December 1, 2020, and further quarterly instalments vest on March 1, June 1, September 1 and December 1 of each year until the options are fully vested.

*Option grants for the nine months ended September 30, 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.

On April 10, 2019, the Company granted 300,000 stock options to a consultant at an exercise price of \$0.70. The options vest 1/3 on August 10, 2019, December 10, 2019 and April 10, 2020.

On September 4, 2019, the Company granted 625,000 stock options to a number of its employees and consultants at an exercise price of \$0.56. The options expire on September 4, 2024. The options vest quarterly over three years until fully vested.

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**11. Reserve for Share-Based Payments (continued)**

The following is a summary of stock options activities for the nine months ended September 30, 2020 and 2019:

|                                   | September 30, 2020      |                   | September 30, 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                           | 0.44                    | 50,000            | 0.58                    | 500,000           |
| Granted                           | 0.46                    | 350,000           | 0.70                    | 300,000           |
| Granted                           | -                       | -                 | 0.56                    | 625,000           |
| Expired                           | -                       | -                 | 0.33                    | (75,000)          |
| Forfeited                         | 0.58                    | (1,000,000)       | -                       | -                 |
| <b>Outstanding, end of period</b> | <b>0.46</b>             | <b>10,465,500</b> | <b>0.51</b>             | <b>8,560,500</b>  |
| <b>Exercisable, end of period</b> | <b>0.44</b>             | <b>6,142,583</b>  | <b>0.41</b>             | <b>4,100,516</b>  |

The following table summarizes information of options outstanding as at September 30, 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           | 0.23                            |
| January 27, 2021  | 25,000                        | 25,000                        | 0.11           | 0.33                            |
| April 10, 2021    | 300,000                       | 300,000                       | 0.70           | 0.53                            |
| August 4, 2021    | 350,000                       | 350,000                       | 0.08           | 0.84                            |
| November 3, 2021  | 600,000                       | 600,000                       | 0.44           | 1.09                            |
| December 2, 2021  | 100,000                       | 100,000                       | 0.50           | 1.17                            |
| December 2, 2021  | 100,000                       | 100,000                       | 0.60           | 1.17                            |
| December 2, 2021  | 100,000                       | -                             | 0.70           | 1.17                            |
| July 12, 2022     | 600,000                       | 600,000                       | 0.35           | 1.78                            |
| November 22, 2022 | 350,000                       | 300,000                       | 0.68           | 2.15                            |
| April 20, 2023    | 100,000                       | 70,000                        | 0.87           | 2.55                            |
| May 11, 2023      | 150,000                       | 112,500                       | 0.72           | 2.61                            |
| August 13, 2023   | 300,000                       | 200,000                       | 0.79           | 2.87                            |
| November 30, 2023 | 2,300,000                     | 1,341,667                     | 0.58           | 3.17                            |
| December 11, 2023 | 100,000                       | 58,333                        | 0.58           | 3.20                            |
| December 14, 2023 | 250,000                       | 145,833                       | 0.58           | 3.21                            |
| September 4, 2024 | 525,000                       | 175,000                       | 0.56           | 3.93                            |
| November 14, 2024 | 200,000                       | 150,000                       | 0.37           | 4.13                            |
| December 23, 2024 | 2,705,000                     | 603,750                       | 0.41           | 4.23                            |
| July 9, 2025      | 50,000                        | -                             | 0.44           | 4.78                            |
| August 16, 2030   | 350,000                       | -                             | 0.46           | 9.88                            |
|                   | <b>10,465,500</b>             | <b>6,142,583</b>              | <b>0.46</b>    | <b>3.00</b>                     |

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**11. Reserve for Share-Based Payments (continued)**

*Black-Scholes valuation assumptions*

The grant date fair value of the options was estimated using Black-Scholes pricing model (“Black-Scholes”) with the following assumptions. Expected volatility was determined based on historical volatility of the Company and comparable companies.

*Options granted in the nine months ended September 30, 2020*

| <b>Grant date</b>        | <b>August 16, 2020</b> | <b>July 10, 2020</b> |
|--------------------------|------------------------|----------------------|
| Number of options        | 350,000                | 50,000               |
| Exercise price           | \$0.46                 | \$0.44               |
| Share price              | \$0.46                 | \$0.33               |
| Expected life of options | 10 years               | 5 years              |
| Expected volatility      | 157%                   | 120%                 |
| Risk-free interest rate  | 0.61%                  | 0.36%                |
| Forfeiture rate          | 10%                    | 10%                  |

*Options granted in the nine months ended September 30, 2019*

| <b>Grant date</b>        | <b>September 4, 2019</b> | <b>April 10, 2019</b> |
|--------------------------|--------------------------|-----------------------|
| Number of options        | 525,000                  | 300,000               |
| Exercise price           | \$0.56                   | \$0.70                |
| Share price              | \$0.56                   | \$0.67                |
| Expected life of options | 5 years                  | 2 years               |
| Expected volatility      | 125%                     | 109%                  |
| Risk-free interest rate  | 1.15%                    | 1.58%                 |
| Forfeiture rate          | 10%                      | 10%                   |

**12. Reserve for Warrants**

The following summarizes the warrant activities for the nine months ended September 30, 2020 and 2019:

|                               | <b>September 30, 2020</b>             |                    | <b>September 30, 2019</b>             |                   |
|-------------------------------|---------------------------------------|--------------------|---------------------------------------|-------------------|
|                               | <b>Number of warrants outstanding</b> | <b>Fair value</b>  | <b>Number of warrants outstanding</b> | <b>Fair value</b> |
|                               | <b>#</b>                              | <b>\$</b>          | <b>#</b>                              | <b>\$</b>         |
| Balance, beginning of period  | <b>18,707,913</b>                     | <b>9,619,818</b>   | 5,661,600                             | 6,872,702         |
| Issued                        | <b>6,194,704</b>                      | <b>862,933</b>     | 8,318,750                             | 2,112,422         |
| Expired                       | <b>(5,661,600)</b>                    | <b>(1,819,393)</b> | -                                     | -                 |
| <b>Balance, end of period</b> | <b>19,241,017</b>                     | <b>8,663,358</b>   | 13,980,350                            | 8,985,124         |

*Warrant activities for the nine months ended September 30, 2020*

On June 30, 2020, the Company issued 3,700,000 Warrants, at an exercise price of \$0.70, in connection with the Q2 2020 Private Placement Offering, as disclosed in Note 10. In addition, 260,304 Broker Warrants were issued as compensation to Agents, to acquire one Unit (a “Broker Unit”) at an exercise price of \$0.50 for a period of 24 months following the closing of the Q2 2020 Private Placement Offering. Each Broker Unit is comprised of one common share and one Warrant.



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**12. Reserve for Warrants (continued)**

*Warrant activities for the nine months ended September 30, 2020*

On August 31, 2020, the Company issued 2,080,000 Warrants, at an exercise price of \$0.70, in connection with the Q3 2020 Private Placement Offering, as disclosed in Note 10. In addition, 154,400 Broker Warrants were issued as compensation to Agents, to acquire one Broker Unit at an exercise price of \$0.50 for a period of 24 months following the closing of the Q3 2020 Private Placement Offering. Each Broker Unit is comprised of one common share and one Warrant.

*Warrant activities for the nine months ended September 30, 2019*

On April 30, 2019, the Company issued 4,514,350 Warrants, at an exercise price of \$0.90, in connection with Tranche 1 of the Q2 2019 Private Placement Offering, as disclosed in Note 10. 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 common share and one-half Warrant, exercisable into one common share at \$0.90 for a period of 24 months from the closing date.

On May 10, 2019, the Company issued 2,894,204 Warrants, at an exercise price of \$0.90, in connection with Tranche 2 of the Q2 2019 Private Placement Offering, as disclosed in Note 10. 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 common share and one-half Warrant, exercisable into one common share at \$0.90 for a period of 24 months from the closing date.

*Black-Scholes valuation assumptions*

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

*Warrants issued in the nine months ended September 30, 2020*

| <b>Issuance date</b>      | <b>August 31, 2020</b> | <b>August 31, 2020</b> | <b>June 30, 2020</b> | <b>June 30, 2020</b> |
|---------------------------|------------------------|------------------------|----------------------|----------------------|
| Number of warrants        | 2,080,000              | 154,400                | 3,700,000            | 260,304              |
| Exercise price            | \$0.70                 | \$0.50                 | \$0.70               | \$0.50               |
| Share price               | \$0.33                 | \$0.33                 | \$0.54               | \$0.54               |
| Expected life of warrants | 2 years                | 2 years                | 2 years              | 2 years              |
| Expected volatility       | 93%                    | 93%                    | 95%                  | 95%                  |
| Risk-free interest rate   | 0.28%                  | 0.28%                  | 0.28%                | 0.28%                |

*Warrants issued in in the nine months ended September 30, 2019*

| <b>Issuance date</b>      | <b>April 30, 2019</b> | <b>April 30, 2019</b> | <b>May 10, 2019</b> | <b>May 10, 2019</b> |
|---------------------------|-----------------------|-----------------------|---------------------|---------------------|
| Number of warrants        | 4,514,350             | 505,917               | 2,894,204           | 404,279             |
| Exercise price            | \$0.90                | \$0.60                | \$0.90              | \$0.60              |
| Share price               | \$0.83                | \$0.83                | \$0.64              | \$0.64              |
| Expected life of warrants | 2 years               | 2 years               | 2 years             | 2 years             |
| Expected volatility       | 103%                  | 103%                  | 103%                | 103%                |
| Risk-free interest rate   | 1.56%                 | 1.56%                 | 1.64%               | 1.64%               |

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**12. Reserve for Warrants (continued)**

The following table summarizes information of warrants outstanding as at September 30, 2020:

| <b>Date of expiry</b> | <b>Number of<br/>warrants<br/>outstanding</b> | <b>Exercise price</b> | <b>Weighted<br/>average<br/>remaining life</b> |
|-----------------------|---|-----------------------|--|
|                       | <b>#</b>                                      | <b>\$</b>             | <b>Years</b>                                   |
| April 30, 2021        | 4,514,350                                     | 0.90                  | 0.58   |
| April 30, 2021        | 505,917                                       | 0.60                  | 0.58   |
| May 10, 2021          | 2,894,204                                     | 0.90                  | 0.61   |
| May 10, 2021          | 404,279                                       | 0.60                  | 0.61   |
| June 30, 2022         | 3,700,000                                     | 0.70                  | 1.75   |
| June 30, 2022         | 260,304                                       | 0.50                  | 1.75   |
| August 31, 2022       | 2,080,000                                     | 0.70                  | 1.92   |
| August 31, 2022       | 154,400                                       | 0.50                  | 1.92   |
| November 14, 2022     | 1,250,000                                     | 0.60                  | 2.12   |
| November 14, 2022     | 87,500  | 0.40                  | 2.12   |
| November 26, 2022     | 2,125,000                                     | 0.60                  | 2.16   |
| November 26, 2022     | 128,188                                       | 0.40                  | 2.16   |
| December 24, 2022     | 1,062,500                                     | 0.60                  | 2.23   |
| December 24, 2022     | 74,375  | 0.40                  | 2.23   |
|                       | <b>19,241,017</b>                             | <b>1.37</b>           | <b>0.74</b>                                    |

**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 nine months ended September 30, 2020 and 2019 were as follows:

|   | <b>2020</b>      | <b>2019</b> |
|---|------------------|-------------|
|   | <b>\$</b>        | <b>\$</b>   |
| Short-term employee benefits,<br>including salaries and consulting fees | <b>647,401</b>   | 535,642     |
| Share-based compensation  | <b>661,233</b>   | 797,218     |
|   | <b>1,308,634</b> | 1,332,860   |

- (i) During the nine months September 30, 2020, the Company incurred consulting fee expenses with the CEO of \$117,000 (2019 – \$117,000) for services rendered. As at September 30, 2020, an amount of \$14,334 (December 31, 2019 – \$nil) was owed to the CEO for compensation on services rendered and was included in accounts payable and accrued liabilities.
- (ii) During the nine months ended September 30, 2020, the Company incurred consulting fee expenses with the Chief Financial Officer (“CFO”) of \$56,000 (2019 – \$62,800) for services rendered. As at September 30, 2020, an amount of \$6,328 (December 31, 2019 – \$nil) was owed to the CFO for compensation on services rendered and was included in accounts payable and accrued liabilities.
- (iii) During the nine months ended September 30, 2020, the Company incurred wages expenses with the President – Western US of approximately \$243,738 (2019 – \$238,842) for services rendered. As at September 30, 2020, no balance was owed to the President – Western US (December 31, 2019 – \$10,239 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).

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**13. Key Management Compensation and Related Party Transactions (continued)**

*Key management compensation (continued)*

- (iv) During the nine months ended September 30, 2020, the Company incurred consulting fee expenses with the Acting Chief Operating Officer (“Acting COO”), who is also a director of the Company, of \$109,859 (2019 – \$nil) for services rendered. As at September 30, 2020, an amount of \$10,671 (December 31, 2019 – \$nil) was owed to the Acting COO for compensation on services rendered and was included in accounts payable and accrued liabilities.
- (v) During the nine months ended September 30, 2020, the Company incurred consulting fee expenses with a director considered to be part of key management of \$117,000 (2019 – \$117,000) for services rendered. As at September 30, 2020, an amount of \$22,085 (December 31, 2019 – \$6,500) incurred to these directors was included in accounts payable and accrued liabilities.
- (vi) During the nine months ended September 30, 2020, the Company incurred legal fees expenses with an entity controlled by one of the directors considered to be part of key management of \$3,803 (2019 – \$nil) for services rendered. As at September 30, 2020, an amount of \$7,676 (December 31, 2019 – \$nil) incurred to these directors was included in accounts payable and accrued liabilities.

*Other related party transactions*

- (vii) During the nine months ended September 30, 2020, directors who are not part of key management received stock-based compensation of \$158,988 (2019 – \$108,760).

**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 September 30, 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 loss, totaling \$8,739,803 (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 nine months ended September 30, 2020.

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**15. General and Administrative Expenses**

The Company's general and administration expenses incurred for the nine months ended September 30, 2020 and 2019 are as follows:

|                                    | <b>2020</b>      | 2019      |
|------------------------------------|------------------|-----------|
|                                    | \$               | \$        |
| Corporate costs and administration | <b>718,392</b>   | 592,975   |
| Payroll and salaries               | <b>633,354</b>   | 445,883   |
| Professional fees                  | <b>408,977</b>   | 348,212   |
| Consulting and management fees     | <b>315,842</b>   | 320,740   |
| Interest on lease liabilities      | <b>197,154</b>   | 260,436   |
| Occupancy cost                     | <b>186,130</b>   | 427,792   |
| Travel and promotional             | <b>43,736</b>    | 161,115   |
|                                    | <b>2,503,585</b> | 2,557,153 |

**16. Financial Risk Management**

*Fair value*

The carrying amount of cash, short-term investments, trade receivables, 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 September 30, 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 September 30, 2020, the Company had a cash and cash equivalents balance of \$1,971,153 (December 31, 2019 – \$2,614,342), as well as liquid short-term investments of \$377,231 (December 31, 2019 – \$998,955) to settle current liabilities of \$1,855,085 (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:

|  | <b>Total</b>     | <b>Within 1 year</b> | <b>1 to 3 years</b> | <b>3 to 5 years</b> |
|--|------------------|----------------------|---------------------|---------------------|
|  | \$               | \$                   | \$                  | \$                  |
| Accounts payable and accrued liabilities | 1,102,118        | 1,102,118            | -                   | -                   |
| Lease payable                            | 2,406,177        | 887,229              | 1,518,948           | -                   |
| <b>Total</b>                             | <b>3,508,295</b> | <b>1,989,347</b>     | <b>1,518,948</b>    | -                   |

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**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 \$3,800, 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 September 30, 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 September 30, 2020, the Company had the following assets and liabilities in USD:

|                            | <b>September 30, 2020</b> | December 31, 2019 |
|----------------------------|---------------------------|-------------------|
|                            | \$                        | \$                |
| Cash                       | <b>341,506</b>            | 220,942           |
| Trade receivables          | <b>11,148</b>             | 17,804            |
| Trade and other payables   | <b>(649,932)</b>          | (522,246)         |
| <b>Net exposure to USD</b> | <b>(297,278)</b>          | (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 \$2,973 (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 September 30, 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**

*Option grants*

On October 6, 2020, the Company granted 200,000 options to a consultant of the Company. The options are exercisable at an exercise price of \$0.37 per common share for a period of five years. The options fully vest upon completion of a three-month initial term.

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**18. Subsequent Events (continued)**

*Financings*

On November 12, 2020, 935,500 common shares of the Company were issued as a result of the exercise of options for cash proceeds of \$102,905.

On November 23, 2020, the Company completed a non-brokered private placement of Units through the issuance of 2,222,300 Units at a price of \$0.45 for total proceeds of \$1,000,035. Each Unit is comprised of one common share of the Company and one Warrant. Each Warrant entitles the holder to purchase one common share at a price of \$0.60 for a period of 36 months following from closing. In connection with the private placement, the Company paid cash commissions of \$70,002 to the Agents and issued 155,561 Broker Warrants as compensation to the Agents.