



## THE TINLEY BEVERAGE COMPANY INC.

### Management's Discussion and Analysis

For the three and six months ended June 30, 2021

#### TABLE OF CONTENTS

<b>1. Description of Business</b> .....	2
<b>2. Business Overview</b> .....	2
<b>3. Canadian Companies with U.S. Marijuana-Related Assets</b> .....	8
<b>4. Overall Performance</b> .....	19
<b>5. Key Management Compensation and Related Party Transactions</b> .....	21
<b>6. Financial Risk Management</b> .....	22
<b>7. Capital Management</b> .....	23
<b>8. Summary of Accounting Policies</b> .....	24
<b>9. Risk Factors</b> .....	25
<b>10. Cautionary Note Regarding Forward-Looking Statements</b> .....	26
<b>11. Management's Responsibility for Financial Information</b> .....	26

*The following Management's Discussion and Analysis ("MD&A") is current to August 30, 2021 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 six months ended June 30, 2021 and 2020, as well as the audited consolidated financial statements for the years ended December 31, 2020, 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](http://www.sedar.com).*

**THE TINLEY BEVERAGE COMPANY INC.**  
**Management's Discussion and Analysis of Financial Condition and Results of Operations**  
**For the three and six months ended June 30, 2021**

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**1. Description of Business**

The Tinley Beverage Company Inc. ("Tinley" or the "Company") was incorporated under the *Business Corporations Act* (Ontario) on March 7, 2005 as Onsino Capital Corporation. Pursuant to the Articles of Arrangement dated December 22, 2010, the Company changed its name to "Quia Resources Inc." Pursuant to the Articles of Amendment dated June 9, 2014, the Company consolidated its common shares on a ten for one (10:1) basis. On October 5, 2015 pursuant to Articles of Amendment, the Company completed a consolidation of the Common Shares on a five for one (5:1) basis, completed a change of business to a cannabis beverage company and changed its name to "The Tinley Beverage Company Inc.". The Company's common shares are listed on the Canadian Securities Exchange under the trading symbol "TNY" and on the OTCQX® under the trading symbol "TNYBF" in the United States ("US").

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

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 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 a cannabis beverage facility in California. Situated on approximately 45,000 square feet ("sq. ft.") of property in Long Beach, California, the 20,000 sq. ft. facility is built for cannabis beverage manufacturing and distribution.

On or around December 19, 2018, Richard Gillis, an officer of the Company, formed Lakewood Libations, Inc., a California corporation ("Lakewood") to conduct commercial cannabis manufacturing and distribution operations at the Long Beach facility. At this time, Lakewood has acquired its local and state commercial cannabis licenses for manufacturing and is in the process of acquiring its local distribution license from the City of Long Beach. The Company has executed agreements to purchase one hundred percent (100%) of the shares of Lakewood from Richard Gillis for a nominal fee with the closing of such transaction to take place on the date and time of the Company's choosing ("Acquisition Transaction") which timing will be based on the receipt of regulatory approval for the change in control. As part of the Acquisition Transaction, Richard Gillis has agreed to detailed "use of proceeds" restrictions that include but are not limited to the requirement that the directors and officers of Lakewood only utilize proceeds from Lakewood's operations to fund ongoing operations and not issue any dividends or otherwise expend profits. In connection with the foregoing, Tinley has certain audit rights to ensure Richard Gillis remains in compliance with the Acquisition Transaction agreement. The Company is working closely with the City of Long Beach and the state to ensure the closing of the Acquisition Transaction remains in compliance with applicable laws. At this time, the Company is waiting until Lakewood has received its state and local distribution licenses to close the Acquisition Transaction. Following receipt of such approvals, the Company will close the Acquisition Transaction and await final approval from the city and state regulators. The Company expects Lakewood to continue its commercial cannabis manufacturing activities throughout the approval process.

Prior to the Acquisition Transaction, the Company has agreed to provide Lakewood with the Long Beach Facility, certain intellectual property for production, equipment and other resources for Lakewood's operations (collectively, the "Tinley Resources"). Although the only reason the Acquisition Transaction has not yet closed is due to Lakewood's pending cannabis license applications, there is a risk that the Acquisition Transaction is not approved by local or state regulators following its closing in which case the Company will still have control over Lakewood, but it would create significant risk to the status of Lakewood's license and ability to operate. At this time, the Company is not licensed and only Lakewood has acquired licenses to conduct commercial cannabis manufacturing. There is no guarantee that Lakewood will obtain the required licenses for cannabis distribution or that the Acquisition Transaction will be approved by state and local regulators. Lakewood's licenses must be renewed annually and there is no guarantee that such license will be renewed each year. See "*Risk Factors*".

**2. Business Overview**  
**Financing Activities**

**THE TINLEY BEVERAGE COMPANY INC.**  
**Management's Discussion and Analysis of Financial Condition and Results of Operations**  
**For the three and six months ended June 30, 2021**

---

On March 30, 2021, the Company announced its closed a private placement offering (the "Offering") raising gross proceeds of \$850,000 through issuance of 2,125,000 units ("Units") at a price of \$0.40. Each Unit is comprised of one common share in the capital of the Company ("Common Share") and one common share purchase warrant ("Warrant"). Each Warrant is exercisable into one Common Share at a price of \$0.50 until March 30, 2024. In connection with the private placement, the Company paid cash commissions of \$61,693 and issued an aggregate of 154,232 broker warrants to certain finders, with each broker warrant exercisable into one Common Share and one Warrant.

On June 10, 2021, the Company announced it closed a private placement offering (the "Offering") raising gross proceeds of \$2,416,250 through issuance of 7,321,971 units ("Units") at a price of \$0.33. Each Unit is comprised of one common share ("Common Share") and one-half of one common share purchase warrant ("Warrant"). Each Warrant is exercisable into one Common Share at a price of \$0.42 until Jun 10, 2023. In connection with the private placement, the Company paid cash commissions of \$9,817.50 and issued an aggregate of 29,750 broker warrants to certain finders, with each broker warrant exercisable into one Common Share and one-half Warrant.

### **Business Developments**

On January 14, 2021, Lakewood entered into an agreement with MARS Distro, a subsidiary of Headquarters, to create supply chain solutions for Lakewood's manufacturing brands in California.

On January 19, 2021, the Company announced a marketing agreement with Todd Chrisley, of the top-rated reality television show stars in the USA. Under the agreement, the Beckett's™ non-alcoholic spirits and cocktails (non-cannabis-infused) would appear in Todd's television shows and online properties.

On January 28, 2021, Lakewood completed production of both Canadian and US Beckett's (non-infused) ready to drink and multi-serve products, and that test sample production of its Canadian Tinley '27 (infused) drinks was performed at one of its two licensed manufacturers in Ontario. It also announced that the manufacturer of its carbonated Tinley's Classics (infused) product line was be delayed. Management is progressing through discussions with other producers that have expressed interest in producing this product line, as well as continuing discussions with its existing manufacturer.

On February 1, 2021, the Company announced that SIP Elixirs, Nevada's top-selling cannabis beverages, will be produced at the Company's cannabis beverage bottling facility in Long Beach.

On February 3, 2021, the Company announced that Cannabis Quencher, one of California's best-selling cannabis beverages, will be produced at its cannabis beverage bottling facility in Long Beach.

On March 2, 2021, the Company announced that its Beckett's "Low No alcohol" products have received a listing on Alberta's Connect Logistics platform. Under contract with the Alberta Gaming, Liquor and Cannabis Commission, Connect Logistics is the exclusive distributor of spirits, wine, coolers, imported beer and related products in the province.

On March 3, 2021, the Company appointed David Hackett as Chief Financial Officer, replacing David Berman.

On March 22, 2021, the Company announced that the first series of third- party products have been manufactured by Lakewood and shipped from its cannabis beverage bottling facility in Long Beach. The Company also announced that Good Stuff Beverage Co., a pioneering California cannabis and CBD beverage brand, will move production of its assortment of natural tonics to the Long Beach facility.

On April 1, 2021, the Company announced that the Company has received reorders for all three of its business lines (US manufacturing, US infused and North American non-infused), and that it has also received requests for the infused products from provincial buyers in Canada. It also announced the expansion of store listings in Alberta and ongoing negotiations with a notable Tennessee distributor for its non-infused beverages, which was subsequently announced to be Lipman Brothers. It also announced that an additional seven third-party SKU's were contracted to be produced at its bottling facility in Long Beach by Lakewood.

**THE TINLEY BEVERAGE COMPANY INC.**  
**Management's Discussion and Analysis of Financial Condition and Results of Operations**  
**For the three and six months ended June 30, 2021**

---

On April 12, 2021, the Company announced that Los Angeles-based Calexo will produce three new zero-calorie sparkling drinks in bottles, and four preservative-free juice beverages in cans at the Company's Long Beach facility.

On May 3, 2021, the Company announced an agreement with Pabst Labs whereby the cannabis-infused, non-alcoholic version of the popular 'Not Your Father's Root Beer' beverage will be produced at the Company's Long Beach facility.

On May 25, 2021, the Company announced a collaboration with Stem Holdings d/b/a Driven by Stem to create a home delivery solution for cannabis beverages in California. Under the agreement, Tinley's beverages would be made available for home delivery throughout California, and this would form an optional service for approved third party brands produced in Tinley's facility.

On May 31, 2021, the Company announced that its products would launch at Harborside dispensaries in California. In the same release, the Company also announced the increasing capacity utilization of its Long Beach manufacturing facility throughout the month of June. It also announced that its non-infused products continue to expand retail placements in California, Tennessee, Alberta, and Ontario.

On Jun 10, 2021, the Company disclosed that its cannabis beverage manufacturing facility in Long Beach, California has significant bookings in the months of June and July. The Company is now expecting at least one of the three bottling lines to be operating during each week for the foreseeable future.

On June 14, 2021, the Company announced that its cannabis infused beverages will be one of the inaugural brands to launch at Planet 13's Orange County SuperStore "P13 OC" at its expected grand opening in July 2021.

On June 17, 2021, the Company announced that California's longstanding favourite cannabis beverage "Sprig" will produce at Company's newly third bottling line facility in Long Beach, California. This line is currently in the commissioning process.

On August 19, 2021, the Company announced that it has signed an agreement with BevCanna Enterprises to produce its award-winning carbonated tonics in Canada.

**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. In late 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. BevMo! placed an order for the Company's revised bottle format for the Tonics products in June 2021, and certain products have also been made available on BevMo!'s Gopuff web platform.

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 reopened their new products launch programs in the wake of COVID-19 restrictions. Several of these trials began to take place, however, were severely impacted by the inability to conduct sampling as a result of COVID-19. The Company has a 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 retailer has agreed to take the new glass bottle format of the Beckett's™ ready to drink cocktails, previously available in cans.

Similarly, the Company worked to expand exposure to its listings on Walmart.com, Amazon.com and its own Shopify store at [www.drinkbecketts.com](http://www.drinkbecketts.com) through national banner, affiliate, social, influencer and other online marketing programs. The Company ultimately moved online sales exclusively to its own Shopify store in light of high breakage rates caused by Amazon and the greater economics and opportunities for customer engagement afforded to the Company on its Shopify store. Recognizing its strong brand awareness in Canada, the Company has worked to build

**THE TINLEY BEVERAGE COMPANY INC.**  
**Management's Discussion and Analysis of Financial Condition and Results of Operations**  
**For the three and six months ended June 30, 2021**

---

similar online platforms and marketing programs in Canada, however to date has not found options that enable attractive pricing to consumers.

The Company's agreement with Todd Chrisley is expected to be the core of the Company's marketing programs for the full line of Beckett's™ products throughout 2021 and onward. Todd Chrisley's television programs take place in Nashville, Tennessee, and his shows enjoy their largest ratings in that city. As a result, the Company has gained distribution by Lipman Brothers, Tennessee's oldest liquor distributor. Todd and his family will be engaging in local in-store and on-premise promotions to drive visibility for the products. This visibility is expected to drive demand for the Company's products in local retailers and online. Texas is also a key audience location for the Chrisley television shows, and the Company retained Emergent Partners, a local beverage brokerage, to obtain store listings in the state.

The Beckett's™ products launched in Alberta, Canada in April 2021, having been accepted to the province's Liquor Connect platform in March 2021. Working with local sales agents, the products received commitments from nearly 30 retailers, including certain stores in the Sobey's and Co-Op chains. By July 2021, the total store count increased to 50 for certain flavors.

#### 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', thereby alleviating the advance notice that is provided when regulations are updated, provided that cannabis could no longer be manufactured with 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. 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 with the former manufacturer 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 began 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. The Company's products are intended to produce a consumer 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 described in "Business Developments", the Company did not have fulsome production capabilities for most of 2020 during the transition from the "Phase 2" facility to the commissioning of the Long Beach facility. With the full commissioning of the facility completed in Q4 2020, and the licensing agreement between Lakewood and the

**THE TINLEY BEVERAGE COMPANY INC.**  
**Management's Discussion and Analysis of Financial Condition and Results of Operations**  
**For the three and six months ended June 30, 2021**

---

Company, the Company's products are now being produced by Lakewood and back in market and the Company believes that it has sufficient inventory to meet current market demand.

Lakewood's transition to Mars HQ distribution, announced in January 2021, aims to enhance the delivery capacity of the Company's products and sales coverage throughout the state.

With manufacturing, delivery and sales agreements in place, the Company intends to pursue the following growth strategy:

- **Increased focus on key accounts with multiple store locations:** The Company intends to focus on sales to multi-store operators that are well equipped for beverage and where the Company can engage in deeper in-store merchandising and traffic-building initiatives. This is expected to improve the consistency of the Company's products visibility and pricing in prominent stores. These programs can be deployed at lower expected cost than servicing a large number of independent operators. The Company began signing such deals in the first half of 2021, namely Harborside and Planet 13 dispensaries.
- **Increased focus on home delivery:** The Company is working to deepen its relationships with existing home delivery services and add additional such services. As a key component of this strategy, the Company signed its an agreement with Stem Holdings, a leading statewide home delivery service, in May 2021.
- **Influencer marketing:** The Company aims to leverage its team's deep media industry relationships to endeavor to enter into agreements with prominent entertainment and sports personalities to provide influencer services. The Company has appointed two-time NBA All-Star Baron Davis to the Advisory Board to assist with this effort.

Restarting tastings and demos: When COVID-19 restrictions ease such that tastings and demos are permitted the Company intends to restart such programs. The Company intends to partner with third-party brands to conduct these programs, which would serve to increase visibility for all products as well as enable cost sharing between multiple brands.

Third-Party Brand Manufacturing

On March 1, 2018, the Company entered into two 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 for operations carried out by Lakewood 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 manufacturing 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.

Lakewood's 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) Lakewood 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) Lakewood 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.

The Company is using Lakewood for manufacturing its own products as well as providing manufacturing services for third-party brands. The Company has announced manufacturing and licensing agreements between Lakewood and several prominent cannabis brands as well as a pipeline of prospective clients. Signed agreements include Cannabis Quencher, one of California's top-selling beverages as well as SIP Elixirs, Nevada's #1 beverage, the latter of which the Company is launching in California (Source: Headset Data).

The facility enables Lakewood to perform beverage testing and R&D to enable continuous product innovation and quality assurance for the Company's products and its third party brands' products. The Company believes that this lineup of services enables it to maintain control over all aspects of its supply chain to offer an end-to-end beverage

**THE TINLEY BEVERAGE COMPANY INC.**  
**Management's Discussion and Analysis of Financial Condition and Results of Operations**  
**For the three and six months ended June 30, 2021**

---

development solution for third-party brands. In doing so, the Company is able to provide investors with exposure to a broader portfolio of beverage products in North America's largest cannabis beverage market.

Since completing the bottling line, the Company has commissioned a bottling line that is capable of producing mini bottles. It is also in the process of commissioning a canning line. These additional bottling lines aim to enhance the scope of bottling and overall product formats that Lakewood can manufacture for third-party brands, as well as increase the facility's overall manufacturing capacity.

Due to the central location of the Long Beach facility, Tinley has retrofitted a portion of the building to be used as a licensed cannabis distribution warehouse. This warehouse is designed to cater to the unique needs of beverage products, including refrigeration and large-format packaging, as well as provide space for storage during the post-manufacturing test processes. Through Lakewood, following the closing of the Acquisition Transaction, the Company intends to operate this warehousing facility in cooperation with existing local distributors and operators. The Company expects this facility to be operational in the second or third quarter of 2021.

#### Territorial Expansion

In late 2019, the Company announced an agreement with Great North Distribution 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. In late 2020, the Company entered into an agreement with Peak Processing Systems, a Canadian licensed cannabis producer, to launch its Tinley '27 multi-serve products in Canada. In mid-2021, the Company entered into an agreement with BevCanna Enterprises, an additional Canadian licensed cannabis producer, to produce its Tinley's Tonics single-serve products in Canada. Upon launch of these products, the Company will work with Great North to sell and market in key provinces across the company, pending successful regulatory testing and acceptance of such products by provincial cannabis boards. The Company has already received indicative commitments from two provinces.

The Company views Nevada as an additional 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. The Company intends to pursue Nevada or other territories in due course.

#### CBD Beverages

Subsequent to the passage of the US Farm Bill in late 2018, the US 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.

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 THC and cannabis-derived (i.e. non-hemp-derived) CBD products in the dispensary channel.

The Company is currently producing beverages containing cannabis-derived CBD for third-party brands, and presently does not have plans to add CBD to its own beverages.

#### **Current and anticipated impacts from COVID-19**

The global pandemic related to an outbreak of COVID-19 has cast uncertainty on many of the Company's assumptions and estimates. There can be no assurance that such assumptions and estimates continue to be valid. Given the rapid pace of change in the severity of and response to the COVID-19 outbreak, it is premature for the Company to make further assumptions or estimates. The situation is dynamic and the ultimate duration and magnitude of the impact of COVID-19 on the economy and the financial effect on the business is not known at this time. These impacts could

**THE TINLEY BEVERAGE COMPANY INC.**  
**Management's Discussion and Analysis of Financial Condition and Results of Operations**  
**For the three and six months ended June 30, 2021**

---

include, amongst others, an impact on the Company's ability to obtain debt or equity financing, increased credit risk on receivables, impairments in the value of the long-lived assets, or potential future decreases in revenue or profitability of the Company's ongoing operations.

The Company's business is dependant on a number of factors which could be adversely disrupted by, among others, major health issues or pandemics. In particular, major health issues and pandemics, such as the global impact of COVID-19. Given the ongoing and dynamic nature of the circumstances, it is difficult to predict the impact of the COVID-19 outbreak on the Company's business. These factors are beyond the Company's control, may adversely affect us and our suppliers or cause disruptions to their and the Company's businesses and may impact their ability to supply us.

The Company has taken a number of precautions with the intention of mitigating COVID-19 risk at its facilities and corporate office. The Company requires that all non-essential production employees work from home, where their duties with the Company allowed. This measure helps minimize the number of potential COVID-19 exposures on a daily basis. While at work, physical distancing measures were enacted, personal protective equipment ("PPE") (such as masks) was made mandatory both inside the production area and outside in office spaces. As of the date hereof, the above measures remain in place and to the knowledge of the Company, no employee has tested positive for COVID-19. The Company will continually review the above measures in conjunction with the measures deemed appropriate by Ontario Public Health or the appropriate local health authorities.

*Business and Supply Chain Disruption:* While it may be too early to fully understand the severity of COVID-19 and its long-term implications, there have been a number of challenges that the Company is facing. At the Company's production facilities, staff are required to wear. To date, there have not been any disruptions, however, there could be a time when those third-party suppliers have reduced access or may be unable to work at the Company's facility.

*Nature and Impact of Government Measures:* The federal government has announced a number of measures to support workers and businesses, however, to date we have not been eligible for additional support. That said, the Company continues to investigate and monitor the activities of the federal and provincial governments and will apply for support wherever possible.

*Borrowing and Lending Issues:* Currently, the Company does not have imminent debt obligations (other than normal trade payables and accruals).

*Sales:* Since the start of the COVID-19 pandemic, and with the Long Beach facility starting operations, sales have started to grow and demand for product has increased.

*Commodity Prices:* As a cannabis company, the prices of cannabis derivative products have seen an oversupply, leading to reduced expectations on commodity prices. To date the COVID-19 outbreak has not had a detrimental effect on our ability to acquire inputs at a reasonable cost.

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

The Company has established a board-level committee ("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. The Company created this committee in anticipation of receiving 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 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. Ted Zittell subsequently assumed the Chairman role.

On February 8, 2018, the CSA published 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



**THE TINLEY BEVERAGE COMPANY INC.**  
**Management’s Discussion and Analysis of Financial Condition and Results of Operations**  
**For the three and six months ended June 30, 2021**

---

particular state’s regulatory framework. All issuers with U.S. 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 (“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 Q2 2020, the Company operated under an IP Agreement licensing its proprietary intellectual property to a licensed operator, (hereinafter, the “Prior Manufacturer”), who, utilizing its cannabis licenses, previously manufactured the Company’s Tinley-branded products and paid the Company a royalty fee (“IP License”). The Prior Manufacturer was licensed to produce the Tinley-branded products from its premises in Riverside County.

In April 2020, the Company and the Prior 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 continues to operate in the cannabis industry as a non-operational entity providing the Tinley Resources to Lakewood for the purposes of Lakewood producing the Company’s products in the United States. Upon the closing of the Acquisition Transaction and subsequent regulatory approval of the Company as the sole owner of Lakewood, the Company will assume direct control over Lakewood and its contracts with third-party brands.

*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 (“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.

**THE TINLEY BEVERAGE COMPANY INC.**  
**Management's Discussion and Analysis of Financial Condition and Results of Operations**  
**For the three and six months ended June 30, 2021**

---

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 ("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 ("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 ("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 principles 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

**THE TINLEY BEVERAGE COMPANY INC.**  
**Management's Discussion and Analysis of Financial Condition and Results of Operations**  
**For the three and six months ended June 30, 2021**

---

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 former 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, former 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 Gardner 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 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 ("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 former 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

**THE TINLEY BEVERAGE COMPANY INC.**  
**Management’s Discussion and Analysis of Financial Condition and Results of Operations**  
**For the three and six months ended June 30, 2021**

---

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.

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. In total, 15 states and Washington, DC have legalized cannabis for adult-use over the age of 21, while 36 states have legalized cannabis for medical use.

On January 20, 2021, Joseph R. Biden was sworn in as the 46<sup>th</sup> President of the U.S. On March 10, 2021, House Democrats voted 220 to 211 in favor of passing the American Rescue Plan (ARP) Act, a \$1.9 trillion coronavirus relief package, which is among the largest economic stimulus packages in U.S. history. The ARP Act was signed by

**THE TINLEY BEVERAGE COMPANY INC.**  
**Management’s Discussion and Analysis of Financial Condition and Results of Operations**  
**For the three and six months ended June 30, 2021**

---

President Biden on March 11, 2021. While cannabis companies will likely see increased sales resulting from this third round of federal stimulus payments in the U.S., some industry experts had claimed that cannabis companies may be ineligible for certain small business credit initiatives outlined in the relief package.

While newly appointed U.S. Attorney General Merrick Garland had previously commented that he would deprioritize enforcement of low-level cannabis crimes such as possession, and that federal reforms are closely tied to the larger issue of social justice for minorities, Attorney Garland has yet to offer further clarity on how he will enforce federal law or how to deal with states that have legalized medical or recreational cannabis. While bipartisan support is gaining traction on decriminalization and reform, there is no imminent timeline on any potential legislation. There is no guarantee that the Biden Presidential administration will not change its stated policy regarding the low-priority enforcement of U.S. federal laws that conflict with state laws.

**Any increase 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 business, which could in turn have an impact on the Company’s operations or financial results. A change in its enforcement policies could impact the ability of the Company to continue as a going concern** (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. Former 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. After the renewals of a series of stopgap spending bills, the amendment was renewed on December 27, 2020, through the signing of the Fiscal Year 2021 omnibus spending bill, effective through September 30, 2021.

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 Lakewood, which holds

**THE TINLEY BEVERAGE COMPANY INC.**  
**Management's Discussion and Analysis of Financial Condition and Results of Operations**  
**For the three and six months ended June 30, 2021**

---

various licenses, including a Type 6 Manufacturing License. Because the Lakewood has a Type 6 Manufacturing License, Lakewood will be permitted to manufacture the Company's products in compliance with the Final BCC and CDPH Regulations. Lakewood 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 Lakewood 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. There is risk in that Company's operations may be required to pay tax on both proceeds received in connection with third-party manufacturing services and proceeds from the sale of the products to be paid out to clients as royalties, without the benefit of being able to deduct the payout of such royalties. 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 Company is not licensed and only Lakewood has acquired licenses to conduct commercial cannabis manufacturing. There is no guarantee that Lakewood will obtain the required licenses for cannabis distribution or that the Acquisition Transaction will be approved by state and local regulators. Lakewood's licenses must be renewed annually and there is no guarantee that such license will be renewed each year.
8. Acquisition Transaction Closing - Lakewood is currently independently owned and operated utilizing the Tinley Resources, but is subject to the Acquisition Transaction. Although the only reason the Acquisition Transaction has not yet closed is due to Lakewood's pending cannabis license applications, there is a risk that the Acquisition Transaction is not approved by local or state regulators following its closing in which case the Company will still have control over Lakewood, but it would create significant risk to the status of Lakewood's license and ability to operate.

*F. Ability to Access Public and Private Capital*

**THE TINLEY BEVERAGE COMPANY INC.**  
**Management's Discussion and Analysis of Financial Condition and Results of Operations**  
**For the three and six months ended June 30, 2021**

---

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 Lakewood will be able to maintain or remain in compliance with California or other state laws.

Moreover, even if Lakewood 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 Prior Manufacturer for the production of Tinley-branded products. The Prior 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 Prior Manufacturer also contracted directly with licensed cannabis distributors for distribution of the Company's products. The Prior 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. Through Lakewood, the Company continues to license its intellectual property for the production of Tinley-branded products at the Long Beach facility.

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

As stated above, the Company has no direct involvement in the cultivation or distribution of cannabis or cannabis products. The Company is indirectly involved in commercial cannabis manufacturing through providing the Tinley Resources to Lakewood for manufacturing at the Long Beach facility.

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

The CDPHMCSB lists Lakewood as a state license holder. On this basis, the Company is informed and believes that Lakewood "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 April 30, 2021, 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.

**THE TINLEY BEVERAGE COMPANY INC.**  
**Management’s Discussion and Analysis of Financial Condition and Results of Operations**  
**For the three and six months ended June 30, 2021**

---

*California*

California passed the first medical cannabis law in U.S., the California Compassionate Use Act (CUA), through Proposition 215 in 1996. The CUA created a legal defense to criminal prosecution for the use, possession, and cultivation of cannabis by patients with a valid physician’s recommendation. California then adopted Medical Marijuana Program Act (*aka* Senate Bill 420) in 2003, establishing not-for-profit medical cannabis patient collectives and retail dispensaries, a limited immunity from arrest for medical cannabis patients and collectives, and a voluntary patient ID card system.

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, the Legislature passed state Senate Bill No. 94, also known as the “Medicinal and Adult-Use Cannabis Regulation and Safety Act” (“MAUCRSA”), which amalgamated the MCRSA and AUMA frameworks to provide a single uniform statute governing both medical and adult-use cannabis businesses, and authorizing the adoption of regulations, a licensing regime, and state taxes for cannabis businesses in the state. On November 16, 2017, the state introduced initial “emergency” regulations proposed by the BCC (within the California Department of Consumer Affairs), the Manufactured Cannabis Safety Branch (within the California Department of Public Health (“MCSB”)) and CalCannabis (within the California Department of Food and Agriculture (“CalCannabis,”) and together with the BCC and MCSB, the “Licensing Agencies”), which were ultimately adopted. The regulations built on MCRSA and AUMA and reinforced compliance with local laws as a prerequisite to compliance with the state regulations. On January 1, 2018, the new state regulations took effect, and the first legal adult-use cannabis businesses opened in California.

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 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.



**THE TINLEY BEVERAGE COMPANY INC.**  
**Management’s Discussion and Analysis of Financial Condition and Results of Operations**  
**For the three and six months ended June 30, 2021**

---

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.

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 (“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.

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.

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 by Lakewood 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.

**THE TINLEY BEVERAGE COMPANY INC.**  
**Management’s Discussion and Analysis of Financial Condition and Results of Operations**  
**For the three and six months ended June 30, 2021**

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 consolidated statements of financial position that pertain to US cannabis activity as of June 30, 2021:

<b>Statement of Financial Position Items</b>	<b>Percentage (%) which related to holdings with US marijuana-related activities</b>
Cash	11%
Accounts receivable	63%

**THE TINLEY BEVERAGE COMPANY INC.**  
**Management's Discussion and Analysis of Financial Condition and Results of Operations**  
**For the three and six months ended June 30, 2021**

Inventories	46%
Prepaid expenses	23%
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 audited 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:

	2020	2019	2018
	\$	\$	\$
Sales	304,167	85,128	36,597
Operating loss	(7,668,304)	(7,401,583)	(3,701,121)
Net loss	(7,687,970)	(7,392,122)	(3,660,906)
Loss per share – basic	(0.069)	(0.075)	(0.042)
Loss per share – diluted	(0.069)	(0.073)	-
Total assets	11,434,683	13,901,946	6,812,613
Total liabilities	2,826,247	3,348,396	299,499
Total shareholders' equity	8,608,436	10,553,550	6,513,114

**Selected Quarterly Financial Results**

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

	Q2 2021	Q1 2021	Q4 2020	Q3 2020
	\$	\$	\$	\$
Sales	360,918	138,406	61,127	34,628
Operating loss	(1,798,004)	(2,584,854)	(2,168,613)	(2,453,747)
Net loss	(1,798,002)	(2,584,854)	(2,168,822)	(2,446,443)
Loss per share – basic	(0.015)	(0.023)	(0.069)	(0.022)
Loss per share – diluted	(0.015)	(0.022)	(0.069)	(0.020)
Working capital	1,774,915	934,166	1,746,575	1,355,577

	Q2 2020	Q1 2020	Q4 2019	Q3 2019
	\$	\$	\$	\$
Sales	34,747	173,665	62,463	21,664
Operating loss	(1,139,430)	(1,906,514)	(1,881,633)	(1,869,624)
Net loss	(1,111,235)	(1,961,470)	(1,887,309)	(1,858,000)
Loss per share – basic	(0.018)	(0.018)	(0.019)	(0.019)
Loss per share – diluted	(0.018)	(0.018)	(0.019)	(0.019)
Working capital	2,282,030	1,736,731	3,007,551	4,219,021

**THE TINLEY BEVERAGE COMPANY INC.**  
**Management's Discussion and Analysis of Financial Condition and Results of Operations**  
**For the three and six months ended June 30, 2021**

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**Three Months ended June 30, 2021**<sup>1</sup>

*Results of operations*

During the three months ended June 30, 2021 ("Q2 2021"), the Company generated sales of \$360,918, as compared to sales of \$34,747 for the three months ended June 30, 2020 ("Q2 2020"). This reflects the completion of the Company's Long Beach facility in Q4 2020, which enables the Company to start to produce and sell products at scale and begin co-manufacturing for third-party brands, the results of which began to materialize towards the end of Q1 2021. It also reflected additional orders for its non-infused products as its online distribution improved and expansion to Tennessee. This contrasts with Q2 2020, when sales were impacted by the Company's limited manufacturing capability for infused products and the shutdown of stores and sampling programs for its non-infused products due to COVID-19.

During Q2 2021, the Company had total operating expenses of \$1,905,662 as compared to \$1,126,558 in Q2 2020. The comparative increase in operating expenses is due to an increase in general and administrative costs ("G&A"; see detailed breakdown below). The increase in G&A costs were primarily driven by professional fees costs related to compliance and legal costs of expanding the Long Beach co-manufacturing operation, including the additional bottling lines and co-packing client engagements, into operation, as well as bringing the Canadian infused business into a production-ready state; expenses for these initiatives are generally one-time and not recurring. Staff salaries, primarily related to Long Beach bottling operations also contributed to the increase.

During Q2 2021, the Company incurred total G&A expenses of \$1,006,570 (Q2 2020 – \$687,940), comprised primarily of:

- Corporate costs and administration of \$294,586 (Q2 2020 – \$200,633).
- Payroll and salaries of \$293,985 (Q2 2020 – \$194,276).
- Professional fees of \$226,571 (Q2 2020 – \$76,172).
- Consulting and management fees of \$103,323 (Q2 2020 – \$134,719).
- Interest on lease obligations of \$42,274 (Q2 2020 – \$67,106)
- Occupancy costs of \$38,999 (Q2 2020 – \$10,158); and
- Travel and promotional expenses of \$6,832 (Q2 2020 – \$4,877).

Net loss for the three months ended June 30, 2021 was \$1,798,002 \$0.015 per share on a basic and \$0.015 diluted basis), as compared to a net loss of \$1,111,235 (\$0.018 per share on a basic and diluted basis) for Q2 2020.

*Cash flows*

Net cash flows used in operating activities for Q2 2021 were \$931,037, as compared to net cash flows used in operations of \$205,351 in Q2 2020. The increase in net cash used in operations is primarily due to an increase in net loss for the period, which was offset in part by increases in other non-cash items including share-based payments, and depreciation on property and equipment.

Net cash flows provided by financing activities in Q2 2021 was \$2,010,806 (Q2 2020 \$1,492,857), which consisted of (i) net proceeds of \$2,416,250 from a private placement (less cash commissions and finders' fees of \$199,099 paid to the agents); the cash inflows were primarily offset by lease payments made on the Long Beach facility.

Net cash used in investing activities in Q2 2021 was \$165,508 (Q2 2020 – \$253,877), primarily purchases of property and equipment, and construction in progress.

**Six Months ended June 30, 2021**

*Results of operations*

During the six months ended June 30, 2021, the Company generated sales of \$499,324, as compared to sales of \$208,412 for the six months ended June 30, 2020. The increase in sale is due co-packing services, which had begun generating revenue in the final week of Q1 2021, and well as sales of Tinley's infused beverages in California and non-infused beverages in North America.

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<sup>1</sup> 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.

**THE TINLEY BEVERAGE COMPANY INC.**  
**Management's Discussion and Analysis of Financial Condition and Results of Operations**  
**For the three and six months ended June 30, 2021**

During the six months ended June 30, 2021, the Company incurred total operating expenses of \$4,484,519, as compared to \$3,104,493 in the comparative period in 2020. The increase in operating expenses in the current period is primarily due to the increase in G&A costs of \$1,873,867 in the current period (2020 – \$1,522,286), due to expanded operations and increased share-based payment activities for a total \$1,494,587 in 2021 (2020 – \$679,178), with the majority of the increase in G&A costs related to professional fees and staff payroll, offset by decreases in management and consulting fees, and increased corporate costs and administration. This overall increase was also partially offset by decreases interest on lease obligations, and travel and promotions.

During the six months ended June 30, 2021, the Company incurred total G&A expenses of \$1,873,867 (2020 – \$1,522,286), comprised primarily of:

- Payroll and salaries of \$591,228 (2020 – \$413,286).
- General office expenses of \$456,658 (2020 – \$370,357).
- Professional fees of \$420,592 (2020 – \$182,658).
- Consulting and management fees of \$202,672 (2020 – \$222,930).
- Occupancy costs of \$102,383 (2020 – \$160,523).
- Interest on lease obligations of \$90,084 (2020 – \$136,501); and
- Travel and promotional expenses of \$10,250 (2020 – \$36,030).

Net loss for the six months ended June 30, 2021 was \$4,382,856 (\$0.038 per share on a basic and \$0.036 per share on diluted basis), as compared to a net loss of \$3,072,705 (\$0.029 per share on a basic and diluted basis) for the comparative period in 2020.

#### *Cash flows*

Net cash used in operating activities for the six months ended June 30, 2021 was \$2,019,658 (2020 – \$1,415,086). The higher net cash used in operations is due to increase in G&A including payroll, general office expenses, professional fees, slightly offset by decreases in share-based payments, interest on lease obligations, rents paid on the Long Beach facility and an unrealized gain on foreign exchange.

Net cash used in investing activities for the six months ended June 30, 2021 was \$518,084 (2020 – \$(253,877)), primarily purchases of property and equipment, and construction in progress.

Net cash used in financing activities for the six months ended June 30, 2021 was \$2,575,177 (2020 – \$1,276,016), which consisted of \$3,266,250 in funds from the Private Placement Offering. In connection to the financings, cash commissions and finders' fees of \$275,508 were paid. The cash inflows were primarily offset by lease payments made on the Long Beach facility of \$415,565. In the comparative period in 2020, the Company raised total funds of \$1,850,000 from non-brokered Private Placement financing. Cash commissions and finders' fees of \$130,152 were paid in connection to the financings. The inflow of funds was partially offset by lease payments of \$443,832 made on the Long Beach facility.

#### **Working Capital and Liquidity Outlook**

As at June 30, 2021, the Company had working capital of \$1,774,915, as compared to working capital of \$1,746,575 as at December 31, 2020.

As at June 30, 2021, the Company had total accessible cash and cash equivalents of \$2,311,571 (December 31, 2020 – \$2,258,526) available for working capital and other operational purposes.

As at June 30, 2021, the Company had cash and cash equivalents of \$2,311,571 (December 31, 2020 – \$2,258,526) to settle current liabilities of \$1,943,972 (December 31, 2020 – \$1,676,371). A portion of the reported liabilities are invoices owing to ICC for approximately \$442,000, which the Company is currently disputing. All of the Company's financial liabilities have contractual maturities of less than 365 days and are subject to normal trade terms. Management believes there is sufficient capital in order to meet short-term business obligations, after taking into account cash flows requirements from operations and the Company's cash position as at period-end. Nevertheless, management understands that the Company is dependent on additional capital by way of financing in 2021.

#### **Key Management Compensation and Related Party Transactions**

**THE TINLEY BEVERAGE COMPANY INC.**  
**Management's Discussion and Analysis of Financial Condition and Results of Operations**  
**For the three and six months ended June 30, 2021**

*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 six months ended June 30, 2021 and 2020 were as follows:

	2021	2020
	\$	\$
Short-term employee benefits, including salaries and consulting fees	445,050	442,907
Share-based compensation	901,090	493,269
	<b>1,346,140</b>	936,176

- (i) During the six months ended June 30, 2021, the Company incurred consulting fee expenses with the CEO of \$78,000 (2020 – \$78,000). As at June 30, 2021, a balance of \$14,690 (December 31, 2020 – \$nil) was owed to the CEO for compensation on services rendered. This balance is unsecured, non-interest bearing and due on demand.
- (ii) During the six months ended June 30, 2021, the Company incurred consulting fees with the former Chief Financial Officer (“CFO”) of \$20,200 (2020 – \$39,200). As at June 30, 2021, no balance (December 31, 2020 – \$nil) was owed to the former CFO for compensation on services rendered. This balance is unsecured, non-interest bearing and due on demand.
- (iii) During the six months ended June 30, 2021, the Company incurred consulting fees with the newly appointed Chief Financial Officer (“CFO”) of \$42,500 (2020 – \$nil). As at June 30, 2021, \$12,091 (December 31, 2020 – \$nil) was owed to the newly appointed CFO for compensation on services rendered. This balance is unsecured, non-interest bearing and due on demand.
- (iv) During the six months ended June 30, 2021, the Company incurred wages expenses with an Officer for approximately \$150,900 (2020 – \$163,812) for services rendered. As at June 30, 2021, no balance (December 31, 2020 – \$nil) was owed to the Officer for compensation on services rendered.
- (v) During the six months ended June 30, 2021, the Company incurred consulting fees with the Acting Chief Operating Officer (“Acting COO”), who is also a director of the Company, of \$75,480 (2020 – \$80,540). As at June 30, 2021, \$9,915 (December 31, 2020 – \$nil) was owed to the COO for compensation on services rendered. This balance is unsecured, non-interest bearing and due on demand.
- (vi) During the six months ended June 30, 2021, the Company incurred consulting fees with directors considered to be part of key management of \$78,000 (2020 – \$78,000) for services rendered. As at June 30, 2021, an amount of \$21,490 (December 31, 2020 – \$6,500) incurred to these directors was included in accounts payable and accrued liabilities. This balance is unsecured, non-interest bearing and due on demand.
- (vii) During the three months ended June 30, 2021, the Company incurred legal fees with an entity controlled by one of the directors who is considered to be part of key management of \$nil (2020 – \$3,356).

*Other related party transactions*

- (viii) During the six months ended June 30, 2021, directors who are not part of key management received stock-based compensation of \$248,370 (2020 – \$119,689).

**5. 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 audited 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

**THE TINLEY BEVERAGE COMPANY INC.**  
**Management's Discussion and Analysis of Financial Condition and Results of Operations**  
**For the three and six months ended June 30, 2021**

instruments is minimal. The maximum exposure to credit risk at period-end is limited to the accounts receivable balance. No expected credit losses ("ECL") has been recorded as at June 30, 2021.

*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 markets 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 June 30, 2021, the Company had a cash and cash equivalents balance of \$2,311,571 (December 31, 2020 – \$2,258,526) to settle current liabilities of \$1,943,972 (December 31, 2020 – \$1,676,371), including approximately US\$442,000 for the settlement with ICC, which the Company is currently disputing. 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	1,226,558	1,226,558	-	-
Lease payable	1,619,547	839,768	779,779	-
<b>Total</b>	<b>2,846,105</b>	<b>2,066,326</b>	<b>779,779</b>	<b>-</b>

*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 \$nil, 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 June 30, 2021.

*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 June 30, 2021, the Company had the following assets and liabilities in USD:

	June 30, 2021	December 31, 2020
	\$	\$
Cash	200,126	132,714
Trade receivables	73,978	11,331
Trade and other payables	(654,797)	(508,402)
Lease obligation	(1,181,093)	(1,639,970)
<b>Net exposure to USD</b>	<b>(1,561,786)</b>	<b>(2,004,327)</b>

Had the value of the USD increased or decreased by 1%, the net loss and comprehensive loss would have increased or decreased by USD \$15,618 (December 31, 2020 – USD \$20,043), respectively, as a result of this exposure.

**6. Capital Management**

**THE TINLEY BEVERAGE COMPANY INC.**  
**Management’s Discussion and Analysis of Financial Condition and Results of Operations**  
**For the three and six months ended June 30, 2021**

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 (“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 June 30, 2021, the Company considers its capital to be share capital, reserve for share-based payments, reserve for warrants and contributed surplus, and reduced by accumulated deficit and accumulated other comprehensive loss, totaling \$8,544,735 (December 31, 2020 – \$8,608,436).

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 six months ended June 30, 2021 and the year ended December 31, 2020.

**7. Summary of Significant Accounting Policies**

Adoption of New Accounting Standards

The Company adopted the following amendments and new standards effective January 1, 2020:

IAS 1 ‘Presentation of Financial Statements’ (“IAS 1”) 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 had assessed there was no significant impact on its consolidated financial statements, as a result of the adoption of these amendments.

Recent Accounting Pronouncements

At the date of authorization of these consolidated financial statements, the IASB and the IFRIC have issued the following amendments which are effective for annual periods beginning on or after January 1, 2021:

In January 2020, the IASB issued amendments to IAS 1 which clarify the requirements for classifying liabilities as either current or non-current by: (i) specifying that the conditions which exist at the end of the reporting period determine if a right to defer settlement of a liability exists; (ii) clarifying that settlement of a liability refers to the transfer to the counterparty of cash, equity instruments, other assets or services; (iii) clarifying that classification is unaffected by management’s expectation about events after the balance sheet date; and (iv) clarifying the classification requirements for debt an entity may settle by converting it into equity. The amendments clarify existing requirements, rather than make changes to the requirements, and so are not expected to have a significant impact on an entity’s financial statements. However, the clarifications may result in reclassification of some liabilities from current to non-current or vice-versa, which could impact an entity’s loan covenants. Because of this impact, the IASB has provided a longer effective date to allow entities to prepare for these amendments. In July 2020, the IASB issued an amendment to defer the effective date of the amendments by one year from its originally planned effective date to annual periods beginning on or after January 1, 2023 due to the impact of COVID-19. Early application is permitted.

In May 2020, the IASB issued amendments to update IAS 37 ‘Provisions, Contingent Liabilities and Contingent Assets’ (“IAS 37”). The amendments specify that in assessing whether a contract is onerous under IAS 37, the cost of fulfilling a contract includes both the incremental costs and an allocation of costs that relate directly to contract activities. The amendments also include examples of costs that do, and do not, relate directly to a contract. These amendments are effective for annual periods beginning on or after January 1, 2022. Earlier application is permitted.

**Disclosure of Outstanding Share Data as at August 30, 2021**

	Authorized	Outstanding



**THE TINLEY BEVERAGE COMPANY INC.**  
**Management’s Discussion and Analysis of Financial Condition and Results of Operations**  
**For the three and six months ended June 30, 2021**

Voting or equity securities issued and outstanding	Unlimited Common Shares	131,674,237 Common Shares
Securities convertible or exercisable into voting or equity shares		Stock Options to acquire up to 15,330,000 Common Shares of the Company; Warrants to acquire up to 21,685,967 Common Shares of the Company; and, Broker compensation options to acquire up to 1,202,358 Common Shares and broker warrants to acquire 1,187,483 Common Shares of the Company.

**Off-Balance Sheet Arrangements**

As at June 30, 2021 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 December 31, 2020, cannabis regulations continue to evolve and are subject to differing interpretations. As a result, the Company may be subject to regulatory fines, penalties, or restrictions in the future.

Norm Wilson & Sons, Inc. (“Wilson”), the contractor of record for the Company’s Long Beach facility, filed claim against ICC Turnkey, Inc. (“ICC”), the engineers of the Long Beach facility, to the Superior Court of California, County of Los Angeles, on July 1, 2020, alleging ICC has unpaid fees owing to Wilson of approximately US\$325,000. While the Company does not have a contract with Wilson, nor does it believe it has any legal liability in connection with this claim, Wilson has named both the Company and the Company’s landlord as defendants. The Company entered into a fixed price contract with ICC for completion of its bottling facility at Long Beach, California. Under the terms of the Company’s agreement with ICC, the Company is not responsible for cost overruns related to this project, making the unpaid amounts the responsibility of ICC. Accordingly, ICC has agreed to not charge the Company any additional fees, including fees for final commissioning, until this matter is settled between ICC and Wilson.

**Subsequent Events**

*Options exercised*

On August 9, 2021, the Company issued 350,000 common shares through an option exercised 350,000 by its officer at the exercise price of \$0.08 per common share, for gross proceeds of \$28,000.

*Option grants*

On August 17, 2021, the Company granted 400,000 options to an employee and consultants of the Company. The options are exercisable at an exercise price of \$0.23 per common share for a period of 5 years. The options vested quarterly over two years until fully vested.

**8. 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

**THE TINLEY BEVERAGE COMPANY INC.**  
**Management's Discussion and Analysis of Financial Condition and Results of Operations**  
**For the three and six months ended June 30, 2021**

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and the ability of the Company to implement its growth plans could be adversely affected. A discussion of the principal risk factors relating to the Company's operations and business appear in the Company's management's discussion and analysis for the year ended December 31, 2020 ("Annual MD&A") which may be viewed on the Company's SEDAR profile at [www.sedar.com](http://www.sedar.com). Additional risks and uncertainties, including those that the Company does not know about now or that it currently deems immaterial, may also adversely affect the Company's business.

**9. Cautionary 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 the described under the heading "Risk Factors" in the Annual MD&A and described in other 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 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 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.

**10. Management's Responsibility for Financial Information**

Management is responsible for all information contained in this report. The 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 of the Board ("Audit Committee") has reviewed the 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.

**August 30, 2021**

**THE TINLEY BEVERAGE COMPANY INC.**  
**Management's Discussion and Analysis of Financial Condition and Results of Operations**  
**For the three and six months ended June 30, 2021**

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*(signed) "Jeffrey Maser"*

Jeffrey Maser

Chief Executive Officer