THE TINLEY BEVERAGE COMPANY INC.

Management's Discussion and Analysis

For the three and nine months ended September 30, 2020

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The following Management's Discussion and Analysis ("MD&A") is current to November 30, 2020 and is management's assessment of the financial position and results of operation together with future prospects of The Tinley Beverage Company Inc. This MD&A should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements and related notes for the three and nine months ended September 30, 2020 and 2019, as well as the audited consolidated financial statements for the years ended December 31, 2019, prepared in accordance with International Financial Reporting Standards ("IFRS").

All figures are in Canadian dollars ("$" or "CAD") unless stated otherwise.

This discussion contains forward-looking statements that are not historical in nature and involves risks and uncertainties. Forward-looking statements are not guarantees as to Tinley's future results as there are inherent difficulties in predicting future results. This MD&A includes, but is not limited to, forward-looking statements. Management considers the assumptions on which these forward-looking statements are based to be reasonable at the time the statements were prepared. Accordingly, actual results could differ materially from those expressed or implied in the forward-looking statements. The Company has adopted National Instrument 51-102F1 as the guideline in presenting the MD&A. Additional information relevant to Tinley's activities, including Tinley's press releases can be found on SEDAR at www.sedar.com.

1. Description of Business

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. On October 6, 2015, the Company completed a change of business to a cannabis beverage company (as hereinafter defined) and, pursuant to the Articles of Amendment dated October 6, 2015, the Company changed its name to "The Tinley Beverage Company Inc.".

The address of the Company's registered office is 77 King Street West, Suite 2905, Toronto, Ontario, M5K 1H1, Canada.

The Company's common shares are currently listed on the Canadian Securities Exchange (the "CSE") under the trading symbol "TNY" and on the OTCQX® under the trading symbol "TNYBF".

The Company has two primary product lines: (i) the Beckett's™ Tonics and Beckett's™ '27 line of non-alcoholic spirits and cocktails, and (ii) the liquor-inspired, cannabis-infused Tinley's™ Tonics and Tinley's™ '27 line of products. The Beckett's™ branded non-cannabis versions are available or eligible for sale in mainstream food, beverage and specialty retailers, as well as on premises locations, throughout California and the United States (the "US"). The Tinley's™ branded cannabis-infused beverages are available in licensed dispensaries and delivery services throughout California and are expected to be made available in Canada.

The Company has also built one of the largest cannabis beverage facility in California. Situated on approximately 45,000 square feet ("sq. ft.") property in Long Beach, California, the 20,000 sq. ft. facility is built for cannabis beverage manufacturing, co-packing and distribution.

2. Business Overview

Business Developments

On April 6, 2020, the Company entered into an exclusive agreement with Shelf Life Distributing ("Shelf Life") to sell and distribute the full line of Tinley's non-alcoholic, cannabis-infused beverages to licensed dispensaries and home delivery services throughout California. Shelf Life is a vertically integrated cannabis company, and its subsidiary, Gold Flora LLC, operates a 625,000 sq. ft. cultivation and manufacturing facility in the Desert Hot Springs. The agreement is intended to enhance Tinley's existing sales, merchandising reach, including budtender education, product demonstration and logistics capabilities.

On April 29, 2020, the Company announced that it has passed three additional inspections at its Phase 3 Facility in Long Beach: (i) health, (ii) mechanical and (iii) plumbing inspections. The Company subsequently completed the fire inspection, the last of the five functional inspections required by the City of Long Beach. Passing the fire inspection enabled the municipality to perform the confirmatory building inspection, which triggered the issuance by the City of Long Beach of a Certificate of Occupancy. The certificate allowed the state cannabis licensing authorities to perform their final site visit and complete necessary ownership reviews.

On May 27, 2020, the Company announced that it was progressing through final building inspections at its Phase 3 Facility in Long Beach. The Company also began onboarding two additional mass grocery retailers for its non-infused products. This brought the total number of addressable stores, including the existing two chains awaiting launch, to approximately 6,000. The Company planned to conduct trials at selected stores, after which these chains would evaluate broader rollout. These chains suspended their new product programs as a result of several COVID-19 restrictions, however, several of these resumed in Fall 2020.

On June 24, 2020, the Company announced that its Phase 3 Facility in Long Beach had passed all remaining municipal inspections. The facility received a provisional cannabis manufacturing license from the State of California and a Temporary Certificate of Occupancy from the City of Long Beach. These enabled the issuance of a Conditional Business License. The conditional municipal license enabled the facility's existing state-issued provisional cannabis manufacturing license to become immediately usable for cannabis production. The Company's first bottling took place in mid-July.

On July 2, 2020, the Company announced that the Phase 3 Facility in Long Beach, California was granted a license for cannabis manufacturing by the State of California.

On August 14, 2020, the Company signed a contract manufacturing agreement with Level Up Infusions Ltd. ("Level Up"), an Ontario company whereby the Company appointed Level Up as its exclusive manufacturer in Canada of certain cannabis-infused beverage products, subject to Level Up obtaining all approvals and licenses from Health Canada on or before October 30, 2020 and certain minimum orders and delivery commitments from both parties.

On October 15, 2020, the Company announced that its Canadian cannabis emulsion provider had begun production of the cannabis-infused emulsion for use by the Company's Canadian manufacturer for the production of the Company's cannabis-infused beverages in Canada.

On November 4, 2020, the Company announced that its Beckett's non-alcoholic spirits and ready-to-drink cocktails became available at Ralphs supermarket stores throughout Southern California. The Company expects its products to be available in an initial group of 40 to 50 stores located in the Company's core regions in and around Los Angeles: Westside, including West Hollywood, the beach cities, and certain municipalities in Orange County, followed by a broader launch throughout the Ralphs network. Ralphs is a subsidiary of Kroger, the largest supermarket chain in the US.

On November 10, 2020, the Company announced that its Beckett's non-alcoholic ready-to-drink cocktails will be available at select Costco warehouses in advance of the US Thanksgiving weekend.

Despite being deemed an essential service, BevMo! voluntarily closed its stores as a result of COVID-19, thereby limiting exposure to the Company's products. The stores have since re-opened, and inventory delivered earlier in the year remains available for sale. The Company expects to ship inventory of next-generation products towards the end of 2020. Revenue from non-infused products is expected to be further driven by the recent launch of trials in Ralphs and Costco. The Company expects to expand to 30 to 50 Ralphs stores as part of this trial, with a subsequent goal of expansion to its nearly 200 stores in California, ideally followed by expansion to Kroger stores across the US. The trials at Costco have been extended through December, should such trails proved to be successful, the Company aims to expand to additional Costco locations in California and across the US. The Company also expects to initiate trials and/or listings in additional chain stores.

Similarly, the Company is working to expand exposure to its listings on Walmart.com, Amazon.com and its own Shopify store at www.drinkbecketts.com through national banner, affiliate, social, influencer and other online marketing programs. Recognizing its strong brand awareness in Canada, the Company is building similar online platforms and marketing programs in Canada. These are expected to launch shortly after the Company's non-infused product production, which is planned for December 2020.

The Company did not have sufficient inventory of infused products to fulfill orders, which impacted the Q3 2020 reported sales. This inventory shortage was due to licensing at Long Beach occurring several months after the originally anticipated date. The Company had decommissioned its Phase 2 facility in anticipation of licensing at Phase 3, and it had produced inventory in anticipation of having no manufacturing capability during this transition period. However, this inventory ultimately proved insufficient due to the longer than expected licensing and commissioning process. With the Phase 3 facility in Long Beach now operational, the Company now has sufficient inventory of all SKUs and has ample capacity to meet its production needs going forward.

With the Company's facility in Long Beach is now in operational, the Company is now able to take on co-packing clients and expects to begin consummating co-packing agreements in Q4 2020.

Financing Developments

On June 30, 2020, the Company closed a non-brokered private placement (the "Private Placement Offering") raising gross proceeds of $1,850,000 through the issuance of 3,700,000 units ("Units") at a price of $0.50 per Unit. Each Unit is comprised of one common share of Tinley and one common share purchase warrant ("Warrant"). Each Warrant is exercisable into one common share at a price of $0.70 for a period of 24 months from closing.

On August 31, 2020, the Company closed a second Private Placement Offering raising gross proceeds of $1,040,000 through the issuance of 2,080,000 Units at a price of $0.50 per Unit. Each Unit is comprised of one common share and one Warrant. Each Warrant is exercisable into one common share at a price of $0.70 for a period of 24 months from closing.

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 closed another Private Placement Offering raising gross proceeds of $1,000,035 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 and one Warrant. Each Warrant is exercisable into one common share at a price of $0.60 for a period of 36 months from closing.

Retail Growth Strategy

Beckett's™ Tonics and Beckett's™ '27 Non-Alcoholic Spirits and Cocktails

The Company worked with national brand spirit formulators for several years on making non-alcoholic versions of popular liquors and cocktails. These products are designed for the "lo-no alcohol" beverage category, which allows consumers to enjoy premium, adult beverages without intoxication. This has become one of the fastest-growing trends in the overall beverage industry, with several sources reporting 15 to 400% annualized growth depending on the type of non-alcoholic beverage. In Q4 2019, the Company announced that its first major customer, BevMo!, one of the West Coast's two largest liquor store retailers, would be launching these products in 150 stores. Like many bars, restaurants, liquor stores and grocery stores, BevMo! is working to expand its offerings of non-alcoholic, adult-style beverages in response to the fast-growing "lo-no alcohol" category. Retailers nationwide are reporting shifting demand for alcohol products, notably among younger consumers.

In January 2020, the Company shipped its Beckett's products to BevMo! and worked on to become approved vendors at two other California and national US retail chains. It also received requests for the products by two other national grocery chains. Collectively, these chains represent over 6,000 stores across the US and Canada. The Company expected to begin trials at these retailers as they reopen their new products launch programs in the wake of COVID-19 restrictions. Several of these trials have now begun. The Company has a lengthy sales pipeline of additional mass retailers, led in large part by Richard Gillis, who previously sold to these chains in his role as President of a Western US's second-largest liquor distributor. Despite being deemed an essential service, BevMo! voluntarily closed its stores as a result of COVID-19, thereby limiting exposure to the Company's products. The stores have since re-opened and the Company expects to ship inventory towards the end of 2020.

Tinley's™ Tonics and Tinley's™ '27 Infused Beverages

In 2018, the Company licensed its recipes to a third-party manufacturer, which launched an initial run of the first THC-infused product, a non-alcoholic margarita infused with 10mg of THC. This product had been developed with a Southern California-based liquor formulator, along with products inspired by coconut rum, cinnamon whisky, Italian amaretto and Moscow Mule cocktails. In late 2018, after a brief period in market, California made comprehensive updates to its cannabis regulations. One such update, issued as a 'clarification', provided that cannabis could no longer be manufactured with in alcohol-style labeling. As a result, the third-party licensee ceased manufacturing its margarita product and begun a process of label redesign.

In addition to the time needed to produce new labels, the Company elected to extend the manufacturing pause by several additional months to implement additional strategic improvements:

- Expansion into a fully automated, higher-capacity "Phase 2" licensed facility bottling line: Having exhausted capacity in the Company's initial "Phase 1" facility, the Company elected to move to a larger facility and install a larger, fully automated bottling line. The 3-phased approach started in 2017, upon a successful demonstration at the Cannabis Cup that year. In response to the evolving regulations in California at the time, the Company undertook a search for a facility to house its interim and long-term bottling facilities. The tight real estate market in areas that were zoned for commercial cannabis activity, coupled with the unique facility requirements of bottling facilities, led to a challenging, lengthy process.

  The process ultimately resulted in an Intellectual Property licensing agreement (the "IP Agreement") with the former manufacturer (as hereunder defined) for its "Phase 1" operations, and a subsequent arrangement with a new licensed operator and manufacturer its "Phase 2" operations. It also resulted in the aforementioned lease for the "Phase 3" facility in Long Beach for the Company's long-term operations. While this lengthy search process resulted in a delay in producing the Company's products, the Company successfully negotiated lease rates in a highly desirable location – which is critical for beverage distribution – at competitive rates. It also enabled the Company to simultaneously produce products at incrementally larger runs in the initial facilities to build market share and make informed decisions for the design of the Phase 3 facility.

- Implementation of updated cannabis infusion technology: The Company worked with approximately 20 infusion technology providers to create upgraded versions of its formulations using the various new technologies that begun emerging at the time. This includes the terpene and nano-emulsification technology that has been successfully implemented in the Company's product lineup. These technologies allow the products to have a rapid onset effect, a full-flower effect, visual clarity, 12-month shelf life, homogenous dispersion of active ingredients and a faster offset of effect. As a result, Tinley's consumers can enjoy an experience that more closely resembles the social experience of alcoholic beverages, however with a cannabis effect. This more directly supports the consumer value proposition of the "Tinley™ Tonics" and "Tinley™ '27" alcohol-inspired product lines.

As a result of the Company's election to lengthen the manufacturing pause to implement the above improvements, the Company had no products in production between autumn of 2018 and spring of 2019. The Company is only recognizing a fraction of the revenue related to products delivered to stores during this period given revenue is recognized only when paid, which can result in a 30 to 90 day delay from when deliveries are made, and due to the fact that a portion of deliveries are used as free samples or sold at a discount.

As with the former manufacturer, and the new interim licensed operator and manufacturer in the Coachella Valley, the Company relies upon its third-party distributors' internal compliance mechanisms, reinforced by various normal course state inspections, to ensure they comply with applicable state and local regulations. The Company has frequent interactions with personnel at the current interim licensed manufacturer and their distributors, allowing the Company to monitor their activities, however, this is in a limited capacity.

Tinley is not a party to the agreements that the interim licensed operator and manufacturer has with distributors. Tinley is informed on interactions between the licensed Manufacturer and their distributors and believes the contracts between these parties include reasonable provisions to ensure they each operate in compliance with applicable local and state laws and regulations.

Long-Term Bottling Facility

On March 1, 2018, the Company entered into two new lease agreements for the new 19,760 sq. ft. facility in Long Beach, a bottling facility for cannabis beverage production which is situated on approximately 45,000 sq. ft. of land approximately 16 miles from downtown Los Angeles. It is now being used as the Company's bottling facility and principal place of business in California.

The Company has retrofitted the existing structure and installed batching and bottling equipment that is uniquely designed for the needs of cannabis drinks. The bottling equipment accommodates the solubilization technology and processes that Tinley uses for its cannabis and terpene-infused, liquor-style beverages. It is also designed for a variety of bottle, label, and closure styles to accommodate future products as well as enable co-packing services for third-party brands that wish to build cannabis-infused versions of their products. The equipment enables both carbonated and non-carbonated beverages, as well as those that contain perishable ingredients and that require clean-label claims.

Due to the central location of the Long Beach facility, Tinley intends to use a portion of the building to build a licensed cannabis distributor which will be equipped to cater to the unique needs of beverage products, including refrigeration and large-format packaging. The Company intends to operate this distributor in cooperation with existing local distributors and operators. The Company expects this distribution facility to be operational by the end of 2020. The facility will also house a beverage R&D and internal testing center to enable continuous product innovation and quality assurance. The Company believes that this lineup of services will enable it to maintain control over all aspects of its supply chain, provide investors with exposure to a broader portfolio of beverage products and offer an end-to-end beverage development solution for third-party brands.

The license on the facility is classified as Type N, which covers beverages and all other forms of cannabis-infused products. Use of the license is conditional upon (i) the facility acquiring the required municipal permits and authorizations required for operations, including the Certificate of Occupancy from the City of Long Beach and the final California Department of Public Health ("CDPH") inspection; (ii) Tinley completing and receiving approval for an ownership review by the City of Long Beach and the CDPH. The license may be used for operations upon receipt of municipal approvals in (i), while approvals in (ii) are pending.

In March 2020, the Company terminated its IP Agreement with its interim licensed manufacturing Partner's "Phase 2" Facility in Coachella Valley, with existing inventory moved to the manufacturer's distributor, until the Long Beach facility is retrofitted and permitted for operations in accordance with California state regulations expected in June 2020.

During the year ended December 31, 2019, the Company announced several key achievements:

- Delivered its non-infused "Beckett's" products to BevMo!, one of the largest liquor store chains in the West Coast, for availability in their 150-store network throughout California.
- Became approved vendors for its non-infused products at two major national chains and secured requests for products at two other major chains, collectively representing over 6,000 stores across the US and Canada. The Company expects to begin trials in Southern California at select stores from each of these chains.
- Doubled the number of dispensaries where the Company's infused products are available, built a robust home delivery network that covers over 90% of the population of California, and added Shelf Life to continue to drive the growth of the Company's retail presence throughout the state. The Company's infused products are now available in bricks and mortar in most key markets in California including the San Francisco Bay Area, including Silicon Valley, as well as Los Angeles, Sacramento, Long Beach, San Diego, Eureka, Santa Cruz, Santa Barbara and the Coachella Valley; the Company's products are also available for on-premise consumption in licensed cannabis lounges in San Francisco, West Hollywood and the Palm Springs area.
- Completing the buildout of a state of the art, purpose-built bottling facility under local authorization, which has been successfully granted by the City of Long Beach.
- The Company's Long Beach facility being conditionally licensed for a California State Type N Manufacturing license; the conditions of completion include the remaining municipal and state inspections and ownership reviews, as outlined above.
- Decommissioning the Company's bottling equipment in the "Phase 2" Manufacturer's facility in anticipation of the "Phase 3" facility in Long Beach becoming operational; the company believes it has ample capacity to satisfy product demand and co-packing clients until Long Beach is licensed.

- Signed an agreement for Canadian expansion with Great North Distributors Inc. ("Great North"). The Company is presently working under LOI to complete a second and final agreement with a party that will enable the Company's products to be manufactured in Canada for availability throughout the country.
- Negotiated agreements with a pipeline of co-packing clients, which the Company expects to consummate once Long Beach nears final approval.
- Appointed two-time NBA All-Star Baron Davis to the Advisory Board. Mr. Davis is currently working on marketing initiatives and development of new products for the Company's own products and its expected co-packing clients' products.

Territorial Expansion

In Q4 2019, the Company announced an agreement with Great North for distribution of its cannabis beverages in Canada. Great North is an affiliate of Southern Glazers Wine and Spirits, of the world's foremost beverage alcohol distributors. The Company is now working to complete an agreement with a licensed manufacturer for production of its products.

The Company also views Nevada as a priority expansion opportunity due to the state's large tourism industry, year-round warm climate, innovative plans for licensing consumption, and proximity to the California operations.

CBD Beverages

Subsequent to the passage of the Farm Bill in late 2018, the Food and Drug Administration ("FDA") and the CDPH increased enforcement against hemp CBD products in mainstream "bricks and mortar" stores within the State. This resulted in many brands being delisted and at least one product confiscation from the warehouse of a high-profile CBD drink. Unlike most other CBD companies, which primarily sell their products online, Tinley's "Hemplify®" products were sold almost entirely in "bricks and mortar" stores, due to the size and weight of drinks relative to oils. While Tinley believes that enforcement against CBD products in "bricks and mortar" stores in California will ultimately ease, the FDA has made no firm commitments on regulatory changes. This regulatory headwind, coupled with oils being the dominant format for CBD sales rather than drinks, as well as the larger opportunity in THC-infused drinks, led the Company to make the decision to focus entirely on THC-infused beverages. The Company expects to take on co-packing clients that wish to make cannabis-derived CBD drinks for clients, however it does not expect to make hemp-derived CBD products for mainstream retail until there is greater clarity from the FDA.

In addition to FDA and CDPH enforcement against hemp-derived CBD, the Bureau of Cannabis Control ("BCC") stipulated that hemp-derived CBD products are no longer eligible for sale in California dispensaries unless the hemp is grown and distributed under the state's track and trace system. This further validated the Company's decision to reposition its resources entirely to cannabis-derived (i.e. non-hemp-derived) THC and CBD products in the dispensary channel. Given its existing THC-infused beverage infrastructure and distribution, Tinley believes that it is uniquely positioned to distribute cannabis-derived (i.e. not hemp-derived) CBD beverages though the dispensary channel throughout California, by deriving from CBD-rich cannabis strains available from the same licensed suppliers that the Company uses for its THC-infused beverages. This would further enable operational and marketing synergies with the Company's THC beverages.

3. Canadian Companies with U.S. Marijuana-Related Assets

The Company has established a board-level committee (the "US Cannabis Committee") to govern all aspects of the Company's cannabis activities in the US. This US Cannabis Committee consists of Douglas Fulton, Ted Zittell and Curt Marvis. Presently, one of the Company's subsidiaries' clients is a third-party licensee of the Company's beverage formulations. The Company, however, expects to receive approval to commence commercial cannabis operations under a Company-owned license in the future. Recognizing the enhanced governance and oversight requirements of such cannabis activities in the US, the Company in Q4 2019 began the process of formally delineating the governance of the subsidiaries, assets, personnel and overall corporate resources involved in its cannabis activities from its core non-cannabis products. The majority of the Company's revenue is presently generated from its non-cannabis products, and the Company expects this to continue. All personnel and overall corporate resources involved in cannabis activities

in the US have been given direct reporting accountability to the US Cannabis Committee. The Committee's Chairman, Douglas Fulton, was installed in the first quarter of 2020 to oversee the day to day aspects of US cannabis activities.

On February 8, 2018, the Canadian Securities Administrators published Staff Notice 51-352 (Revised) *Issuers with U.S. Marijuana-Related Activities* (the "Staff Notice"), which provides specific disclosure expectations for issuers that currently have, or are in the process of developing, cannabis-related activities in the US as permitted within a particular state's regulatory framework. All issuers with US cannabis-related activities are expected to clearly and prominently disclose certain prescribed information in required disclosure documents.

Such disclosure includes, but is not limited to: (i) a description of the nature of a reporting issuer's involvement in the US marijuana industry; (ii) disclosure that marijuana is illegal under US federal law and that enforcement of relevant laws is a significant risk; (iii) related risks including, among others, the risk that third-party service providers could suspend or withdraw services and the risk that regulatory bodies could impose certain restrictions on the issuer's ability to operate in the US; and (iv) a discussion of the reporting issuer's ability to access public and private capital, including which financing options are and are not available to support continuing operations. Additional disclosures are required to the extent a reporting issuer is deemed to be directly or indirectly engaged in the US marijuana industry, or deemed to have "ancillary industry involvement", all as further described in the Staff Notice. Public reaction to the Staff Notice was generally positive and industry participants welcomed the opportunity to review and provide enhanced disclosure.

As a result of the Company's operations in the US, the Company is properly subject to the Staff Notice and accordingly provides the following disclosure:

I. All Issuers with U.S. Marijuana-Related Activities

A. Nature of the Company Involvement in the U.S. Marijuana Industry

In July 2020, the Company's facility in Long Beach, California was granted a Type N Cannabis Manufacturing license from the State of California. Under the California Business and Professions Code, Section 26000, et seq., short titled, the Medicinal and Adult-Use Cannabis Regulation and Safety Act ("MAUCRSA") and the regulations promulgated thereunder (the "MAUCRSA Regulations") (hereinafter MAUCRSA and the MAUCRSA Regulations shall be referred to as "California Cannabis Law"), a license is required to conduct commercial cannabis activity.

Through 2019 and Q1 2020, the Company operated under an IP Agreement licensing its proprietary intellectual property to a licensed operator, (hereinafter, the "Manufacturer"), who, utilizing its cannabis licenses, manufactures the Company's Tinley-branded products and pays the Company a royalty fee (the "IP License"). The Manufacturer has obtained the required licenses to produce the Tinley-branded products and operates from its licensed premises in Riverside County.

In April 2020, the Company and the Manufacturer terminated their production agreement for the ongoing production of Tinley-branded Products in anticipation of the Company's Long Beach facility becoming operational in the second quarter of 2020. The Company and the Manufacturer have agreed to move forward in good faith to preserve the economics and regulatory compliance of the business arrangement as it winds down. No manufacturing or distribution activities are currently being performed by the Manufacturer using the Company's intellectual property.

B. Marijuana Illegality

In the US, cannabis is largely regulated at the state level. As of November 4, 2020, voters in Mississippi and South Dakota approved a measure to regulate marijuana for medical use. To the Company's knowledge, there are to date a total of 36 states, plus the District of Columbia, Puerto Rico and Guam, which allow their residents to use medical marijuana. As for adult-use, voters in Arizona, Montana, New Jersey and South Dakota approved measures to regulate marijuana for adult-use. This brings the total to 15 states and three territories that permit adult-use of marijuana. Notwithstanding the permissive regulatory environment of medical cannabis at the state level, the Federal Controlled Substances Act (the "FCSA") makes it illegal under federal law to manufacture, distribute or dispense marijuana. 21 U.S.C § 801, et seq. Cannabis is categorized as a Schedule I controlled substance under the FCSA and as such, violates

federal law in the US. Companies that engage in any form of commerce in the cannabis industry and individuals investing in a cannabis business may be subject to federal criminal prosecution along with civil fines and penalties. Federal enforcement could lead to dissolution, asset forfeiture and total loss of investment. Thus, enforcement of relevant laws is a significant risk.

C. Guidance from Federal Authorities

The US Supreme Court has ruled in a number of cases that the federal government does not violate the federal constitution by regulating and criminalizing cannabis, even for medical purposes. Therefore, federal law criminalizing the use of marijuana pre-empts state laws that legalizes its use for medicinal and adult-use purposes.

As a result of the conflicting views between state legislatures and the US federal government regarding cannabis, investments in cannabis businesses in the US are subject to inconsistent legislation and regulation. The response to this inconsistency was addressed in August 2013, when then Deputy Attorney General, James Cole, authored a memorandum (the "Cole Memorandum") addressed to all US district attorneys acknowledging that, notwithstanding the designation of cannabis as a controlled substance at the federal level in the US, several US states have enacted laws relating to cannabis for medical purposes, as may be supplemented or amended indicating that federal enforcement of the applicable federal laws against cannabis-related conduct should be focused on eight priorities, which are to prevent:

(1) Distribution of cannabis to minors.
(2) Criminal enterprises, gangs and cartels from receiving revenue from the sale of cannabis.
(3) Transfer of cannabis from States where it is legal to States where it is illegal.
(4) Cannabis activity from being a pretext for trafficking of other illegal drugs or illegal activity.
(5) Violence or use of firearms in cannabis cultivation and distribution.
(6) Drugged driving and adverse public health consequences from cannabis use.
(7) Growth of cannabis on federal lands; and
(8) Cannabis possession or use on federal property.

The Cole Memorandum outlined certain priorities for the US Department of Justice (the "DOJ") relating to the prosecution of cannabis offenses. In particular, the Cole Memorandum noted that, in jurisdictions that have enacted laws legalizing cannabis in some form and that have also implemented strong and effective regulatory and enforcement systems to control the cultivation, distribution, sale and possession of cannabis, conduct in compliance with those laws and regulations is less likely to be a priority at the federal level. Notably, however, the DOJ has never provided specific guidelines for what regulatory and enforcement systems it deems sufficient under the Cole Memorandum standard. In light of limited investigative and prosecutorial resources, the Cole Memorandum concluded that the DOJ should be focused on addressing only the most significant threats related to cannabis. States where medical cannabis had been legalized were not characterized as a high priority.

The DOJ has issued official guidance regarding marijuana enforcement in 2009, 2011, 2013, 2014 and 2018 in response to state laws that legalize medical and adult-use marijuana. In each instance, the DOJ has stated that it is committed to the enforcement of federal laws and regulations related to marijuana. However, the DOJ has also recognized that its investigative and prosecutorial resources are limited. As of January 4, 2018, the DOJ has rescinded all federal enforcement guidance specific to marijuana and has instead directed that federal prosecutors should follow the "Principles of Federal Prosecution" originally set forth in 1980 and subsequently refined over time in chapter 9-27.000 of the US Attorney's Manual creating broader discretion for federal prosecutors to potentially prosecute state-legal medical and adult-use marijuana businesses even if they are not engaged in marijuana-related conduct enumerated by the Cole Memorandum, the memorandum dated August 29, 2013, as being an enforcement priority.

On November 14, 2017, Jeff Sessions, then the US Attorney General, made a comment before the House Judiciary Committee about prosecutorial forbearance regarding state-licensed marijuana businesses. In his statement, Attorney General Sessions stated that the US federal government's current policy is the same fundamentally as the Holder-Lynch policy, whereby states may legalize marijuana for its law enforcement purposes, but it remains illegal with regard to federal purposes.

On January 4, 2018, Mr. Sessions issued a memorandum (the "Sessions Memorandum") that rescinded the Cole Memorandum. The Sessions Memorandum rescinded previous nationwide guidance specific to the prosecutorial authority of US Attorneys relative to cannabis enforcement on the basis that they are unnecessary, given the well-established principles governing federal prosecution that are already in place. Those principals are included in chapter 9.27.000 of the US Attorneys' Manual and require federal prosecutors deciding which cases to prosecute to weigh all relevant considerations, including federal law enforcement priorities set by the Attorney General, the seriousness of the crime, the deterrent effect of criminal prosecution, and the cumulative impact of particular crimes on the community.

As a result of the Sessions Memorandum, federal prosecutors will now be free to utilize their prosecutorial discretion to decide whether to prosecute marijuana activities, despite the existence of state-level laws that may be inconsistent with federal prohibitions. No direction was given to federal prosecutors in the Sessions Memorandum as to the priority they should ascribe to such cannabis activities, and resultantly it is uncertain how actively federal prosecutors will be in relation to such activities. Furthermore, the Sessions Memorandum did not discuss the treatment of medical cannabis by federal prosecutors. Medical cannabis is currently protected against enforcement by enacted legislation from US Congress in the form of the Rohrabacher-Blumenauer Amendment, which similarly prevents federal prosecutors from using federal funds to impede the implementation of medical cannabis laws enacted at the state level, subject to Congress restoring such funding.

Due to the ambiguity of the Sessions Memorandum in relation to medical cannabis, there can be no assurance that the federal government will not seek to prosecute cases involving cannabis businesses that are otherwise compliant with state law. Such potential proceedings could involve significant restrictions being imposed upon the Company or third parties, and also divert the attention of key executives. Such proceedings could have a material adverse effect on the Company's business, revenues, operating results, and financial condition as well as the Company's reputation, even if such proceedings were concluded successfully in favor of the Company.

As the Sessions Memorandum demonstrates, the US approach to enforcement of cannabis violations of the FCSA can change at any time. While there is some uncertainty at the federal level, on March 23, 2018, the omnibus spending bill signed into law by President Trump included an updated version of the Rohrabacher-Blumenauer amendment, which, as stated above, prohibits the DOJ from using federal funds to prevent states with medical cannabis regulations from implementing laws that authorize the use, distribution, possession or cultivation of medical cannabis. The amendment applies to medical cannabis but not recreational cannabis and does not change the designation of cannabis as a Schedule I controlled substance under the FCSA.

While there are no explicit federal protections for adult-use commercial cannabis activity, on April 11, 2018, President Trump made a verbal commitment to former Colorado US Senator, Cory Gardner, to not interfere with the Colorado cannabis industry. Further, Senator Gardner stated, "President Trump has assured me that he will support a federalism-based legislative solution to fix this states' rights issue once and for all." At this time, such bipartisan legislation has not yet been finalized, but Senate Garner went on to say, "[m]y colleagues and I are continuing to work diligently on a bipartisan legislative solution that can pass Congress and head to the President's desk to deliver on his campaign position." The Company is pleased to see reports that President Trump has promised top Senate Republicans that he will support congressional efforts to protect states that have legalized marijuana. The Company is cautiously optimistic that it represents a clear and positive sign that the industry is shifting towards a climate where cannabis users and business can participate in the industry without fear of interference from the federal government.

While cannabis remains illegal at the federal level, there have been recent developments relevant to the federal government taking a position that respects states' rights to legalize and regulate commercial cannabis and refrain from prosecuting commercial cannabis businesses. Senator Gardner, and Senator Elizabeth Warren from the State of Massachusetts, have introduced federal legislation that would bar the federal government from interfering with any state-approved cannabis legalization and permit cannabis businesses to use the federal banking system.

On June 8, 2018, President Trump was asked about the bill in an interview and replied, "we're looking at it. But I probably will end up supporting that, yes." Such a bill would effectively prevent the federal government from taking any action that interferes with legal commercial cannabis businesses in the State of California.

On November 7, 2018, Mr. Sessions resigned after the US mid-term elections, which could potentially impact the US cannabis industry. From the mid-term elections, US voters delivered a split verdict for Congress, as the Democrats secured a majority in the House of Representatives (the "House") while the Republicans expanded their majority in the Senate. With the Democrats having taken back control of the House, there may be opportunity for bipartisanship on a number of issues including the Strengthening the Tenth Amendment Through Entrusting States (STATES) Act, S. 3032, which would protect individuals working in cannabis sectors from federal prosecution. The STATES Act was introduced in June 2018 through bi-partisan efforts initiated by Senator Gardner together with Senator Warren. Senator Warren won re-election which ensures she will push the change to federal law regarding cannabis. In addition, constituents of Michigan voted to legalize adult-use cannabis, making Michigan the first state in the Midwest to do so and the 10th in the US overall demonstrating growing sentiment amongst Americans towards legalization. Voters in Missouri and Utah approved ballot measures legalizing cannabis for medical use, making their states the 31st and 32nd to do so.

On December 20, 2018, the 2018 Farm Bill was signed by President Trump, and it permanently removed hemp and hemp derivatives such as CBD from the purview of the FCSA. Prior to its enactment, the 2014 Farm Bill allowed industrial hemp to be cultivated under agricultural pilot programs conducted by state departments of agriculture and institutions of higher education. Under federal law, hemp is to be treated as an agricultural commodity, and the regulation of hemp products, including those containing CBD, will be enforced by the FDA under the Federal Food, Drug, and Cosmetic Act of 1938. As of this date, federal authorities have not set regulations that govern the manufacturing, advertising, or sale of hemp products. However, the FDA has issued statements that declare that CBD products intended for human or pet consumption are illegal. The FDA's position is that consumable CBD products, whether cannabis or hemp-derived, are untested "new drugs" and, thus are illegal for consumption until FDA approval. However, the FDA is taking strides to legalize consumable CBD products. On May 31, 2019, the FDA held the first stakeholder hearing to discuss the pathway to the potential legalization of consumable CBD products.

On March 9, 2019, a bill to advance the Secure and Fair Enforcement (SAFE) Banking Act, a landmark bill that would provide safe harbor and guidance to financial institutions that work with legal cannabis businesses, was introduced in the House by Colorado Federal congressperson Ed Perlmutter and was referred to the House Judiciary and Financial Services Committees. On March 28, 2019, the Financial Services Committee voted 45 to 15 to advance the bill to the full House. The bill had "broad bipartisan support", and there were 152 cosponsors at the time of the committee vote – over a third of the entire House.

On May 8, 2019, Attorneys General of 33 states and five territorial attorneys sent a letter to congressional leaders, urging them to enact the SAFE Banking Act or other legislation that would expand banking access for marijuana companies. The new letter, led by Colorado Attorney General Phil Weiser, was joined by Attorneys General from Alaska, Arizona, Arkansas, California, Connecticut, Delaware, the District of Columbia, Guam, Hawaii, Illinois, Iowa, Kentucky, Maine, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, Nevada, New Jersey, New Mexico, New York, North Dakota, the Northern Mariana Islands, Ohio, Oklahoma, Oregon, Pennsylvania, Puerto Rico, Rhode Island, Utah, the US Virgin Islands, Vermont, Virginia, Washington, West Virginia and Wisconsin.

On July 10, 2019, the House Judiciary Subcommittee on Crime, Terrorism and Homeland Security gathered to debate marijuana reform, as lawmakers sought input on federal laws reform in a hearing titled "Marijuana Laws in America: Racial Justice and the Need for Reform." Numerous members of Congress had indicated their intention to loosen US federal laws, and to even legalize marijuana. Despite the optimism, lawmakers did not appear to have a clear consensus on the best approach, such as whether to give States the right to legalize on their own, remove marijuana from Schedule 1 of the FCSA, legalize it or include promote social and racial equity in marijuana laws.

On September 25, 2019, the House voted in favor of the SAFE Banking Act. The historic vote was the first time that a standalone marijuana bill has come before the full House. The vote needed a two-thirds majority to pass and was supported by 321 votes in favor to 103 against. While the Company is pleased with the vote, which will help remedy the severe impact the lack of access to banking has had on the industry and the particular risks associated with operating in a largely cash-based industry, it would also urge the Senate to adopt similar banking protections and approve the Marijuana Opportunity Reinvestment and Expungement (MORE) Act which would remove cannabis from the FCSA and take steps to begin repairing the harms of the war on drugs.

On November 21, 2019, the House Judiciary Committee voted 24 to 10 in favor of passing the MORE Act of 2019. The bill would effectively put an end to cannabis prohibition in the US on the federal level by removing it from Schedule 1 of the FCSA, and past federal cannabis convictions would be expunged. Additionally, if fully passed, the law would allow the Small Business Administration to issue loans and grants to cannabis-related businesses and provide a green light for physicians in the Veterans Affairs system to prescribe medical cannabis to patients, as long as they abide by state-specific laws.

While the MORE Act has yet to be voted on by the full House, provisions of the SAFE Banking Act have been incorporated into the latest stimulus package passed by the House on May 15, 2020. The Health and Economic Recovery Omnibus Emergency Solutions (HEROES) Act is a $3 trillion stimulus bill passed in response to the economic and health crisis caused by COVID-19. The Senate is expected to vote on its own version of the stimulus bill sometime in the next several weeks. The bill, if passed, would eliminate the possibility of any repercussions for federally regulated financial institutions for doing business with cannabis companies. However, because the banking reform is included in coronavirus relief legislation, there is a newborn sense of hope that the bill could be signed into law.

Although Jeff Sessions has been replaced by President Trump with William Barr, there was very little clarity as to how President Trump, or Attorney General Barr, were to enforce federal law or how they will deal with states that have legalized medical or recreational marijuana. While bipartisan support was gaining traction on decriminalization and reform, there was no timeline on any potential legislation.

On November 3, 2020, the US held its 2020 presidential election, and cannabis legalization was approved via ballot measures in four states: Arizona, Montana, South Dakota and New Jersey. Additionally, medical cannabis was legalized via ballot measures in Mississippi and South Dakota, which became the first state to legalize medical and recreational cannabis simultaneously. Once all ballot measures take effect in 2021, a total of 15 states will have legalized cannabis for recreational use.

On November 6, 2020, despite ongoing legal challenges from the Trump administration, Joseph R. Biden was named the next President-Elect of the US. While this development is widely viewed to be favorable for the cannabis industry, the ultimate impact of the election of former Vice President Biden as the next President-Elect of the US and a Biden administration is, as yet, unknown.

Any new US federal government administration that follows could change policy and decide to enforce the US federal law vigorously. Any such change in the US federal government's enforcement of current US federal law could cause adverse financial impact and remain a significant risk to the Company's businesses. See "Risk Factors".

D. US Enforcement Proceedings

The US Congress has passed appropriations bills each of the last three years that included the Rohrabacher Amendment Title: H.R.2578 — Commerce, Justice, Science, and Related Agencies Appropriations Act, 2016 ("Rohrabacher-Blumenauer Amendment"), which by its terms does not appropriate any federal funds to the DOJ for the prosecution of medical cannabis offenses of individuals who are in compliance with state medical cannabis laws. Subsequent to the issuance of the Sessions Memorandum on January 4, 2018, the US Congress passed its omnibus appropriations bill, SJ 1662, which for the fourth consecutive year contained the Rohrabacher-Blumenauer Amendment language (referred to in 2018 as the "Rohrabacher-Leahy Amendment") and continued the protections for the medical cannabis marketplace and its lawful participants from interference by the DOJ up and through the 2018 appropriations deadline of December 31, 2018. These protections were subsequently extended through December 7, 2018 as part of a short-term continuation of appropriations. Following the much-publicized shutdown of the US Federal Government, the Consolidated Appropriations Act of 2019 was signed into law on February 15, 2019 with the Joyce Amendment intact (Section 538).

On June 20, 2019, the House voted 267 in favor of, and 165 against, approving a broader amendment that in addition to protecting state medical cannabis programs also protected recreational use. On September 26, 2019, the Senate

Appropriations Committee declined to take up the broader amendment but did approve the Rohrabacher–Farr Amendment for the 2020 fiscal year spending bill. On September 27, 2019, the Rohrabacher–Farr Amendment was renewed as part of a stopgap spending bill, in effect through November 21, 2019.

On December 20, 2019, the amendment was renewed through the signing of the "Fiscal Year 2020 spending legislation", effective through to September 30, 2020. President Trump added a signing statement regarding the amendment similar to the ones he added in May 2017 and February 2019. In July 2020, a House subcommittee introduced a base appropriations bill with the amendment included. On October 1, 2020, the amendment was renewed through the signing of a stopgap spending bill, effective through December 11, 2020.

US courts have construed these appropriations bills to prevent the federal government from prosecuting individuals when those individuals comply with applicable state law. However, because this conduct continues to violate US federal law, US courts have observed that should Congress at any time choose to appropriate funds to fully prosecute the FCSA, any individual or business – even those that have fully complied with applicable state law – could be prosecuted for violations of US federal law. If Congress restores funding, the US federal government will have the authority to prosecute individuals for violations of the law before it lacked funding under the FCSA's five-year statute of limitations.

E. Related Risks

California Cannabis Law establishes a highly regulated system for all commercial cannabis activities in California. This system requires all commercial cannabis activity to be conducted by licensees who are subject to the laws and regulations of the system. The Company's Tinley-branded products will be produced by the Manufacturer, which holds various licenses, including a Type 6 Manufacturing License. Because the Manufacturer has a Type 6 Manufacturing License and has agreed to make the necessary regulatory disclosures, the Manufacturer will be permitted to manufacture the Company's products in compliance with the Final BCC and CDPH Regulations. The Manufacturer relies on a variety of third-party licensees to obtain ingredients including but not limited to marijuana and distribute and sell the Company's products to authorized consumers. Each and every third-party licensee contracting with the Manufacturer is also subject to the stringent laws and regulations governing cannabis activities in California. In addition to fines, the penalties for non-compliance range from temporary license suspension to complete revocation of the license. This creates additional risk for the production and sale of the Company's products.

In addition to the risks associated with third-party licensees, there are also general concerns associated operating in the California cannabis industry. Some, but not all of these concerns are set forth below:

1. Change in California Cannabis Law – Regular changes in California Cannabis Law that may negatively impact the sale and production of the Tinley-branded products.
2. Banking – Due to federal laws against marijuana, most banks are unwilling to take deposits, issue credit cards, open bank accounts, or assist with payroll services for cannabis businesses. While efforts are underway to address the banking issue, cannabis businesses deal primarily with cash. This presents numerous risks related to security, managing cash flow and the inability to invest funds. The California Board of Equalization allows for cash payments of tax bills at county branches located throughout the state. Nevertheless, cash-related issues continue to present risks for investors. The Company presently maintains accounts at multiple major banks for redundancy.
3. Taxes – Under Internal Revenue Code Section 280E, cannabis businesses are prohibited from deducting their ordinary and necessary business expenses, except for the "costs of goods sold" by cultivators. This results in cannabis enterprises facing much higher federal tax rates than similar companies in other industries. While opinions differ, experts estimate from 40% to 70% as the effective federal tax rate imposed by Section 280E.
4. Food and Drug Administration – The FDA does not permit or allow any statement that cannabis or cannabinoid, including CBD, is intended to treat or cure any disease. Research and scientific studies are underway throughout the US; however, no product may make statements of diagnosis, treatment, or cure for any disease without FDA approval. Further, the FDA has declared that consumable CBD products, whether cannabis or hemp-derived, are untested "new drugs" and, thus are illegal for consumption until FDA

approval. The CDPH has followed the FDA's lead, stating that such consumable CBD products will not be legal in California until the FDA determines that CBD is safe for human or animal consumption or the California legislature determines otherwise.

5. Product Liability Claims – Insurance law and available products for cannabis operations, and product liability of cannabis, is a major concern for the industry. Investors should be aware that insurance policies may be limited, or claims may be challenged by insurance carriers.
6. Background Checks – California and some local jurisdictions require background checks for management and employees as well as applicants for licenses and permits. Although some cannabis-related convictions are not prohibited for obtaining licensing, convictions for other offenses may cause a delay or make a company ineligible for licensing.
7. License Issuance and Renewals – At this time, the Manufacturer has only obtained a temporary state license. There is no guarantee that the Manufacturer will obtain an annual license. Even if the Manufacturer obtains an annual license, it must be renewed annually and there is no guarantee that such license will be renewed each year.

F. Ability to Access Public and Private Capital

Tinley has historically and continues to have access to both public and private capital in Canada in order to support its continuing operations. In addition, Tinley has established multiple banking relationships, notably with Echelon Wealth Partners ("Echelon") and Canaccord Genuity Group, Inc. ("Canaccord"). Echelon and Canaccord have completed multiple brokered and non-brokered financings for the Company in the past several years, and Tinley's Chief Executive Officer ("CEO") has over ten years of capital markets experience. Although the Company has accessed private and public financing in the past, there is neither a broad nor deep pool of institutional capital that is available to cannabis license applicants or holders. There can be no assurance that additional financing will be available to Tinley when needed or on terms which are acceptable.

G. Operating Exposure

The Company is currently launching operations in Canada. Previously, all of the Company's cannabis and non-cannabis-based operations were located within the State of California.

H. Legal Advice, Compliance, and Potential Exposure

The Company is monitoring compliance with California Laws on an ongoing basis. The Company has engaged California-based marijuana regulatory compliance counsel, who have substantial experience advising marijuana companies on how to comply with California law. The Company's counsel has been tasked with monitoring California law on an ongoing basis and ensuring that the Company's operations comply with all California marijuana laws. The Company has regularly scheduled calls with compliance counsel to discuss compliance matters. Nevertheless, there is no assurance that the Company or the Manufacturer will be able to maintain or remain in compliance with California or other state laws.

Moreover, even if the Manufacturer complies with each and every law and regulation, they may still be subject to federal criminal prosecution along with civil fines and penalties. Federal enforcement could lead to dissolution, asset forfeiture and total loss of investment.

II. Involvement with Cultivation and Distribution

A. U.S. Marijuana Issuers with Direct Involvement in Cultivation or Distribution

Until July 2020, the Company's involvement in the California cannabis industry was limited to enter into in IP licensing arrangement with the Manufacturer for the production of Tinley-branded products. The Manufacturer typically used cannabis purchased from third-party licensees in extracted forms, rather than cannabis cultivated under its own licenses, to manufacture the Company's products. The Manufacturer also contracted directly with licensed cannabis distributors for distribution of the Company's products. The Manufacturer also has a distribution license and

distributed the Company's products. Cannabis manufacturing activity commenced in the Company's own facility in Long Beach, California upon this facility receiving a cannabis manufacturing license from the State of California, and the products continue to be distributed by third-party distributors.

B. U.S. Marijuana Issuers with Indirect Involvement in Cultivation or Distribution

As stated above, the Company had no direct involvement in the cultivation or distribution of cannabis or cannabis products. The Company had only been indirectly involved in commercial cannabis manufacturing through the Manufacturer's manufacturing of the Company's products.

III. U.S. Marijuana Issuers with Material Ancillary Involvement

The CDPHMCSB lists the Manufacturer as a temporary state license holder. On this basis, the Company is informed and believes that the Manufacturer "is in compliance with applicable licensing requirements and the regulatory framework enacted by [California]."

Note: The Company has obtained legal advice regarding compliance with applicable state regulatory frameworks and exposure and implication arising from US federal laws in the states where it conducts operations. As of November 30, 2020, the Company has not received any notices of violation, denial, or non-compliance from any US authorities.

IV. State-Level Overview

Currently, Tinley's US cannabis operations are limited to the State of California. The following sections present an overview of regulatory conditions for the marijuana industry in California.

California

In 1996, the State of California was the first state to legalize medical marijuana through Proposition 215, the Compassionate Use Act of 1996 ("CUA"). The City of Oakland in California was the first jurisdiction to license commercial cannabis activities in the US. This legalized the use, possession, and cultivation of medical marijuana by patients with a physician recommendation for treatment of cancer, anorexia, AIDS, chronic pain, spasticity, glaucoma, arthritis, migraine, or any other illness for which marijuana provides relief. However, there was no State licensing authority to oversee businesses that emerged.

In September of 2015, the California legislature passed three bills collectively known as the "Medical Cannabis Regulation and Safety Act" ("MCRSA"). The MCRSA establishes a licensing and regulatory framework for medical marijuana businesses in California. The system has multiple license types for dispensaries, infused products manufacturers, cultivation facilities, testing laboratories, transportation companies, and distributors. Edible infused product manufacturers will require either volatile solvent or non-volatile solvent manufacturing licenses depending on their specific extraction methodology. Multiple agencies will oversee different aspects of the program and businesses will require a State license and local approval to operate.

On November 8, 2016, California voted to approve the "Adult Use of Marijuana Act" ("AUMA") to tax and regulate for all adults 21 years of age and older. In 1996, California was the first US state to pass a medical marijuana law allowing for a not-for-profit patient/caregiver system, but there was no State licensing authority to oversee businesses that emerged.

On June 27, 2017, California State Legislature passed MAUCRSA, which amalgamates the MCRSA and AUMA frameworks to provide a set of regulations to govern medical and adult use licensing regime for cannabis businesses in the State of California.

On November 16, 2017, the State government introduced the emergency regulations, which shall be governed by the BCC, the CDPH and the CDFA, which provide further clarity on the regulatory framework that will govern cannabis businesses. The regulations build on the regulations provided by MCRSA and AUMA and also specify that the businesses will need to comply with the local law in order to also comply with the State regulations. On January 1,

2018, the new state regulations took effect as California moved to full adult-use state legalization for cannabis products.

On January 16, 2019, the Final BCC Regulations, Final CDPH Regulations and the "final" text of regulations for licensed cultivators (the "Final CDFA Regulations") were adopted. These final regulations made significant changes to the emergency State regulations and implement the statewide standards and licensing requirements for commercial cannabis licensees in California. While these regulations are entitled the "final" regulations, California legislators are considering approximately sixty cannabis related bills that would result in modifications to California Cannabis Law. Although it is unclear how many of these bills will pass, the California Cannabis Law will continue to evolve in 2019 and beyond.

To operate legally under state law, cannabis operators must obtain a state license and local approval. Local authorization is a prerequisite to obtaining state licensure, and local governments are permitted to prohibit or otherwise regulate the types and number of cannabis businesses allowed in their locality. The state license approval process is not competitive and there is no limit on the number of state licenses an entity may hold. Although vertical integration across multiple license types is allowed under MAUCRSA, testing laboratory licensees may not hold any other licenses aside from a laboratory license. There are also no residency requirements for ownership under MAUCRSA.

In California, two state leaders had issued statements signaling intent to defend the State's voter-approved law legalizing recreational marijuana, in response to the Sessions Memorandum. California Attorney General Xavier Becerra has stated publicly, "In California, we decided it was best to regulate, not criminalize, cannabis," "We intend to vigorously enforce our state's laws and protect our state's interests." The BCC's Chief Executive Lori Ajax also stated, "We'll continue to move forward with the state's regulatory processes covering both medicinal and adult-use cannabis consistent with the will of California's voters, while defending our state's laws to the fullest extent."

On May 29, 2018, federal and state authorities announced a joint effort to target illegal cannabis grows, with $2.5 million in federal money backing the effort. McGregor Scott, US Attorney for the Eastern District of California, said he will prioritize illegal cannabis rather than going after the legal recreational marijuana market even though US federal law bans marijuana. He stated, "The reality of the situation is there is so much black-market marijuana in California that we could use all of our resources going after just the black market and never get there," "So for right now, our priorities are to focus on what have been historically our federal law enforcement priorities: interstate trafficking, organized crime, and the federal public lands."

In March 2019, lawmakers in California had proposed State Senate Bill 51, which is designed to help cannabis businesses that have been shut out from the traditional banking system. Cannabis businesses has dealt predominantly in cash due to continued federal banking restrictions that make it nearly impossible for them to have bank accounts with federally chartered financial institutions. There had also been efforts underway at the federal level to pass legislation that would allow banks to serve cannabis-related businesses without the risk of being prosecuted. The proposed measure would allow private banks or credit unions to apply for a limited-purpose state charter so they can provide depository services to licensed cannabis businesses. California's legal marijuana industry is struggling to compete with the black market and is facing challenges that include banking access and high taxes.

In May 2019, Attorney General Becerra, along with 37 other state and territorial attorneys, had sent a letter to congressional leaders, urging them to enact the SAFE Banking Act or other legislation that would expand banking access for marijuana companies. To the knowledge of the Company's management, there have not been any additional statements or guidance made by federal authorities or prosecutors regarding the risk of enforcement action in California.

On August 6, 2019, the California DOJ released the "Guidelines for the Security and Non-Diversion of Cannabis Grown for Medicinal Use" to clarify the state's laws governing medicinal cannabis, specifically those related to the enforcement, transportation, and use of medicinal cannabis. The Guidelines come after significant changes in state law on recreational cannabis use. The revised guidelines include:

- A summary of applicable laws.

- Guidelines regarding individual qualified patients and primary caregivers.
- Best practices for the recommendation of cannabis for medical purposes.
- Enforcement guidelines for state and local law enforcement agencies; and
- Guidance regarding collectives and cooperatives.

On October 12, 2019, California Governor Gavin Newsom signed several cannabis-related bills that, among other things, are designed to bolster minority participation in the industry, ensure labor peace and institute a vaporizer cartridge labeling requirement, and including one that will let legal businesses take advantage of more tax deductions. He also vetoed another measure that would have allowed some patients to use medical cannabis in health care facilities. A summary of the cannabis bills enacted into law include:

- Senate Bill 595 requires the State to implement a program by January 1, 2021, that defers or waives license application and licensing or renewal fees for qualified "needs-based" applicants. This is a social equity provision to boost minority participation in the industry.
- Assembly Bill 1529 requires adding a universal symbol no smaller than a quarter inch-by-quarter inch on all cannabis vaporizer cartridges. The symbol must be engraved, affixed with a sticker, or printed in black or white.
- Assembly Bill 1291 strengthens an existing provision for marijuana businesses by requiring applicants with 20 or more employees to provide a notarized statement that they will enter into and abide by the terms of a labor peace agreement.
- Assembly Bill 858 clarifies some requirements for "specialty cottage" growers with a maximum 2,500 sq. ft. of canopy.
- Senate Bill 34 allows marijuana retailers to provide free products to medical patients that meet certain criteria. Such was a common industry practice until new regulations went into effect in 2018.

Governor Newsom also signed a bill, Assembly Bill 37, that allows cannabis business owners to deduct business expenses at the state level, something that remains illegal federally.

On January 10, 2020, Governor Newsom also unveiled his annual budget proposal which contains several provisions aimed at simplifying and streamlining regulations for the marijuana industry. The biggest proposed change concerns the State's cannabis licensing system, which would consolidate into The Department of Cannabis Control, rather than the three that are currently in charge of approving marijuana businesses. "Establishment of a standalone department with an enforcement arm will centralize and align critical areas to build a successful legal cannabis market, by creating a single point of contact for cannabis licensees and local governments," the administration said in a summary. The proposals are not yet final, and the administration is scheduled to post changes in May 2020, with the final budget expected to be enacted in the summer of 2020. The proposals, however, are unlikely to be enforced until 2021 at the earliest.

In response to the rapid spread of COVID-19, on March 19, 2020, Governor Newsom issued Executive Order N-33-20 directing all residents immediately to stay home and remain sheltered, except as needed to maintain continuity of operations of essential critical infrastructure sectors and additional sectors as the State Public Health Officer (the "SPHO") may designate as critical to protect the health and well-being of all Californians. In accordance with this order, the SPHO designated a list of Essential Critical Infrastructure Workers to help state, local, tribal, and industry partners as they work to protect communities, while ensuring continuity of functions critical to public health and safety, as well as economic and national security. Cannabis workers were included in this essential designation list under the Healthcare/Public Health and Food and Agriculture Sectors. In addition, cannabis operations were also deemed essential and encouraged to remain open under the various shelter-in-place orders issued by local county health officers as well.

On April 21, 2020, the Governor's Office of Business and Economic Development, in partnership with the BCC, announced $30 million in grant funding through the Cannabis Equity Grants Program for Local Jurisdictions, which focuses on the inclusion and support of individuals in California's legal cannabis marketplace who are from

communities negatively or disproportionately impacted by cannabis criminalization. This is done through small business support services like technical assistance to individuals, reduced licensing fees or waived fees, assistance in recruitment, training, and retention of a qualified and diverse workforce, and business resilience such as emergency preparedness. At least $23 million of the funding, in the form of low/no-interest loans or grants, will be directly allocated to applicants and licensees specifically identified by local jurisdictions as being from communities most harmed by cannabis prohibition. To date, jurisdictions seeking to create this inclusive regulatory framework represent roughly a quarter of the state's population.

On July 20, 2020, a petition was filed with the US District Court for the Southern District of California stating that the Federal Drug Enforcement Agency (the "DEA") delivered a subpoena to the BCC in January of 2020 seeking "unredacted cannabis license(s), unredacted cannabis license application(s), and unredacted shipping manifest(s)" for six different unnamed entities in connection with an ongoing DEA investigation. The BCC declined to comply with the DEA's initial subpoena by claiming that it lacked specificity and would risk violating certain state privacy laws. The BCC attempted to remain firm in its position, but ultimately on August 31, 2020, the federal court ruled that the BCC was required to comply with the DEA's subpoena. Based on publicly available information, the DEA's intent behind the subpoena is focused strictly on potential black-market activity between California and Mexico.

To the knowledge of the Company's management, there have not been any additional statements or guidance made by US federal authorities or prosecutors regarding the risk of enforcement action in California.

As set forth above, the Manufacturer has represented to Tinley that its business is and has been being conducted in compliance with the regulatory framework enacted by the State of California. California has implemented a robust regulatory system designed to ensure, monitor, and enforce compliance with all aspects of a cannabis operator's licensed operations. Compliance with local law is a prerequisite to obtaining and maintaining state licensure, and all three state regulatory agencies require confirmation from the locality that the operator is operating in compliance with local requirements and was granted authorization to continue or commence commercial cannabis operations within the locality's jurisdiction. With manufacturing now taking place in the Company's facility in Long Beach, the Company has implemented robust systems to ensure, monitor and enforce compliance of personnel that enter and engage in cannabis manufacturing activity in this facility.

Below is an overview of some (cultivation licenses excluded) of the principal license types (each license type can be an "A" for adult-use only, or an "M" medical only):

- Type 6: authorized to manufacture cannabis products using mechanical or non-volatile solvent extractions.
- Type 7: authorized to manufacture cannabis products using volatile solvent extractions.
- Type N: authorized to manufacture cannabis products (other than extracts or concentrates) using infusion processes - but does not conduct extractions.
- Type P: authorized to only package or repackage cannabis products or relabel the cannabis product container.
- Type S: authorized to conduct manufacturing activities in accordance with certain "shared-use" regulations at a registered shared-use facility.
- Type 8: authorized to test the chemical composition of cannabis and cannabis products.
- Type 9: authorized to conduct retail cannabis sales exclusively by delivery.
- Type 10: authorized to sell cannabis goods to customers.
- Type 11: authorized to transport and store cannabis goods purchased from other licensed entities, and sell them to licensed retailers, and is responsible for laboratory testing and quality assurance to ensure packaging and labeling compliance.
- Type 13: authorized to transport cannabis goods between licensed cultivators, manufacturers, and distributors.

A. Zoning and Land Use Requirements

Commercial cannabis license applicants are required to comply with all local zoning and land use requirements and provide written authorization from the property owner where the commercial cannabis operations are proposed to take place, which must dictate that the applicant has the property owner's authorization to engage in the specific state-sanctioned commercial cannabis activities proposed to occur on the premises.

B. Record-Keeping and Continuous Reporting Requirements

California's state license application process additionally requires comprehensive criminal history, regulatory history, financial and personal disclosures, coupled with stringent monitoring and continuous reporting requirements designed to ensure only good actors are granted licenses and that licensees continue to operate in compliance with the State regulatory program.

C. Operating Procedure Requirements

Commercial cannabis license applicants must submit standard operating procedures describing how the operator will, among other requirements, secure the facility, manage inventory, transport cannabis, comply with the State's seed-to-sale tracking requirements, dispense and/or delivery cannabis, and handle waste, as applicable to the license sought. Once the standard operating procedures are determined compliant and approved by the applicable state regulatory agency, the licensee is required to abide by the processes described and seek regulatory agency approval before any changes to such procedures may be made. Licensees are additionally required to train their employees on compliant operations and are only permitted to transact with other legal and licensed businesses.

D. Site-Visits & Inspections

Any licensee manufacturing or transporting Tinley-branded products will not be able to obtain or maintain state licensure, and thus engage in commercial cannabis activities in the State of California without satisfying and maintaining compliance with state and local law. As a condition of state licensure, operators must consent to random and unannounced inspections of the commercial cannabis facility as well as all of the facility's books and records to monitor and enforce compliance with state law. Many localities have also enacted similar standards for inspections, and the state has already commenced site-visits and compliance inspections for operators who have received state temporary or annual licensure.

The following represents the portion of certain assets on the Company's unaudited condensed interim consolidated statements of financial position that pertain to US cannabis activity as of September 30, 2020:

Statement of Financial Position Items	Percentage (%) which related to holdings with US marijuana-related activities
Cash	23%
Accounts receivable	40%
Inventories	100%
Prepaid expenses	94%
Capital assets	100%
Right-of-use assets	100%
Long-term security deposits	100%

Tinley has looked at all its holdings that are based in the US and given that none of these holdings have any Canadian operating activity, Tinley's full investment in such entities was included in its assets. Readers are cautioned that the foregoing financial information, though extracted from the Tinley's financial systems that support its unaudited condensed interim consolidated financial statements, has not been audited in its presentation format and accordingly is not in compliance with IFRS based on consolidation principles.

4. Overall Performance

Selected Annual Information

The Company's selected annual financial information as at and for the three most recently completed financial years ended December 31 are summarized as follows:

	2019	2018	2017
	$	$	$
Sales	85,128	36,597	31,095
Operating loss	(7,401,583)	(3,701,121)	(2,221,354)
Net loss	(7,392,122)	(3,660,906)	(2,204,607)
Loss per share – basic and diluted	(0.075)	(0.042)	(0.030)
Total assets	13,901,946	6,812,613	4,874,773
Total liabilities	3,348,396	299,499	254,617
Total shareholders' equity	10,553,550	6,513,114	4,620,156

Selected Quarterly Financial Results

The Company's selected financial information for the eight most recently completed quarters are as follows:

	Q3 2020	Q2 2020	Q1 2020	Q4 2019
	$	$	$	$
Sales	34,628	34,747	173,665	62,463
Operating loss	(2,453,747)	(1,139,430)	(1,906,514)	(1,881,633)
Net loss	(2,446,443)	(1,111,235)	(1,961,470)	(1,887,309)
Loss per share – basic and diluted	(0.020)	(0.018)	(0.018)	(0.019)
Working capital	1,355,577	2,282,030	1,736,731	3,007,551

	Q3 2019	Q2 2019	Q1 2019	Q4 2018
	$	$	$	$
Sales	21,664	769	232	(33,063)
Operating loss	(1,869,642)	(1,923,430)	(1,726,878)	(826,889)
Net loss	(1,858,000)	(1,922,323)	(1,724,490)	(815,339)
Loss per share – basic and diluted	(0.018)	(0.018)	(0.020)	(0.010)
Working capital	4,219,021	7,187,317	3,254,714	4,378,460

Three Months ended September 30, 2020 [1]

Results of operations

During the three months ended September 30, 2020 ("Q3 2020"), the Company generated sales of $34,628, as compared to sales of $21,664 for the three months ended September 30, 2019 ("Q3 2019"). Sales in the current quarter were primarily from Tinley's infused beverage products, despite inventory challenges.

Beckett's newly launched non-infused beverage products were primarily sold in previous quarters, in large part due to the closure of the BevMo! stores, Tinley's only chain retailer, and the suspension of launches in other chain stores due to COVID-19. New production in Q3 2020 is therefore expected to materialize ongoing sales of Beckett's non-infused beverages in Q4 2020.

[1] For comparative purposes, certain prior period balances have been reclassified in order to conform to the current presentation. There has been no change to prior period losses or adjustment to deficit as a result of these reclassifications. Namely the balances for depreciation of property and equipment expenses and the depreciation on right-of-use of assets have been reclassified out of the general and administrative costs and are now classified as a stand-alone items on the statements of loss and comprehensive loss.

During Q3 2020, the Company had total operating expenses of $2,387,952, as compared to $1,817,181 in Q3 2019. The comparative increase in operating expenses is from increases general and administrative costs ("G&A"; see detailed breakdown below) that included increases in payroll pertaining to hires related to Long Beach bottling operations, for the next generation of infused products and non-infused production efficiency needed for sale at an expanded number of retailers. Production and product expansion also drive an increase in administrative and professional fees to support compliance and buildout costs. These G&A costs were offset by a decrease in occupancy costs from the closure of the Phase 2 production facility in anticipation of the move into the Phase 3 facility in Long Beach and a decrease in travel.

Other operating expense variances from non-cash items include a large increase foreign exchange loss $388,909 in Q3 2020 (Q3 2019 – foreign exchange gain of $65,127), increase in depreciation of property and equipment $259,555 in Q3 2020 (Q3 2019 – $175,638), as well as decreases in depreciation of right-of-use ("ROU") assets $159,991 (Q3 2019 – $162,148) and share-based payments expense $236,607 in Q3 2020 (Q3 2019 – $328,123) related to vesting of stock options.

The Company incurred product development expense of $219,647 (Q3 2019 – $81,538), as the Company continues to test and formulate new flavours and beverage options for the consumer market as well as work to commission its Phase 3 Long Beach facility.

The Company incurred sales and marketing expenses of $141,944 (Q3 2019 – $191,868), as the Company continues to market its Tinley beverage products across several mediums and as well as introducing its Beckett's Tonics to the traditional beverage market. Operating costs also included certain sales and marketing efforts to support the Company's transition to more scaled operations.

In summary, during Q3 2020, the Company incurred total G&A expenses of $981,299 (Q3 2019 – $942,993), comprised primarily of:

- General office expenses of $348,035 (Q3 2019 – $243,442).
- Professional fees of $226,320 (Q3 2019 – $110,131).
- Payroll and salaries of $220,067 (Q3 2019 – $166,897).
- Consulting and management fees of $92,912 (Q3 2019 – $118,478).
- Interest on lease obligations of $60,653 (Q3 2019 – $89,887).
- Occupancy costs of $25,607 (Q3 2019 – $158,650); and
- Travel and promotional expenses of $7,705 (Q3 2019 – $55,508).

Net loss for the three months ended September 30, 2020 was $2,446,443 ($0.020 per share on a basic and diluted basis), as compared to a net loss of $1,858,000 ($0.018 per share on a basic and diluted basis) for Q3 2019.

Cash flows

Net cash flows used in operating activities for Q3 2020 was $1,420,316, as compared to net cash flows used in operations of $1,519,140 in Q3 2019. The lower net cash used in operations is due to an increase in net loss for the period offset in part, by increases in other non-cash items including depreciation on property and equipment and ROU assets and unrealized foreign exchange loss. As noted above, the net loss operations was primarily the result of certain decreased G&A costs with the completion of the Long Beach facility and scaling of efforts in all areas as well as increase in product development related new products and commissioning of the Long Beach facility.

Net cash flows provided by financing activities in Q3 2020 was $737,421 (Q3 2019 – net cash flows used in financing activities of $218,078), which consisted of total proceeds of $1,040,000 from the August 31 2020 Private Placement Offering. In connection to the financing, cash commissions and finders' fees of $77,200 were paid to the Agents. The cash inflows were primarily offset by lease payments made on the Long Beach facility. In Q3 2019, there were no funds raised through private placement activities, while $218,078 was spent on lease payments on the Long Beach facility.

Net cash flows provided by investing activities for Q3 2020 was $5,121 (Q3 2019 – net cash flows used in investing activities of $2,888,690) primarily from proceeds from redemptions of some of the Company's fixed-income securities for $299,970, which was offset by additions of $294,849 on equipment and leasehold improvements at the Long Beach facility, required for operations and retrofitting of the Long Beach facility.

Nine Months ended September 30, 2020 [2]

Results of operations

During the nine months ended September 30, 2020, the Company generated sales of $243,040, as compared to sales of $22,665 for the nine months ended September 30, 2019. The substantial increase in sales in the current period is a direct result of increased sales of both Tinley's infused beverage products and Beckett's newly launched non-infused beverage products.

During the nine months ended September 30, 2020, the Company incurred total operating expenses of $5,492,445, as compared to $5,462,072 in the comparative period in 2019. The increase in operating expenses in the nine months ended September 30, 2020 is primarily due to increases in sales and marketing $575,713 as compared to $568,317 in the comparative period in 2019, depreciation of property and equipment $763,210 in 2020 (2019 – $182,409) was recorded as a result of the first full year of use at the Phase 3 facility, depreciation of ROU assets $487,899 in 2020 (2019 – $472,137) and product development $300,825 in 2020 (2019 – $149,933) related to the development of new products and flavors, as well as commissioning of the Phase 3 Long Beach facility. The increase was offset in parts by a decrease in G&A costs $2,503,585 in 2020 (2019 – $2,557,153), as well as decreases in share-based payments $915,785 in 2020 (2019 – $1,171,256) and foreign exchange gain $54,572 in 2020 (2019 – foreign exchange loss of $360,867).

During the nine months ended September 30, 2020, the Company incurred total G&A expenses of $2,503,585 (2019 – $2,557,153), comprised primarily of:

- General office expenses of $718,392 (2019 – $592,975).
- Payroll and salaries of $633,354 (2019 – $445,883).
- Professional fees of $408,977 (2019 – $348,212).
- Consulting and management fees of $315,842 (2019 – $320,740).
- Interest on lease obligations of $197,154 (2019 – $260,436).
- Occupancy costs of $186,130 (2019 – $427,792); and
- Travel and promotional expenses of $43,736 (2019 – $161,115).

Net loss for the nine months ended September 30, 2020 was $5,519,148 ($0.050 per share on a basic and diluted basis), as compared to a net loss of $5,504,813 ($0.055 per share on a basic and diluted basis) for the comparative period in 2019.

Cash flows

Net cash flows used in operating activities for the nine months ended September 30, 2020 was $2,835,402 (2019 – $3,851,309). The lower net cash used in operations is due primarily to decrease in inventory in 2020 of $6,775 (2019 – $385,528), as well as a gain in unrealized foreign exchange in 2020 of $54,572 (2019 – foreign exchange loss of $360,867). In addition, there was a large increase in accounts payable of $285,453 (2019 – $64,331) as a result of some unpaid contracting costs for the Phase 3 facility that are in the process of a negotiated resolution on amounts outstanding. The Company also has $59,696 in unearned revenue (2019 – $nil) for prepaid sales. The net loss from operations in 2020 was primarily the result of costs at the Long Beach facility and the scaling of operations and staff, and related sales and growth initiatives consistent with the Company's strategy to launch and move forward with its Tinley's product line of cannabis-infused drinks and Beckett's Tonics products.

[2] For comparative purposes, certain prior period balances have been reclassified in order to conform to the current presentation. There has been no change to prior period losses or adjustment to deficit as a result of these reclassifications. Namely the balances for depreciation of property and equipment expenses and the depreciation on right-of-use of assets have been reclassified out of the general and administrative costs and are now classified as a stand-alone items on the statements of loss and comprehensive loss.

Net cash flows provided by financing activities for the nine months ended September 30, 2020 was $2,013,437 (2019 – $7,965,140), which consisted of total funds raised $2,890,000 from the June 30, 2020 and August 31, 2020 Private Placement Offerings. In connection to the Private Placement Offerings, cash commissions and finders' fees of $214,376 were paid. The cash inflows were partially offset by lease payments on the Long Beach facility of $662,187. In the comparative period in 2019, the Company raised total funds of $9,166,263 from two tranches from a non-brokered private placement financing. In connection to the financing, cash commissions and finders' fees of $569,072 were paid in connection to the financings. The inflow of funds was partially offset by lease payments of $632,051 on the Long Beach facility.

Net cash flows provided by investing activities for the nine months ended September 30, 2020 was $258,998 (2019 – net cash flows used of $5,439,438) primarily from proceeds from redemptions of some of the Company's fixed-income securities for $599,970, which was offset by additions of leasehold improvements at the Long Beach facility, required for operations and retrofitting of the Long Beach facility.

Working Capital and Liquidity Outlook

As at September 30, 2020, the Company had a working capital of $1,355,577, as compared to working capital of $3,007,551 as at December 31, 2019.

As at September 30, 2020, the Company had total accessible cash and liquid investment assets of $2,348,384 (December 31, 2019 – $3,613,297) available for working capital and other operational purposes, comprised of $1,971,153 in cash and cash equivalents (December 31, 2019 – $2,614,342) and short-term investments in fixed-income securities valued at $377,231 (December 31, 2019 – $998,955).

All of the Company's current financial liabilities have contractual maturities of less than 365 days and are subject to normal trade terms. Management believes there is sufficient capital in order to meet short-term business obligations, after taking into account cash flows requirements from operations and the Company's cash position as at period-end.

5. 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:

	2020	2019
	$	$
Short-term employee benefits, including salaries and consulting fees	**647,401**	535,642
Share-based compensation	**661,233**	797,218
	1,308,634	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.

(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).

6. Financial Risk Management

Fair value

The carrying amount of cash, short-term investments, trade receivables, trade and other payables and lease payable on the Company's 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:

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

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:

	September 30, 2020	December 31, 2019
	$	$
Cash	**341,506**	220,942
Trade receivables	**11,148**	17,804
Trade and other payables	**(649,932)**	(522,246)
Net exposure to USD	**(297,278)**	(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.

7. Capital Management

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

The Board of Directors (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 the nine months ended September 30, 2020.

8. Summary of Significant Accounting Policies

The accounting policies applied in the Company's unaudited condensed interim consolidated financial statements are the same as those noted by the Company in its audited consolidated financial statements for the year ended December 31, 2019. For a summary of significant accounting policies applied by the Company, please refer to Note 3 of Tinley's audited financial statements for the year ended December 31, 2019.

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.

Disclosure of Outstanding Share Data on November 30, 2020

	Authorized	**Outstanding**
Voting or equity securities issued and outstanding	Unlimited Common Shares	119,619,441 Common Shares
Securities convertible or exercisable into voting or equity shares		Stock Options to acquire up to 9,730,000 Common Shares of the Company, and Warrants to acquire up to 21,618,878 Common Shares of the Company.

Off-Balance Sheet Arrangements

As at September 30, 2020 and the date of this MD&A, the Company does not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on the results of operations or financial condition of the Company.

Contingencies

Although the possession, cultivation, and distribution of cannabis for recreational and medical use is permitted in 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.

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.

On November 30, 2020, the Company announced that its products are now available to order for home delivery in all major markets in California through the renowned High Times web site. Founded in 1974, High Times is one of the world's most recognized cannabis brands. Its parent company, Hightimes Holdings Co., publishes the acclaimed High Times Magazine, owns a network of dispensaries in California, and operates the High Times Cannabis Cup competitions across the US, Canada and internationally. The Company has leveraged its universally known brand to build one of California's most robust, statewide home delivery networks. The High Times Distribution team brings years of experience providing high quality cannabis delivery to California, and have a deep knowledge of customers' interests. The new delivery service will bring the best assortment of quality cannabis products to consumers' doorsteps in a safe and fast manner, with exceptional value. Tinley's products are available for express and scheduled delivery services.

On November 30, 2020, the Company also announced that it has entered into an agreement with Peak Processing Solutions, a Canadian subsidiary of Australian pharmaceutical company Althea Group Holdings Limited (ASX:AGH) ("Peak" and "Althea" respectively), to produce Tinley's '27 products in Canada. Tinley's '27 is the second family of cannabis-infused products that Tinley's has contracted to launch in Canada, the other being the single-serve ready-to-drink sparkling elixirs now made in California as Tinley's Tonics. Peak's equipment is uniquely configured to produce and pack in the 150 mL bottle format that Tinley's will use for the Tinley's '27 drinks in Canada. The discrete, convenient container size permits easy use and mixing at home or at private functions with friends and colleagues. Under the Agreement, Peak holds exclusivity for the manufacture and distribution of these three Tinley's products in Canada until Tinley's meets certain minimum orders.

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.

9. Risk Factors

The Company faces exposure to risk factors and uncertainties relating to its business that could significantly negatively impact the Company's operations and financial results. Additional risks and uncertainties not presently known to the Company or currently deemed immaterial by the Company may also impair the Company's operations. If any such risks actually occur, shareholders of the Company could lose all or part of their investment and the business, financial condition, liquidity, results of operations and prospects of the Company could also be materially adversely affected and the ability of the Company to implement its growth plans could be adversely affected. The following is a summary of significant business risk factors related to the business of the Company:

US federal laws pertaining to cannabis

Cannabis is illegal under US federal laws and enforcement of relevant laws is a significant risk. The business operations of the Company are dependent on state laws pertaining to the marijuana industry. Continued development of the marijuana industry is dependent upon continued legislative authorization of marijuana at the state level. Any number of factors could slow or halt progress in this area. Further, progress, while encouraging, is not assured. While

there may be ample public support for legislative action, numerous factors impact the legislative process. Any one of these factors could slow or halt legal manufacturer and sale of marijuana, which would negatively impact the business of the Company.

The concepts of "medical marijuana" and "retail marijuana" do not exist under US federal law. The FCSA classifies "marijuana" as a Schedule I drug. Under US federal law, a Schedule I drug or substance has a high potential for abuse, no accepted medical use in the US, and a lack of safety for the use of the drug under medical supervision. As such, marijuana-related practices, or activities, including without limitation, the manufacture, importation, possession, use or distribution of marijuana are illegal under US federal law. Strict compliance with state laws with respect to marijuana will neither absolve the Company of liability under US federal law, nor will it provide a defense to any federal proceeding which may be brought against the Company.

Violations of any US federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from civil proceedings conducted by either the US federal government or private citizens, or criminal charges, including, but not limited to, disgorgement of profits, cessation of business activities or divestiture. This could have a material adverse effect, and as a result the Company, including their reputation and ability to conduct business, their holdings (directly or indirectly) of medical cannabis licenses in the US, and the listing of their securities on various stock exchanges, their financial position, operating results, profitability or liquidity or the market price of their publicly-traded shares. In addition, it is difficult for the Company to estimate the time or resources that would be needed for the investigation of any such matters or its final resolution because, in part, the time and resources that may be needed are dependent on the nature and extent of any information requested by the applicable authorities involved, and such time or resources could be substantial.

As of the date of this MD&A, 36 states, plus the District of Columbia, Puerto Rico and Guam allow their residents to use medical marijuana. Voters in the States of Alaska, Arizona, California, Colorado, Illinois, Maine, Massachusetts, Michigan, Montana, Nevada, New Jersey, Oregon, South Dakota, Vermont, and Washington have approved and have implemented or are implementing regulations to legalize cannabis for adult use. The state laws are in conflict with the FCSA, which makes marijuana use and possession illegal on a national level. The Obama administration had previously made numerous statements indicating that it is not an efficient use of resources to direct federal law enforcement agencies to prosecute those lawfully abiding by state-designated laws allowing the use and distribution of medical marijuana. However, there is no guarantee that the Trump administration will not change the government's stated policy regarding the low-priority enforcement of federal laws and decide to enforce the federal laws to the fullest extent possible. Any such change in the federal government's enforcement of current federal laws could cause significant financial damage to the Company and its stockholders, including the potential exposure to criminal liability.

The constant evolution of laws and regulations affecting the marijuana industry could detrimentally affect the Company's operations. Local, state, and federal medical marijuana laws and regulations are broad in scope and subject to changing interpretations. These changes may require the Company to incur substantial costs associated with legal and compliance fees and ultimately require the Company to alter its business plan. Furthermore, violations of these laws, or alleged violations, could disrupt the business of the Company and result in a material adverse effect on operations. In addition, the Company cannot predict the nature of any future laws, regulations, interpretations, or applications, and it is possible that regulations may be enacted in the future that will be directly applicable to the business of the Company.

Regulation

The activities of the Company are subject to regulation by governmental authorities. Achievement of the Company's business objectives are contingent, in part, upon compliance with regulatory requirements enacted by these governmental authorities and obtaining all regulatory approvals, where necessary, for the sale of its products. The Company cannot predict the time required to secure all appropriate regulatory approvals for its products, or the extent of testing and documentation that may be required by governmental authorities. Any delays in obtaining, or failure to obtain regulatory approvals would significantly delay the development of markets and products and could have a material adverse effect on the business, results of operations and financial condition of the Company.

The Company's operations are subject to a variety of laws, regulations and guidelines relating to the manufacture, management, transportation, storage and disposal of marijuana but also including laws and regulations relating to health and safety, the conduct of operations and the protection of the environment. The Company cannot predict the nature of any future laws, regulations, interpretations, policies, or applications, nor can it determine what effect additional governmental regulations or administrative interpretations or procedures, when and if promulgated, could have on the Company's operations. Changes to such laws, regulations, and guidelines due to matters beyond the control of the Company may cause adverse effects to the production of the Tinley branded products.

Local, state, and federal laws and regulations governing marijuana for medicinal and adult use purposes are broad in scope and are subject to evolving interpretations, which could require the Company to incur substantial costs associated with bringing the Company's operations into compliance. In addition, violations of these laws, or allegations of such violations, could disrupt the Company's operations and result in a material adverse effect on its financial performance. It is beyond the Company's scope to predict the nature of any future change to the existing laws, regulations, policies, interpretations or applications, nor can the Company determine what effect such changes, when and if promulgated, could have on the Company's business.

Local regulation could change and negatively impact on the Company's operations

Most US states that permit cannabis for adult-use or medical use provide local municipalities with the authority to prevent the establishment of medical or adult-use cannabis businesses in their jurisdictions. If local municipalities where the Company or its Licensed Operators have established facilities decide to prohibit cannabis businesses from operating, the Company or its Licensed Operators could be forced to relocate operations at great cost to the Company, and the Company or its Licensed Operators may have to cease operations in such State entirely if alternative facilities cannot be secured.

Limited operating history in its new area of business

The Company has a limited operating history in its new area of business, is in the early-stage development and must be considered as a start-up company. As such, the Company is subject to many risks common to such enterprises, including under-capitalization, cash shortages, limitations with respect to personnel, financial and other resources, and lack of revenue. There is no assurance that the Company will be successful in achieving a return on shareholders' investment and the likelihood of success must be considered in light of its early stage of operations. The Company also has no history of earnings.

Because the Company has a limited operating history in emerging area of business, investors should consider and evaluate its operating prospects in light of the risks and uncertainties frequently encountered by early-stage companies in rapidly evolving markets. These risks may include:

- risks that it may not have sufficient capital to achieve its growth strategy.
- risks that it may not develop its product and service offerings in a manner that enables it to be profitable and meet its customers' requirements.
- risks that its growth strategy may not be successful.
- risks that fluctuations in its operating results will be significant relative to its revenues; and
- risks relating to an evolving regulatory regime.

The Company's future growth will depend substantially on its ability to address these and the other risks described in this section. If it does not successfully address these risks, its business may be significantly harmed.

Additional financing

The Company believes that its raised capital is sufficient to meet its presently anticipated working capital and capital expenditure requirements for the near future. This belief is based on its operating plan which, in turn, is based on assumptions, which may prove to be incorrect. In addition, the Company may need to raise significant additional funds sooner to support its growth, develop new or enhanced services and products, respond to competitive pressures, acquire or invest in complementary or competitive businesses or technologies, or take advantage of unanticipated

opportunities. If its financial resources are insufficient, it will require additional financing to meet its plans for expansion. The Company cannot be sure that this additional financing, if needed, will be available on acceptable terms or at all. Furthermore, any debt financing, if available, may involve restrictive covenants, which may limit its operating flexibility with respect to business matters. If additional funds are raised through the issuance of equity securities, the percentage ownership of existing shareholders will be reduced, such shareholders may experience additional dilution in net book value, and such equity securities may have rights, preferences or privileges senior to those of its existing shareholders. If adequate funds are not available on acceptable terms or at all, the Company may be unable to develop or enhance its services and products, take advantage of future opportunities, repay debt obligations as they become due, or respond to competitive pressures, any of which could have a material adverse effect on its business, prospects, financial condition, and results of operations.

Volatile global financial and economic conditions

Current global financial and economic conditions remain extremely volatile. Access to public and private capital and financing continues to be negatively impacted by many factors as a result of the global financial crisis and global recession. Such factors may impact the Company's ability to obtain financing in the future on favorable terms or obtain any financing at all. Additionally, global economic conditions may cause a long-term decrease in asset values. If such global volatility, market turmoil and the global recession continue, the Company's operations and financial condition could be adversely impacted.

Reliance on third-party suppliers, manufacturers, distributors and contractors

Due to the uncertain regulatory landscape for regulating cannabis in Canada and the US, Tinley's third-party suppliers, manufacturers, distributors, and contractors may elect, at any time, to decline or withdraw services necessary for Tinley's operations. Loss of these suppliers, manufacturers, distributors, and contractors may have a material adverse effect on the Company's business and operational results.

Reliance on securing agreements with Licensed Producers

The regulatory framework in most states restricts the Company from obtaining a License to grow and carry out other specific forms of cannabis activities. As such, the Company relies on securing agreements with Licensed Producers in the targeted jurisdictions that have been able to obtain a License with the appropriate regulatory authorities. Failure of a Licensed Producer to comply with the requirements of their License or any failure to maintain their License would have a material adverse impact on the business, financial condition, and operating results of the Company. Should the regulatory authorities not grant a License or grant a License on different terms unfavorable to the Licensed Operators, and should the Company be unable to secure alternative Licensed Operators, the business, financial condition and results of the operation of the Company would be materially adversely affected.

If the US federal government changes its approach to the enforcement of laws relating to marijuana, the Company would need to seek to replace those tenants with non-marijuana tenants, who would likely pay lower rents. It is likely that the Company would realize an economic loss on its capital acquisitions and improvements made to its capital assets specific to the marijuana industry, and the Company would likely lose all or substantially all of its investments in the markets affected by such regulatory changes.

The Company has advanced, and may continue to advance, significant funds to potential sellers in the form of promissory notes, which the Company may not be able to collect if the sellers fails to profitably operate its business. There is no assurance that any or all of the amounts loaned will be recovered by the Company.

There are risks associated with removal of US Federal Budget Rider Protections

The US Congress has passed appropriations bills each of the last three years that included the Rohrabacher Amendment Title: H.R.2578 — Commerce, Justice, Science, and Related Agencies Appropriations Act, 2016 ("Rohrabacher-Blumenauer Amendment"), which by its terms does not appropriate any federal funds to the DOJ for the prosecution of medical cannabis offenses of individuals who are in compliance with state medical cannabis laws. Subsequent to the issuance of the Sessions Memorandum on January 4, 2018, the US Congress passed its omnibus appropriations bill, SJ 1662, which for the fourth consecutive year contained the Rohrabacher-Blumenauer

Amendment language (referred to in 2018 as the "Rohrabacher-Leahy Amendment") and continued the protections for the medical cannabis marketplace and its lawful participants from interference by the DOJ up and through the 2018 appropriations deadline of December 31, 2018. These protections were subsequently extended through December 7, 2018 as part of a short-term continuation of appropriations. Following the much-publicized shutdown of the US Federal Government, the Consolidated Appropriations Act of 2019 was signed into law on February 15, 2019 with the Joyce Amendment intact (Section 538).

On June 20, 2019, the House voted 267 in favor of, and 165 against, approving a broader amendment that in addition to protecting state medical cannabis programs also protected recreational use. On September 26, 2019, the Senate Appropriations Committee declined to take up the broader amendment but did approve the Rohrabacher–Farr Amendment for the 2020 fiscal year spending bill. On September 27, 2019, the Rohrabacher–Farr Amendment was renewed as part of a stopgap spending bill, in effect through November 21, 2019.

On December 20, 2019, the amendment was renewed through the signing of the "Fiscal Year 2020 spending legislation", effective through to September 30, 2020. President Trump added a signing statement regarding the amendment similar to the ones he added in May 2017 and February 2019. In July 2020, a House subcommittee introduced a base appropriations bill with the amendment included. On October 1, 2020, the amendment was renewed through the signing of a stopgap spending bill, effective through December 11, 2020.

US courts have construed these appropriations bills to prevent the federal government from prosecuting individuals when those individuals comply with applicable state law. However, because this conduct continues to violate US federal law, US courts have observed that should Congress at any time choose to appropriate funds to fully prosecute the FCSA, any individual or business – even those that have fully complied with applicable State law – could be prosecuted for violations of US federal law. If Congress restores funding, the US federal government will have the authority to prosecute individuals for violations of the law before it lacked funding under the FCSA's five-year statute of limitations.

Regulation that may hinder the Company's ability to establish and maintain bank accounts

On September 26, 2019, the 116 US Congress passed H.R. 1595 – SAFE Banking Act of 2019, the first time in history that either chamber has approved a standalone cannabis reform bill. This bill generally prohibits a federal banking regulator from penalizing a depository institution for providing banking services to a legitimate marijuana-related business. Specifically, the bill prohibits a federal banking regulator from (i) terminating or limiting the deposit insurance or share insurance of a depository institution solely because the institution provides financial services to a legitimate marijuana-related business; (ii) prohibiting or otherwise discouraging a depository institution from offering financial services to such a business; (iii) recommending, incentivizing, or encouraging a depository institution not to offer financial services to an account holder solely because the account holder is affiliated with such a business; (iv) taking any adverse or corrective supervisory action on a loan made to a person solely because the person either owns such a business or owns real estate or equipment leased or sold to such a business; or (v) penalizing a depository institution for engaging in a financial service for such a business.

As specified by the bill, a depository institution or a Federal Reserve bank shall not, under federal law, be liable or subject to forfeiture for providing a loan or other financial services to a legitimate marijuana-related business.

The Government Accountability Office must report on (i) access to financial services for minority-owned and women-owned marijuana-related businesses; and (ii) the effectiveness of suspicious-transaction reports at finding engagement with organized criminal activity in jurisdictions that allow the cultivation, sale, or distribution of marijuana. The bill was received in the Senate on September 26, 2019 and has been referred to the Committee on Banking, Housing, and Urban Affairs.

Notwithstanding that a majority of states have legalized medical marijuana, and the US Congress's passage of SAFE, there has been no change in US federal banking laws related to the deposit and holding of funds derived from activities related to the marijuana industry. Given that US federal law provides that the production and possession of cannabis is illegal under the FCSA, there is a strong argument that banks cannot accept for deposit funds from businesses

involved with the marijuana industry. To date, fewer than 800 banks and credit unions in the US offer financial services to the cannabis industry. Consequently, businesses involved in the marijuana industry often have difficulty accessing the US banking system and traditional financing sources. The inability to open bank accounts with certain institutions may make it difficult to operate the businesses of the clients and leaves their cash holdings vulnerable.

The US federal prohibitions on the sale of marijuana may result in Licensed Operators being restricted from accessing the US banking system and they may be unable to deposit funds in federally insured and licensed banking institutions. While the Company does not anticipate dealing with banking restrictions directly relating to its business, banking restrictions could nevertheless be imposed due to the Company's banking institutions not accepting payments from Licensed Operators. Licensed Operators at times do not have deposit services and are at risk that any bank accounts they have could be closed at any time. Such risks increase costs to the Company and Licensed Operators. Additionally, similar risks are associated with large amounts of cash at these businesses. These businesses require heavy security with respect to holding and transport of cash, whether or not they have bank accounts.

In the event that financial service providers do not accept accounts or transactions related to the marijuana industry, it is possible that Licensed Operators may seek alternative payment solutions, including but not limited to crypto currencies such as Bitcoin. There are risks inherent in crypto currencies, most notably its volatility and security issues.

If the industry were to move towards alternative payment solutions and accept payments in crypto currency the Company would have to adopt policies and protocols to manage its volatility and exchange rate risk exposures. The Company's inability to manage such risks may adversely affect the Company's operations and financial performance.

Lack of access to US bankruptcy protections

Because the use of cannabis is illegal under federal law, many courts have denied cannabis businesses bankruptcy protections, thus making it very difficult for lenders to recoup their investments in the cannabis industry in the event of a bankruptcy. If the Company was to experience a bankruptcy, there is no guarantee that US federal bankruptcy protections would be available to the Company's US operations, which would have a material adverse effect on the Company, its lenders and other stakeholders.

Heightened scrutiny by Canadian regulatory authorities

The Company's existing operations in the US, and any future operations or investments, may become the subject of heightened scrutiny by regulators, stock exchanges and other authorities in Canada. As a result, the Company may be subject to significant direct and indirect interaction with public officials. There can be no assurance that this heightened scrutiny will not in turn lead to the imposition of certain restrictions on the Company's ability to operate or invest in the US or any other jurisdiction, in addition to those described herein.

It had been reported in Canada that the Canadian Depository for Securities Limited is considering a policy shift that would see its subsidiary, CDS Clearing and Depository Services Inc. ("CDS"), refuse to settle trades for cannabis issuers that have investments in the US. CDS is Canada's central securities depository, clearing and settling trades in the Canadian equity, fixed income, and money markets. The TMX Group, the owner and operator of CDS, subsequently issued a statement on August 17, 2017 reaffirming that there is no CDS ban on the clearing of securities of issuers with cannabis-related activities in the US, despite media reports to the contrary and that the TMX Group was working with regulators to arrive at a solution that will clarify this matter, which would be communicated at a later time.

On February 8, 2018, following discussions with the CSA and recognized Canadian securities exchanges, the TMX Group announced the signing of a Memorandum of Understanding ("MOU") with Aequitas NEO Exchange Inc., the CSE, the Toronto Stock Exchange, and the TSXV. The MOU outlines the parties' understanding of Canada's regulatory framework applicable to the rules, procedures, and regulatory oversight of the exchanges and CDS as it relates to issuers with cannabis-related activities in the US. The MOU confirms, with respect to the clearing of listed securities, that CDS relies on the exchanges to review the conduct of listed issuers. As a result, there is no CDS ban on the clearing of securities of issuers with cannabis-related activities in the US. However, there can be no guarantee that this approach to regulation will continue in the future. If such a ban were to be implemented at a time when the

Company's shares are listed on a stock exchange, it would have a material adverse effect on the ability of shareholders to make and settle trades. In particular, the Company's shares would become highly illiquid until an alternative was implemented, investors would have no ability to effect a trade of the shares through the facilities of the applicable stock exchange.

Regulatory scrutiny of the Company's interests in the US

For the reasons set forth above, the Company's interests in the US cannabis market, and future licensing arrangements, may become the subject of heightened scrutiny by regulators, stock exchanges, clearing agencies and other authorities in Canada. As a result, the Company may be subject to significant direct and indirect interaction with public officials. There can be no assurance that this heightened scrutiny will not in turn lead to the imposition of certain restrictions on the Company's ability to carry on its business in the US.

US border crossing

Investors in the Company and the Company's directors, officers and employees may be subject to travel and entry bans into the US. Recent media articles have reported that certain Canadian citizens have been rejected for entry into the US due to their involvement in the cannabis sector.

The majority of persons travelling across the Canadian and US border do so without incident, whereas some persons are simply barred entry one time. The US Department of State and the Department of Homeland Security have indicated that the US has not changed its admission requirements in response to the pending legalization in Canada of adult-use cannabis, but anecdotal evidence indicates that the US may be increasing its scrutiny of travelers and their cannabis related involvement.

Admissibility to the US may be denied to any person working or "having involvement in" the cannabis industry, according to US Customs and Border Protection. Inadmissibility in the US implies a lifetime ban for entry as such designation is not lifted unless an individual applies for and obtains a waiver. If any of the Company's directors, officers or other service providers from Canada are denied entry into the US, such action may have a material adverse effect on the Company's operations and finances.

Travel restrictions associated with COVID-19

The transmission of COVID-19 and efforts to contain its spread have recently resulted in international, national and local border closings, travel restrictions, significant disruptions to business operations, supply chains and customer activity and demand, service cancellations, reductions and other changes, and quarantines, as well as considerable general concern and uncertainty.

The overall severity and duration of COVID-19 related impacts on the Company will depend on future developments which cannot currently be predicted, including directives of government and public health authorities, the speed at which suppliers and logistics providers can return to full production, the status of labor availability, the ability to staff operations and facilities, and the impact of supplier prioritization of order backlogs. Even after the COVID-19 outbreak has subsided, the Company may continue to experience material adverse effects to its businesses as a result of the global economic impact of COVID-19, including any related economic recession or retraction, as well as lingering impacts on demand for, or oversupply of, our products, our suppliers, third-party service providers and/or customers.

Taxes

US federal prohibitions on the sale of cannabis may result in the Company not being able to deduct certain costs from its revenue for US federal taxation purposes if the Internal Revenue Service ("IRS") determines that revenue sources of the Company are generated from activities which are not permitted under US federal law. Section 280E of the Internal Revenue Code of 1986 prohibits businesses from deducting certain expenses associated with trafficking-controlled substances (within the meaning of Schedule I and II of the FCSA). The IRS has invoked Section 280E in tax audits against various cannabis businesses in the US that are permitted under applicable state laws. Although the IRS issued a clarification allowing the deduction of certain expenses, the scope of such items is interpreted very

narrowly, and the bulk of operating costs and general administrative costs are not permitted to be deducted. While there are currently several pending cases before various administrative and federal courts challenging these restrictions, there is no guarantee that these courts will issue an interpretation of Section 280E favorable to cannabis businesses.

Illegal drug dealers could pose threats

Currently, there are many drug dealers and cartels that cultivate, buy, sell, and trade cannabis in the US, Canada and worldwide. Many of these dealers and cartels are violent and dangerous, well financed and well organized. It is possible that these dealers and cartels could feel threatened by legalized cannabis businesses such as those with whom the Company does business and could take action against or threaten the Company, its principals, employees and/or agents and this could negatively impact the Company and its business.

Competition

The beverage industry is highly competitive. The Company will compete with numerous other businesses, many of which possess greater financial and marketing resources than the Company. The beverage business is often affected by changes in consumer tastes and discretionary spending patterns, national and regional economic conditions, demographic trends, consumer confidence in the economy, traffic patterns, local competitive factors, cost and availability of raw material and labor, and governmental regulations. Any change in these factors could materially and adversely affect the Company's operations. The Company's operations can also be substantially affected by adverse publicity resulting from quality, illness, injury, health concerns, public opinion, or operating issues. The Company will attempt to manage these factors, but the occurrence of any one or more of these factors could materially and adversely affect the Company's business, financial condition, and results of operations.

Reliance on third-party service providers

Third party service providers to the company may withdraw or suspend their service to the Company under threat of prosecution. Since under US federal law the possession, use, cultivation, and transfer of cannabis and any related drug paraphernalia is illegal, and any such acts are criminal acts under federal law, companies that provide goods and/or services to companies engaged in cannabis-related activities may, under threat of federal civil and/or criminal prosecution, suspend or withdraw their services. Any suspension of service and inability to procure goods or services from an alternative source, even on a temporary basis, that causes interruptions in the Company's operations could have a material and adverse effect on the Company's business.

Reliance on management

The success of the Company is dependent on the performance of its senior management. The loss of services of these persons would have a material adverse effect on the Company's business and prospects in the short-term. There is no assurance the Company can maintain the services of its officers or other qualified personnel required to operate its business. Failure to do so could have a material adverse effect on the Company and its prospects.

Factors which may prevent realization of growth targets

The Company is currently in the early development stage. There is a risk that the additional resources will be needed, and milestones will not be achieved on time, on budget, or at all, as they are can be adversely affected by a variety of factors, including some that are discussed elsewhere in these risk factors and the following as it relates to the Company:

- delays in obtaining, or conditions imposed by, regulatory approvals.
- facility design errors.
- environmental pollution.
- non-performance by third party contractors.
- increases in materials or labour costs.
- construction performance falling below expected levels of output or efficiency.
- breakdown, aging or failure of equipment or processes.
- contractor or operator errors.

- labour disputes, disruptions or declines in productivity.
- inability to attract sufficient numbers of qualified workers.
- disruption in the supply of energy and utilities; and
- major incidents and/or catastrophic events such as fires, explosions, earthquakes, or storms.

The products sold by the Company are subject to regulation governing food, dietary supplement, controlled substances and related products

The Company's activities are subject to regulation by governmental authorities. Achievement of the Company's business objectives are contingent, in part, upon compliance with regulatory requirements enacted by these governmental authorities and obtaining all regulatory approvals, where necessary, for the sale of its products. The Company cannot predict the time required to secure all appropriate regulatory approvals for its products, or the extent of testing and documentation that may be required by governmental authorities. Any delays in obtaining, or failure to obtain regulatory approvals would significantly delay the development of markets and products and could have a material adverse effect on the business, results of operations and financial condition of the Company.

While cannabinoids, commonly found in hemp oil, can also be commonly found in certain strains of cannabis, which faces significant restrictions on use and distribution under the FCSA, the Company was not sourcing any derivatives from cannabis as at year end for its hemp products.

While oil derived from industrial hemp stalk that has naturally occurring THC content equal to or less than 0.3% is excluded from the definition of cannabis under the FCSA, there is no certainty that this exclusion could not be altered by court or governmental action or re-interpretation. There is no certainty that the FDA will not regulate the use of hemp oil or components of hemp oil as a drug and prohibit use as a dietary ingredient. There is no certainty that hemp oil will be considered a grandfathered dietary ingredient under the Dietary Supplement Health and Education Act of (1994) ("DSHEA") or would otherwise be permitted for use under the DSHEA. The FDA has stated that cannabidiol, a component of hemp oil, is precluded from the definition of a dietary ingredient as it is the subject of an Investigational New Drug application.

On April 19, 2018, the FDA advisory committee unanimously recommended supporting the approval of the new drug application for Epidiolex, a CBD product for the treatment of seizures associated with Lennox-Gastaut syndrome and Dravet syndrome in patients two years of age and older. Upon the approval of Epidiolex, it is possible that FDA may begin taking enforcement action against companies selling CBD products, although it is unknown what actions and when will be taken.

With respect to the Company's sales of hemp-derived CBD products in California, the Company understands that the Food and Drug Branch ("FDB") of the CDPH has also begin taking enforcement action against companies selling CBD products in certain instances. On July 6, 2018, the FDB published a Frequently Asked Questions document (the "FAQ"), which expressed California's concern about the safety of human and animal consumption of hemp-derived CBD food products. The FAQ provides that, until the FDA affirmatively rules that hemp-derived CBD is approved to be used as a food product ingredient, or California makes its own affirmative safety determination relative to consumption of such hemp derived CBD food products, California would take a similar position as the FDA and designate hemp-derived CBD as an unapproved food additive.

The Company relies on the supply of hemp stalk oil extracts, which is imported into the US from other countries. The United States Drug Enforcement Administration ("DEA") and the US Customs and Border Protection Agency will not permit the entry of hemp extract into the US if it contains any amount of THC which is a cannabis derivative and, therefore, a Schedule I drug. Currently, the definition of "cannabis" in the FCSA does not include the plant's "mature stalks", which are used to create hemp (which only contains trace amounts of THC and has no psychoactive effect). Hemp stalk oil is not scheduled under the US FCSA and therefore, is also not under the enforcement authority of the DEA. Currently, the DEA does not take jurisdiction over hemp stalk oil products, but controls hemp cultivation, and companies that wish to cultivate hemp in the US must apply for a permit with the DEA. If in the future DEA takes jurisdiction to regulate hemp stalk oil products, the Company may become subject to additional licensing

requirements, which may require additional capital. There is no assurance that the Company will be able to obtain any such licenses, or be eligible to apply for such licenses, which would adversely affect the Company's business.

Products containing cannabis and hemp CBD may currently not be manufactured, distributed, or sold in Canada unless such activity is undertaken in accordance with the Access to Cannabis for Medical Purposes Regulations or other appropriate regulatory exemptions. The Company is monitoring changes to Canada's regulations with respect to both medical and adult-use cannabis and may seek to pursue opportunities to distribute its products in Canada as such regulatory changes permit.

Risks associated with increasing competition

There is potential that the Company will face intense competition from other companies, some of which can be expected to have longer operating histories and more financial resources and manufacturing and marketing experience the Company. Increased competition by larger and better financed competitors could materially and adversely affect the business, financial condition, and results of operations of the Company.

Due to the early stage of the industry in which the Company operates, the Company expects to face additional competition from new entrants. To remain competitive, the Company will require a continued high level of investment in research and development, marketing, sales, and client support. The Company may not have sufficient resources to maintain research and development, marketing, sales, and client support efforts on a competitive basis which could materially and adversely affect the business, financial condition, and results of operations the Company.

Risks inherent in an agricultural business

A part of the Company's business revolves around purchasing hemp extract, an agricultural product, although the Company will not itself grow or sell hemp. As such, the business is subject to the risks inherent in the agricultural business, such as insects, plant diseases and similar agricultural risks. Although the Company intends to manufacture its products indoors under climate-controlled conditions, carefully monitors the growing conditions with trained personnel, there can be no assurance that natural elements will not have a material adverse effect on the production of its products.

Product liability

As a manufacturer and distributor of products designed to be ingested by humans, the Company faces an inherent risk of exposure to product liability claims, regulatory action, and litigation if its products are alleged to have caused significant loss or injury. In addition, the manufacture and sale of the Company's products involve the risk of injury to consumers due to tampering by unauthorized third parties or product contamination. Previously unknown adverse reactions resulting from human consumption of the Company's products alone or in combination with other medications or substances could occur. The Company may be subject to various product liability claims, including, among others, that the Company's products caused injury or illness, include inadequate instructions for use or include inadequate warnings concerning possible side effects or interactions with other substances. A product liability claim or regulatory action against the Company could result in increased costs, discontinuation of products, adverse impact on the Company's reputation with its clients and consumers generally and could have a material adverse effect on its results of operations and financial condition. There can be no assurances that the Company will be able to obtain or maintain product liability insurance on acceptable terms or with adequate coverage against potential liabilities. Such insurance is expensive and may not be available in the future on acceptable terms, or at all. The inability to obtain sufficient insurance coverage on reasonable terms or to otherwise protect against potential product liability claims could prevent or inhibit the commercialization of the Company potential products.

Product recalls

Manufacturers and distributors of products are sometimes subject to the recall or return of their products for a variety of reasons, including product defects, such as contamination, unintended harmful side effects or interactions with other substances, packaging safety and inadequate or inaccurate labeling disclosure. If any of the products developed by the Company are recalled due to an alleged product defect or for any other reason, the Company could be required to incur the unexpected expense relating to the recall and any legal proceedings that might arise in connection with the

recall. The Company may lose a significant amount of revenue and may not be able to replace that revenue at an acceptable margin or at all. In addition, a product recall may require significant management attention. Although the Company is establishing procedures to test finished products, there can be no assurance that any quality, potency, or contamination problems will be detected in time to avoid unforeseen product recalls, regulatory action, or lawsuits. Additionally, if one of the Company's significant brands were subject to recall, the image of that brand and the Company could be harmed. A recall for any of the foregoing reasons could lead to decreased demand for the Company's products and could have a material adverse effect on the results of operations and financial condition of the Company. Product recalls may lead to increased scrutiny of the Company's operations by the regulatory agencies, requiring further management attention and potential legal fees and other expenses.

Potential FDA regulation

Should the US federal government legalize cannabis, it is possible that the FDA, would seek to regulate it under the Food, Drug and Cosmetics Act of 1938. Additionally, the FDA may issue rules and regulations including good manufacturing practices, related to the growth, cultivation, harvesting and processing of cannabis. Clinical trials may be needed to verify efficacy and safety. It is also possible that the FDA would require that facilities where cannabis is grown register with the FDA and comply with certain federally prescribed regulations. In the event that some or all of these regulations are imposed, the impact on the cannabis industry is unknown, including what costs, requirements and possible prohibitions may be enforced. If the Company is unable to comply with the regulations or registration as prescribed by the FDA it may have an adverse effect on the Company's business, operating results, and financial condition.

The Company may be vulnerable to unfavorable publicity or consumer perception

The Company believes the cannabis industry is highly dependent upon consumer perception regarding the safety, efficacy and quality of the cannabis produced. Consumer perception can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding the consumption of cannabis products.

Future research reports, findings, regulatory proceedings, litigation, media attention or other publicity that are perceived as less favorable than, or that question, earlier research reports, findings or publicity could have a material adverse effect on the demand for cannabis and on the business, results of operations, financial condition and cash flows of the Company.
Further, adverse publicity reports or other media attention regarding the safety, efficacy, and quality of cannabis in general, or associating the consumption of cannabis with illness or other negative effects or events, could have such a material adverse effect. Such adverse publicity reports or other media attention could arise hindering market growth and state adoption due to inconsistent public opinion and perception of the medical-use and adult-use cannabis industry. Public opinion and support for medical and adult-use cannabis has traditionally been inconsistent and varies from jurisdiction to jurisdiction. While public opinion and support appears to be rising for legalizing medical and adult-use cannabis, it remains a controversial issue subject to differing opinions surrounding the level of legalization (for example, medical cannabis as opposed to legalization in general).

Dependence on suppliers and skilled labor

The ability of the Company to compete and grow will be dependent on it having access, at a reasonable cost and in a timely manner, to skilled labor, equipment, parts, and components. No assurances can be given that the Company will be successful in maintaining its required supply of skilled labor, equipment, parts, and components. It is also possible that the final costs of the major equipment contemplated by the Company's capital expenditure program may be significantly greater than anticipated by the Company's management, and may be greater than funds available to the Company, in which circumstance the Company may curtail, or extend the timeframes for completing, its capital expenditure plans. This could have an adverse effect on the financial results of the Company.

Liability for activity of employees, contractors and consultants

The Company could be liable for fraudulent or illegal activity by its employees, contractors and consultants resulting in significant financial losses to claims or regulatory enforcement actions against the Company. The cannabis industry is under strict scrutiny. Failure to comply with relevant laws could result in fines, suspension of licenses and civil or criminal action being taken against the Company. Consequently, the Company is subject certain risks, including that employees, contractors and consultants may inadvertently fail to follow the law or purposefully neglect to follow the law, either of which could result in material adverse effects to the financial condition of the Company.

Operating risk and insurance coverage

The Company's insurance coverage is intended to address all material risks to which it is exposed and is adequate and customary in its current state of operations. However, such insurance is subject to coverage limits and exclusions and may not be available for the risks and hazards to which the Company is exposed. In addition, no assurance can be given that such insurance will be adequate to cover the Company's liabilities or will be generally available in the future or, if available, that premiums will be commercially justifiable. If the Company were to incur substantial liability and such damages were not covered by insurance or were in excess of policy limits, or if the Company were to incur such liability at a time when it is not able to obtain liability insurance, its business, results of operations and financial condition could be materially adversely affected.

Uninsurable risks

The medical and retail cannabis business is subject to several risks that could result in damage to or destruction of properties or facilities or cause personal injury or death, environmental damage, delays in production and monetary losses and possible legal liability. It is not always possible to fully insure against such risks, and the Company may decide not to take out insurance against such risks as a result of high premiums or other reasons. Should such liabilities arise, they could reduce or eliminate any future profitability and result in increasing costs and a decline in the value of the securities of the Company. The Company does not currently have any insurance policies covering its properties or the operation of its business and any liabilities that may arise as a result any of the above noted risks may cause a material adverse effect on the financial condition of the Company.

Management of growth

The Company may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The ability of the Company to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The inability of the Company to deal with this growth may have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

Internal controls

Effective internal controls are necessary for the Company to provide reliable financial reports and to help prevent fraud. Although the Company will undertake a number of procedures and will implement a number of safeguards, in each case, in order to help ensure the reliability of its financial reports, including those imposed on the Company under Canadian securities law, the Company cannot be certain that such measures will ensure that the Company will maintain adequate control over financial processes and reporting. Failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm the Company's results of operations, or cause it to fail to meet its reporting obligations. If the Company or its auditors discover a material weakness, the disclosure of that fact, even if quickly remedied, could reduce the market's confidence in the Company's consolidated financial statements and materially adversely affect the trading price of the Company's shares.

Dividends

The Company has no earnings or dividend record and does not anticipate paying any dividends on the Company's shares in the foreseeable future. Dividends paid by the Company would be subject to tax and, potentially, withholdings.

Foreign currency exchange rates

Exchange rate fluctuations may adversely affect the Company's financial position and results. It is anticipated that a significant portion of the Company's business will be conducted in the US using USD. The Company's financial results are reported in CAD and costs are incurred primarily in USD in its Cannabis Cultivation Segment. The depreciation of CAD against USD could increase the actual capital and operating costs of the Company's US operations and materially adversely affect the results presented in the Company's unaudited condensed interim consolidated financial statements.

The market price of securities is volatile and may not accurately reflect the long-term value of the Company

Securities markets have a high level of price and volume volatility, and the market price of securities of many companies has experienced substantial volatility in the past. This volatility may affect the ability of holders of common shares or warrants to sell their securities at an advantageous price. Market price fluctuations in the common shares and warrants may be due to the Company's operating results failing to meet expectations of securities analysts or investors in any period, downward revision in securities analysts' estimates, adverse changes in general market conditions or economic trends, acquisitions, dispositions or other material public announcements by the Company or its competitors, along with a variety of additional factors. These broad market fluctuations may adversely affect the market price of the common shares and warrants.

Financial markets historically at times experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities of companies and that have often been unrelated to the operating performance, underlying asset values or prospects of such companies. Accordingly, the market price of the shares and warrants may decline even if the Company's investment results, underlying asset values or prospects have not changed. Additionally, these factors, as well as other related factors, may cause decreases in investment values that are deemed to be other than temporary, which may result in impairment losses. There can be no assurance that continuing fluctuations in price and volume will not occur. If such increased levels of volatility and market turmoil continue, the Company's operations could be adversely impacted, and the trading price of the shares and warrants may be materially adversely affected.

Limited market for securities

There can be no assurance that an active and liquid market for the Company's shares will develop or be maintained and an investor may find it difficult to resell any securities of the Company.

Environmental and employee health and safety regulations

The Company's operations are subject to environmental and safety laws and regulations concerning, among other things, emissions and discharges to water, air and land, the handling and disposal of hazardous and non-hazardous materials and wastes, and employee health and safety. The Company will incur ongoing costs and obligations related to compliance with environmental and employee health and safety matters. Failure to comply with environmental and safety laws and regulations may result in additional costs for corrective measures, penalties or in restrictions on our manufacturing operations. In addition, changes in environmental, employee health and safety or other laws, more vigorous enforcement thereof or other unanticipated events could require extensive changes to the Company's operations or give rise to material liabilities, which could have a material adverse effect on the business, results of operations and financial condition of the Company.

Negative publicity or consumer perception may affect the success of our business

The success of the cannabis industry may be significantly influenced by the public's perception of cannabis. Both the medical and adult-use use of cannabis are controversial topics, and there is no guarantee that future scientific research, publicity, regulations, medical opinion, and public opinion relating to cannabis will be favorable. The cannabis industry is an early-stage business that is constantly evolving with no guarantee of viability. The market for medical and adult-use cannabis is uncertain, and any adverse or negative publicity, scientific research, limiting regulations, medical opinion and public opinion (whether or not accurate or with merit) relating to the consumption of cannabis, whether in Canada, the US or elsewhere, may have a material adverse effect on our operational results, consumer base

and financial results. Among other things, such a shift in public opinion could cause State jurisdictions to abandon initiatives or proposals to legalize medical cannabis, thereby limiting the number of new state jurisdictions into which the Company could identify potential acquisition opportunities.

Certain events or developments in the cannabis industry more generally may impact the Company's reputation

Damage to the Company's reputation can be the result of the actual or perceived occurrence of any number of events, and could include any negative publicity, whether true or not. Cannabis has often been associated with various other narcotics, violence and criminal activities, the risk of which is that our business might attract negative publicity. There is also risk that the action(s) of other participants, companies and service providers in the cannabis industry may negatively affect the reputation of the industry as a whole and thereby negatively impact the reputation of the Company. The increased usage of social media and other web-based tools used to generate, publish and discuss user-generated content and to connect with other users has made it increasingly easier for individuals and groups to communicate and share opinions and views in regards to the Company and its activities, whether true or not and the cannabis industry in general, whether true or not. The Company does not ultimately have direct control over how it or the cannabis industry is perceived by others. Reputation loss may result in decreased investor confidence, increased challenges in developing and maintaining community relations and an impediment to the Company's overall ability to advance its business strategy and realize on its growth prospects, thereby having a material adverse impact on the Company.

Disruption of business

Conditions or events including, but not limited to, those listed below could disrupt the Company's operations, increase operating expenses, resulting in delayed performance of contractual obligations or require additional expenditures to be incurred: (i) extraordinary weather conditions or natural disasters such as hurricanes, tornadoes, floods, fires, extreme heat, earthquakes, etc.; (ii) a local, regional, national or international outbreak of a contagious disease, including the COVID-19 coronavirus, Middle East Respiratory Syndrome, Severe Acute Respiratory Syndrome, H1N1 influenza virus, avian flu, or any other similar illness could result in a general or acute decline in economic activity (see also, "Public Health Crises, including COVID-19"); (iii) political instability, social and labour unrest, war or terrorism; or (iv) interruptions in the availability of basic commercial and social services and infrastructure including power and water shortages, and shipping and freight forwarding services including via air, sea, rail and road.

Public health crises

The Company's business, operations and financial condition could be materially adversely affected by the outbreak of epidemics or pandemics or other health crises beyond our control, including the current outbreak of COVID-19. On January 30, 2020, the World Health Organization declared the COVID-19 outbreak a global health emergency. Many governments have likewise declared that the COVID-19 outbreak in their jurisdictions constitutes an emergency. Reactions to the spread of COVID-19 have led to, among other things, significant restrictions on travel, business closures, quarantines, and a general reduction in consumer activity. While these effects are expected to be temporary, the duration of the business disruptions and related financial impact cannot be reasonably estimated at this time.

Such public health crises can result in volatility and disruptions in the supply and demand for various products and services, global supply chains and financial markets, as well as declining trade and market sentiment and reduced mobility of people, all of which could affect interest rates, credit ratings, credit risk, inflation and, as a result, demand for our end customers' products and our operating results. The risks to the Company of such public health crises also include risks to employee health and safety and a slowdown or temporary suspension of operations in geographic locations impacted by an outbreak.

At this point, the extent to which COVID-19 may impact the Company is uncertain; however, it is possible that COVID-19 may have a material adverse effect on the Company's business, results of operations and financial condition. The Company expects to experience some short to medium term negative impacts from the COVID-19 outbreak; however, the extent of such impacts is currently unquantifiable, but may be significant. Such impacts include, with respect to its operations, its suppliers' operations and its customers' operations, forced closures,

mandated social distancing, isolation and/or quarantines, impacts of declared states of emergency, increased government regulation, public health emergency and similar declarations and could include other increased government regulations, reduced sales, and potential supply and staff shortages, all of which are expected to negatively impact the business, financial condition and results of operations of the Company and thus may impact the ability of the Company to comply with financial covenants, satisfy its obligations to its lenders and other parties, which may in turn may adversely impact, among other things, the ability the Company to access debt or equity capital on acceptable terms or at all.

The risks to the Company of such public health crises also include risks to employee health and safety and a slowdown of operations in the Company's stores. Should an employee or visitor in any of the Company's stores or workplaces become infected with a serious illness that has the potential to spread rapidly, this could place the Company's workforce at risk. The Company takes every precaution to strictly follow industrial hygiene and occupational health guidelines and applicable health authority recommendations.

Data breaches and privacy law

The Company may be subject to breaches of security at its facilities, or in respect of electronic documents and data storage, and may face risks related to breaches of applicable privacy laws. The Company has previously provided medical cannabis to patients and maintains patient records. Due to the sensitive nature of this information, the Company could be found liable if a breach of security at its facility resulted in the theft, loss, or mishandling of electronic data. If such a breach did occur, the Company could be liable for fines, penalties and for any third-party liability which could result in a material adverse effects to the financial or operating condition of the Company.

Information technology systems and cyber attacks

The Company's operations depend in part on how well it protects networks, equipment, and information technology systems and software against damage from a number of threats, including but not limited to cable cuts, damage to physical plants, natural disasters, intentional damage and destruction, fire, power loss, hacking, computer viruses, vandalism and theft. The Company's operations also depend on the timely maintenance, upgrade and replacement of networks, equipment, IT systems and software, as well as preemptive expenses to mitigate the risks of failures. Any of these and other events could result in information system failures, delays and/or increase in capital expenses. The failure of information systems or a component thereof could, depending on the nature of such failure, adversely impact the Company's reputation, results of operations, and financial condition. The Company's risk and exposure to these matters cannot be fully mitigated because of, among other factors, the evolving nature of these threats. As a result, cyber security and the continued development and enhancement of controls, processes and practices designed to protect systems, computers, software, data and networks from attack, damage or unauthorized access is a priority. As cyber threats continue to evolve, the Company may be required to expend additional resources to continue to modify or enhance protective measures or to investigate and remediate any security vulnerabilities.

Ability to obtain and retain licenses and permits

The Company may not be able to obtain and/or retain all necessary California state licenses and permits, which could, among other things, delay or prevent the Company from becoming profitable. The Company's lines of business are reliant on the issuance of required licenses. Failure to acquire or retain necessary licenses required to operate could have a material adverse effect on its financial or operating condition. Due to the nature of licensing, which is at the discretion of state and local governments, it is outside of the Company's control, and therefore it is not possible to assure that the Company will receive the licenses it seeks or requires.

Difficult to forecast demand

The Company must rely largely on its own market research to forecast sales as detailed forecasts are not generally obtainable from other sources at this early stage of the cannabis industry in Canada and the US. A failure in the demand for its products to materialize as a result of competition, technological change, market acceptance or other factors could have a material adverse effect on the business, results of operations and financial condition of the Company.

Disruption of business

Conditions or events including, but not limited to, those listed below could materially disrupt the Company's and other industry participant's, supply chains, interrupt operations, increase operating expenses, and thereby result in loss of sales, delayed performance of contractual obligations or require additional expenditures to be incurred: (i) extraordinary weather conditions or natural disasters such as hurricanes, tornadoes, floods, fires, drought, tsunami, extreme heat, earthquakes, etc.; (ii) a local, regional, national or international outbreak of a contagious disease, including COVID-19, Middle East Respiratory Syndrome, Severe Acute Respiratory Syndrome, H1N1 influenza virus, avian flu, or any other similar illness; (iii) political instability, social and labor unrest, riot, insurrection, war or terrorism; or (iv) interruptions in the availability of basic commercial and social services and infrastructure including power and water shortages, and shipping and freight forwarding services including via air, sea, rail and road. The extent to which COVID-19 or any other contagious disease impacts the Company's results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of this or any other outbreak and the actions to contain those outbreaks or treat its impact, among others.

10. Note Regarding Forward Looking Statements

This MD&A includes "forward-looking statements", within the meaning of applicable securities legislation, which are based on the opinions and estimates of Management and are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "budget", "plan", "continue", "estimate", "expect", "forecast", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar words suggesting future outcomes or statements regarding an outlook. Such risks and uncertainties include, but are not limited to, risks associated with the cannabis industry, the risk of commodity price and foreign exchange rate fluctuations, the ability of the Company to fund the capital and operating expenses necessary to achieve the business objectives of the Company, the uncertainty associated with commercial negotiations and negotiating with foreign governments and risks associated with international business activities, as well as those risks described in public disclosure documents filed by the Company. Due to the risks, uncertainties, and assumptions inherent in forward-looking statements, prospective investors in securities of the Company should not place undue reliance on these forward-looking statements. Statements in relation to "reserves" are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the reserves described can be profitably produced in the future. Readers are cautioned that the foregoing lists of risks, uncertainties and other factors are not exhaustive. The forward-looking statements contained in this press release are made as of the date hereof and the Company undertakes no obligation to update publicly or revise any forward-looking statements or in any other documents filed with Canadian securities regulatory authorities, whether as a result of new information, future events or otherwise, except in accordance with applicable securities laws. The forward-looking statements are expressly qualified by this cautionary statement.

Disclosure of Internal Controls over Financial Reporting

Management has established processes to provide them sufficient knowledge to support representations that they have exercised reasonable diligence that (i) the unaudited condensed interim consolidated financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented by the consolidated financial statements; and (ii) the unaudited condensed interim consolidated financial statements fairly present in all material respects the financial condition, results of operations and cash flows of the Company, as of the date of and for the periods presented. In contrast to non-venture issuers, this MD&A does not include representations relating to the establishment and maintenance of disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR"). In particular, management is not making any representations relating to the establishment and maintenance of: controls and procedures designed to provide reasonable assurance that information required to be disclosed by the Company in its filings or other reports or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and a process to provide reasonable assurance regarding the reliability of financial

reporting and the preparation of financial statements for external purposes in accordance with IFRS. Investors should be aware that inherent limitations on the ability of management of the Company to design and implement on a cost-effective basis DC&P and ICFR may result in additional risks to the quality, reliability, transparency and timeliness of filings and other reports provided under securities legislation.

11. Management's Responsibility for Financial Information

Management is responsible for all information contained in this report. The Company's unaudited condensed interim consolidated financial statements have been prepared in accordance with IFRS and include amounts based on management's informed judgments and estimates. The financial and operating information included in this report is consistent with that contained in the unaudited condensed interim consolidated financial statements in all material aspects.

The Audit Committee has reviewed the Company's unaudited condensed interim consolidated financial statements and this MD&A with management. The Board of the Company has approved the unaudited condensed interim consolidated financial statements and this MD&A on the recommendation of the Audit Committee.

November 30, 2020

Jeffrey Maser
Chief Executive Officer