



THE TINLEY BEVERAGE COMPANY INC.

Condensed Interim Consolidated Financial Statements

(Unaudited - Expressed in Canadian Dollars)

September 30, 2021 and 2020

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THE TINLEY BEVERAGE COMPANY INC.
Condensed Interim Consolidated Statements of Financial Position
As at September 30, 2021 and December 31, 2021
(Unaudited - Expressed in Canadian Dollars)

	As at September 30, 2021	As at December 31 2020
	\$	\$
<u>Assets</u>		
Current Assets		
Cash and cash equivalents	570,510	2,258,526
Accounts receivable (Note 4)	184,237	90,100
Inventories (Note 5)	814,157	785,896
Prepaid expenses	243,896	288,425
Total Current Assets	1,812,800	3,422,947
Non-Current Assets		
Property and equipment (Note 6)	6,331,842	6,398,317
Right-of-use assets (Note 8)	1,020,164	1,478,192
Security deposits	135,322	135,227
Total Non-Current Assets	7,487,328	8,011,736
Total Assets	9,300,128	11,434,683
<u>Liabilities</u>		
Current Liabilities		
Accounts payable and accrued liabilities (Note 7)	905,138	933,180
Current portion of lease liabilities (Note 8)	764,171	686,211
Promissory note (Note 9)	305,784	-
Deferred revenue	145	56,980
Total Current Liabilities	1,975,238	1,676,371
Non-Current Liabilities		
Lease liabilities (Note 8)	566,128	1,149,876
Total Liabilities	2,541,366	2,826,247
<u>Shareholders' Equity</u>		
Share capital (Note 10)	40,340,110	37,977,603
Reserve for share-based payments (Note 11)	6,678,064	5,151,049
Reserve for warrants (Note 12)	8,084,243	9,515,740
Contributed surplus	4,282,187	2,019,826
Accumulated other comprehensive loss	(462,466)	(395,627)
Accumulated deficit	(52,163,376)	(45,660,155)
Total Shareholders' Equity	6,758,762	8,608,436
Total Liabilities and Shareholders' Equity	9,300,128	11,434,683

Nature of operations (Note 1)

Going concern (Note 2(b))

Contingencies (Note 17)

Subsequent events (Note 18)

Approved on behalf of the Board of Directors

"Curt Marvis" (signed)
Director

"Ted Zittel" (signed)
Director

THE TINLEY BEVERAGE COMPANY INC.
Condensed Interim Consolidated Statements of Loss and Comprehensive Loss
For the three and nine months ended September 30, 2021 and 2020
(Unaudited - Expressed in Canadian Dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
	\$	\$	\$	\$
Sales	198,165	34,628	697,489	243,040
Cost of goods sold (Note 5)	(169,931)	(100,423)	(567,594)	(250,286)
Gross margin	28,234	(65,795)	129,895	(7,246)
Operating Expenses				
General and administration (Note 15)	1,211,602	981,299	3,085,467	2,503,585
Share-based payments (Notes 10)	207,056	236,607	1,701,643	915,785
Depreciation on property and equipment (Note 6)	255,077	259,555	758,009	763,210
Sales and marketing	198,189	141,944	466,752	575,713
Depreciation on right-of-use assets (Note 8)	151,320	159,991	450,859	487,899
Product development	95,677	219,647	158,296	300,825
Foreign currency translation loss (gain)	29,678	388,909	12,090	(54,572)
	(2,148,599)	(2,387,952)	(6,633,116)	(5,492,445)
Net Loss before Other Income (Loss)	(2,120,365)	(2,453,747)	(6,503,221)	(5,499,691)
Other Income (Loss)				
Interest and other income	-	(30)	-	1,062
Fair market value changes to short-term investments	-	7,334	-	(20,519)
Total Other Income (Loss)	-	7,304	-	(19,457)
Net Loss	(2,120,365)	(2,446,443)	(6,503,221)	(5,519,148)
Other Comprehensive Income (Loss)				
Gain (loss) on translation of foreign operations	99,336	222,409	(66,839)	113,991
Total Comprehensive Loss	(2,021,029)	(2,224,034)	(6,570,060)	(5,405,157)
Weighted Average Number of Common Shares	128,544,889	112,059,902	123,534,038	109,602,238
Net Loss per Share				
Basic and Diluted	(0.016)	(0.020)	(0.053)	(0.050)

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

THE TINLEY BEVERAGE COMPANY INC.
Condensed Interim Consolidated Statements of Changes in Shareholders' Equity
For the nine months ended September 30, 2021 and 2020
(Unaudited - Expressed in Canadian Dollars)

	Share Capital		Reserves			Contributed surplus	Accumulated deficit	Accumulated other comprehensive loss	Total
	Number of shares	Amount	Share-based payments	Warrants					
	#	\$	\$	\$	\$				
Balance, December 31, 2019	110,681,641	35,036,761	3,922,339	9,619,818	157,627	(37,970,185)	(212,810)	10,553,550	
Issuance of shares and warrants via private placements (Note 10)	5,780,000	2,088,308	-	970,394	-	-	-	3,058,702	
Share issuance costs (Notes 10 and 12)	-	(275,617)	-	(107,460)	-	-	-	(383,077)	
Share-based payments (Note 11)	-	-	915,785	-	-	-	-	915,785	
Forfeiture of options (Note 11)	-	-	(300,473)	-	300,473	-	-	-	
Expiry of warrants (Note 12)	-	-	-	(1,819,393)	1,819,393	-	-	-	
Exchange gain on translation of foreign operations	-	-	-	-	-	-	113,991	113,991	
Net loss for the period	-	-	-	-	-	(5,519,148)	-	(5,519,148)	
Balance, September 30, 2020	116,461,641	36,849,452	4,537,651	8,663,359	2,277,493	(43,489,333)	(98,819)	8,739,803	
Balance, December 31, 2020	121,877,266	37,977,603	5,151,049	9,515,740	2,019,826	(45,660,155)	(395,627)	8,608,436	
Issuance of shares and warrants via private placements (Note 10)	9,446,971	2,586,805	-	750,179	-	-	-	3,336,984	
Share issuance costs (Notes 10 and 12)	-	(264,721)	-	(81,520)	-	-	-	(346,241)	
Share-based payments (Note 11)	-	-	1,701,643	-	-	-	-	1,701,643	
Issuance of shares on exercises of options (Note 10)	350,000	40,423	(12,423)	-	-	-	-	28,000	
Forfeiture of options (Note 11)	-	-	(162,205)	-	162,205	-	-	-	
Expiry of warrants (Note 12)	-	-	-	(2,100,156)	2,100,156	-	-	-	
Exchange loss on translation of foreign operations	-	-	-	-	-	-	(66,839)	(66,839)	
Net loss for the period	-	-	-	-	-	(6,503,221)	-	(6,503,221)	
Balance, September 30, 2021	131,674,237	40,340,110	6,678,064	8,084,243	4,282,187	(52,163,376)	(462,466)	6,758,762	

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

THE TINLEY BEVERAGE COMPANY INC.
Condensed Interim Consolidated Statements of Cash Flows
For the three and nine months ended September 30, 2021 and 2020
(Unaudited - Expressed in Canadian Dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
	\$	\$	\$	\$
<u>Operating Activities</u>				
Net loss for the period	(2,120,365)	(2,446,443)	(6,503,221)	(5,519,148)
Adjustments for non-cash items:				
Share-based payments (Note 10)	207,056	236,607	1,701,643	915,785
Depreciation of property and equipment (Note 6)	255,077	259,555	758,009	763,210
Depreciation of right-of-use assets (Note 8)	151,320	159,991	450,859	487,899
Interest on lease obligations (Note 8)	39,110	60,653	129,194	197,154
Fair market value changes to short-term investments	-	(7,334)	-	20,519
Unrealized foreign exchange loss (gain)	29,678	388,909	12,090	(54,572)
	(1,438,124)	(1,348,062)	(3,451,426)	(3,189,153)
Changes in non-cash working capital:				
Accounts receivable (Note 4)	(37,803)	25,240	(94,137)	27,283
Inventories (Note 5)	76,163	183,193	(28,261)	6,775
Prepaid expenses	126,666	3,783	44,529	(26,691)
Accounts payable and accrued liabilities (Note 7)	108,069	(345,431)	401,447	285,453
Unearned revenue	-	59,696	(56,839)	59,696
Cash Flows used in Operating Activities	(1,165,029)	(1,421,581)	(3,184,687)	(2,836,637)
<u>Investing Activities</u>				
Purchases of property and equipment (Note 6)	(5,940)	(294,849)	(186,244)	(340,972)
Construction in progress (Note 6)	(287,963)	-	(625,743)	-
Proceeds from redemptions of investments	-	299,970	-	599,970
Cash Flows from (used in) Investing Activities	(293,903)	5,121	(811,987)	258,998
<u>Financing Activities</u>				
Proceeds from private placements (Note 10)	-	1,040,000	3,266,250	2,890,000
Share issue costs (Note 10)	-	(84,224)	(275,508)	(214,376)
Proceeds from exercises of options (Note 10)	28,000	-	28,000	-
Lease payments (Note 8)	(211,640)	(218,355)	(627,205)	(662,187)
Cash Flows from (used in) Financing Activities	(183,640)	737,421	2,391,537	2,013,437
Decrease in cash	(1,642,572)	(679,039)	(1,605,137)	(564,202)
Effects of foreign exchange on cash	(98,489)	372,332	(82,879)	(78,987)
Cash, beginning of period	2,311,571	2,277,860	2,258,526	2,614,342
Cash, end of period	570,510	1,971,153	570,510	1,971,153

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

THE TINLEY BEVERAGE COMPANY INC.
Notes to the Condensed Interim Consolidated Financial Statements
For the three and nine months ended September 30, 2021 and 2020
(Unaudited - Expressed in Canadian Dollars)

1. Nature of Operations

The Tinley Beverage Company Inc. (“Tinley”) was incorporated under the laws of the Province of Ontario, Canada by Articles of Incorporation dated October 26, 2007. Tinley, with its subsidiaries (see Note 2(d)) (together, the “Company”), manufactures a line of liquor-inspired, non-alcoholic, cannabis-infused beverages for use in California, United States (“US”). The Company also manufactures the “Tinley™ Tonics” and “Tinley™ ’27” line of products, which are available in retail locations in California and online throughout the US. The 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”.

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

2. Basis of Presentation

(a) Statement of Compliance

The Company’s condensed interim consolidated financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standards (“IAS”) 34 *Interim Financial Reporting*. Accordingly, they do not include all of the information and disclosures required by IFRS for annual financial statements. For further information, see the Company’s audited consolidated financial statements including the notes thereto for the year ended December 31, 2020.

These condensed interim consolidated financial statements were reviewed, approved and authorized for issuance by the Board of Directors (“Board”) of the Company on November 29, 2021.

(b) Going Concern

These condensed interim consolidated financial statements have been prepared with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. The application of the going concern basis is dependent upon the Company achieving profitable operations to generate sufficient cash flows to fund continuing operations, or, in the absence of adequate cash flows from operations, obtaining additional financing to support operations for the foreseeable future. It is not possible to predict whether future financing efforts will be successful or if the Company will attain profitable levels of operations.

For the nine months ended September 30, 2021, the Company had a net loss of \$6,503,221 (2020 – \$5,519,148), incurred negative cash flow from operations of \$3,184,687 (2020 – \$2,836,637), and had an accumulated deficit of \$52,163,376 as at September 30, 2021 (December 31, 2020 – \$45,660,155). The Company is dependent on its ability to obtain additional financing to fund its operations. In assessing whether the going concern assumption was appropriate, management took into account all relevant information available about the future, which was at least, but not limited to, the 12-month period ending September 30, 2022. Management carefully manages its cash flows and, as necessary, undertakes efforts to raise additional capital.

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

(c) Basis of Measurement

These condensed interim consolidated financial statements have been prepared in accordance with IFRS, on the historical cost basis except for certain financial instruments which are measured at fair value. In addition, these condensed interim consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

THE TINLEY BEVERAGE COMPANY INC.
Notes to the Condensed Interim Consolidated Financial Statements
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(d) Basis of Consolidation

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

Subsidiaries consist of entities over which the Company is exposed to, or has rights to, variable returns as well as the ability to affect those returns through the power to direct the relevant activities of the entity. Subsidiaries are fully consolidated from the date control is transferred to the Company and are deconsolidated from the date control ceases.

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

(e) Significant Accounting Judgments and Estimates

The preparation of these condensed interim consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, revenue, and expenses. On an ongoing basis, management evaluates its judgments and estimates in relation to assets, liabilities, revenue, and expenses. Management uses historical experience and various other factors it believes to be reasonable under the given circumstances as the basis for its judgments and estimates. Actual outcomes may differ from these estimates under different assumptions and conditions. These estimates are reviewed periodically, and adjustments are made to income as appropriate in the period they become known. Items for which actual results may differ materially from these estimates are described as follows:

Going concern

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

Covid-19 Pandemic

The global pandemic related to an outbreak of the novel coronavirus ("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 include, amongst others, an effect 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.

Fair value of financial assets and financial liabilities

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

Expected credit losses on financial assets

Determining an allowance for expected credit losses ("ECLs") for all debt financial assets not held at fair value through profit or loss requires management to make assumptions about the historical patterns for the probability of default, the timing of collection and the amount of incurred credit losses, which are adjusted based on management's judgment about whether economic conditions and credit terms are such that actual losses may be higher or lower than what the historical patterns suggest.

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Determination of cash generating units

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

Impairment

Long-lived assets except indefinite life intangible assets and goodwill, including property and equipment, are reviewed for indicators of impairment at each reporting period or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of an asset or a CGU is the higher of its fair value, less costs to sell, and its value in use. If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is recognized immediately in profit or loss by the amount by which the carrying amount of the asset exceeds the recoverable amount.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount, and the carrying amount that would have been recorded had no impairment loss been recognized previously.

Income taxes

Income taxes and tax exposures recognized in the consolidated financial statements reflect management’s best estimate of the outcome based on facts known at the reporting date. When the Company anticipates a future income tax payment based on its estimates, it recognizes a liability. The difference between the expected amount and the final tax outcome has an impact on current and deferred taxes when the Company becomes aware of this difference.

In addition, when the Company incurs losses that cannot be associated with current or past profits, it assesses the probability of taxable profits being available in the future based on its budgeted forecasts. These forecasts are adjusted to take account of certain non-taxable income and expenses and specific rules on the use of unused credits and tax losses. When the forecasts indicate the sufficient future taxable income will be available to deduct the temporary differences, a deferred tax asset is recognized for all deductible temporary differences.

Share-based payment transactions and warrants

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

3. Summary of Significant Accounting Policies

The accounting policies applied by the Company in these condensed interim consolidated financial statements are the same as those noted in the Company’s audited consolidated financial statements for the year ended December 31, 2020, unless otherwise noted below.

(a) Property and Equipment

Construction in progress is transferred to the appropriate asset class when the facility and equipment is available for use, which is defined as the point at which the build-out and installation of equipment is complete, commissioned and available for use. Depreciation commences at the point the assets are classified as available-for-use.

THE TINLEY BEVERAGE COMPANY INC.
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4. Accounts Receivable

Accounts receivable consisted of the following:

	September 30, 2021	December 31, 2020
	\$	\$
Sales taxes recoverable	41,302	75,674
Trade receivables	142,935	14,426
	184,237	90,100

5. Inventories

Inventories consisted of the following:

	September 30, 2021	December 31, 2020
	\$	\$
Raw materials	539,487	507,064
Finished goods	274,670	224,223
Work in process	-	54,609
	814,157	785,896

For the nine months ended September 30, 2021, inventories recognized as an expense in cost of goods sold amounted to \$567,594 (2020 – \$250,286).

6. Property and Equipment

	Construction in Progress	Plant Equipment	Leasehold Improvements	Vehicles	Total
	\$	\$	\$	\$	\$
Cost at:					
December 31, 2020	-	5,874,449	1,745,143	166,899	7,786,491
Additions	625,743	36,620	149,624	-	811,987
Adjustment due to lawsuit settlement	-	(68,916)	(54,788)	-	(123,704)
Effects of foreign exchange	11,402	3,564	2,962	118	18,045
September 30, 2021	637,145	5,845,716	1,842,941	167,017	8,492,819
Accumulated depreciation at:					
December 31, 2020	-	864,055	477,681	46,438	1,388,174
Depreciation	-	434,074	299,334	24,601	758,009
Effect of foreign exchange	-	8,517	5,792	485	14,794
September 30, 2021	-	1,306,646	782,807	71,524	2,160,977
Net Book Value:					
December 31, 2020	-	5,010,394	1,267,462	120,461	6,398,317
September 30, 2021	637,145	4,539,070	1,060,134	95,493	6,331,842

On September 20, 2021, the Company was granted the settlement on a lawsuit dispute related to its claim against the engineering firm that performed contractual work at the Company's Long Beach facility. The court also granted the release of the mechanics lien the Company had previously provisioned at a value of \$563,152 (USD \$442,000). Under the settlement, the Company is to make a reduced payment of \$437,016 (USD \$343,000) to the contractor on behalf of the engineer in return for the supply and installation of an upgraded mini line at the facility. The settlement resulted in the reduction of the carrying value of property and equipment of \$123,704 (USD \$98,861) (plant equipment \$68,916, leasehold improvement \$54,788). This non-cash transaction has been excluded from the consolidated statements of cash flows.

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7. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consisted of the following:

	September 30, 2021	December 31, 2020
	\$	\$
Trade payables	421,165	851,708
Accrued liabilities	483,973	81,472
	905,138	933,180

Accounts payable and accrued liabilities are principally comprised of amounts outstanding for trade purchases and other payables. The usual credit period taken for trade purchases is between 30 to 90 days.

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

	September 30, 2021	December 31, 2020
	\$	\$
Less than 1 month	699,432	351,227
1 to 3 months	140,126	5,058
Over 3 months	65,580	576,895
	905,138	933,180

8. Right-of-Use Assets and Lease Liability

On March 1, 2018, the Company entered into two lease agreements for the Long Beach facility, granting the Company a right-of-use asset ("RUA") for beverage production and bottling facilities. The leases commenced on March 1, 2018, with a term of five years and three months, ending May 31, 2023, with an option to renew for two additional 36-month periods.

The following is a summary of the RUA:

	\$
Cost at:	
January 1, 2021	3,211,246
Additions	-
Effects of foreign exchange	2,270
September 30, 2021	3,213,516
Accumulated depreciation at:	
January 1, 2021	1,733,054
Depreciation	450,859
Effect of foreign exchange	9,439
September 30, 2021	2,193,352
Net book value:	
December 31, 2020	1,478,192
September 30, 2021	1,020,164

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The following table reflects the changes in the reconciliation of the lease payable on the Long Beach facility:

	9 months ended September 30, 2021
	\$
Lease liability, beginning of period	1,836,087
Lease payments	(627,205)
Interest on lease obligations	129,194
Effects of foreign exchange	(7,777)
Total lease liability, end of period	1,330,299
Current	764,171
Non-current	566,128
	1,330,299

9. Promissory Note

On September 20, 2021, the Company issued a promissory note for an amount of \$305,784 (USD \$240,000) as the lawsuit settlement. The maturity date of the promissory note is November 30, 2021. A 3% late charge and a 10% per annum interest rate would apply if payment will not be made by December 10, 2021. As a non-cash transaction, the issuance of this promissory note has been excluded from the consolidated statements of cash flows. Subsequent to period-end, the promissory note was repaid in full (see Note 18).

10. Share Capital

Authorized share capital

The Company is authorized to issue an unlimited number of common shares without par value.

Issued

Holders of the Company's common shares are entitled to receive dividends which may be declared from time to time and are entitled to one vote per share at shareholder meetings of the Company.

The following details the amounts recorded as share capital for the period:

	Number of Shares	Proceeds	Share issuance costs	Allocated to reserve for warrants	Allocated from reserve for share based payments	Resulting share capital amount
	#	\$	\$	\$	\$	\$
Balance, January 1, 2020	110,681,641	-	-	-	-	35,036,761
Issuance on private placement June 30, 2020	3,700,000	1,850,000	(183,576)	(558,166)	-	1,108,258
Issuance on private placement August 31, 2020	2,080,000	1,040,000	(92,041)	(243,526)	-	704,433
Balance, September 30, 2020	116,461,641	2,890,000	(275,617)	(801,692)	-	36,849,452
Balance, January 1, 2021	121,877,266	-	-	-	-	37,977,603
Issuance on private placement March 30, 2021	2,125,000	850,000	(97,252)	(283,691)	-	469,057
Issuance on private placement June 10, 2021	7,321,971	2,416,250	(167,469)	(395,754)	-	1,853,027
Issuance on exercised options August 3, 2021	350,000	28,000	-	-	12,423	40,423
Balance, September 30, 2021	131,674,237	3,294,250	(264,721)	(679,445)	12,423	40,340,110

Included in the number of shares outstanding above, at no cost, are 3,000,000 common shares in escrow ("Escrow Shares") for the former Chief Executive Officer ("CEO") of the Company, who resigned on September 20, 2021. In accordance with a consulting agreement (the "Agreement") entered between the Company and the former CEO, dated October 29, 2015, the 3,000,000 Escrow Shares were originally to be issued at a price of \$0.05 per share, subject to performance based on the Company meeting a sales target within five years of the Agreement. The Company has elected to extend the deadline for achieving these sales targets by two years. During the term of the Agreement, the Company will release 1,500,000 Escrow Shares if sales exceed \$1 million over any four consecutive quarters. An additional 1,500,000 consideration shares will be released if sales exceed \$3 million over any four consecutive quarters. During the year ended December 31, 2020, the Escrow Shares were extended and

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are now expected to be cancelled on October 29, 2022.

Share capital transactions for the nine months ended September 30, 2021

On March 30, 2021, the Company completed a non-brokered private placement offering raising gross proceeds of \$850,000 through issuance of 2,125,000 units (“Units”) at a price of \$0.40 per Unit. Each Unit is comprised of one common share and one common share purchase warrant (“Warrant”). Each Warrant is exercisable into one common share at a price of \$0.50 for a period of 36 months from closing. In connection with the private placement, the Company paid cash commissions of \$61,693 to the Agents. In addition, 154,232 Broker Warrants Type II (see note 12 (b)) were issued as compensation to the Agents, to acquire Units for a period of 36 months from the closing date at an exercise price of \$0.40 per Unit. Each Broker Warrant Type II (see Note 12 (b)) entitles the agents to acquire one common share and one Warrant, exercisable into one common share at \$0.50 for a period of 36 months from the closing date (see Note 12 for details).

On June 10, 2021, the Company completed a non-brokered private placement offering raising gross proceeds of \$2,416,250 through issuance of 7,321,971 Units at a price of \$0.33 per unit. Each Unit is comprised of one common share and one-half of a Warrant. Each Warrant is exercisable into one common share at a price of \$0.42 for a period of 24 months following the closing. In connection with the private placement, the Company paid cash commissions of \$9,818 to the Agents. In addition, 29,750 Broker Warrants Type I (see Note 12 (a)) were issued as compensation to the agents, to acquire Units for a period of 24 months from the closing date at an exercise price of \$0.33 per Unit. Each Broker Warrant Type I (see Note 12 (a)) entitles the agents to acquire one common share and one-half of a Warrant, exercisable into one common share at \$0.42 for a period of 24 months from the closing date (see Note 12 for details).

On August 3, 2021, 350,000 stock options granted on August 4, 2016 were exercised into common shares of the Company at an exercise price of \$0.08 for proceeds of \$28,000.

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

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

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

11. Reserve for Share-Based Payments

The Company maintains a stock option plan to provide additional incentive to its officers, directors, employees, and consultants in their effort to conduct business on behalf of the Company. Options granted vest over a vesting period between two to five years. All options expire on the fifth anniversary from the date of grant unless otherwise specified.

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The following summarizes the options activities for the nine months ended September 30, 2021 and 2020:

	2021		2020	
	Weighted exercise price	Number of options	Weighted exercise price	Number of options
	\$	#	\$	#
Outstanding, beginning of period	0.50	10,630,000	0.48	11,065,500
Granted	0.42	1,500,000	0.44	50,000
Granted	0.41	2,400,000	0.46	350,000
Granted	0.47	400,000	-	-
Granted	0.48	200,000	-	-
Granted	0.50	100,000	-	-
Granted	0.70	100,000	-	-
Granted	1.00	100,000	-	-
Granted	0.37	100,000	-	-
Granted	0.42	100,000	-	-
Granted	0.47	100,000	-	-
Granted	0.23	400,000	-	-
Granted	0.17	25,000	-	-
Cancelled	-	-	0.58	(100,000)
Expired	0.70	(300,000)	-	-
Exercised	0.08	(350,000)	-	-
Forfeited	0.72	(100,000)	-	-
Forfeited	0.44	(50,000)	-	-
Outstanding, end of period	0.48	15,355,000	0.46	11,365,500
Exercisable, end of period	0.50	11,648,749	0.44	6,142,583

Options grants for the nine months ended September 30, 2021

On January 18, 2021, the Company granted 1,500,000 options to a consultant at an exercise price of \$0.42 per share for a period of seven years. The options vesting terms are as follows: (a) 125,000 options vested on January 18, 2021 (b) 125,000 options vest on March 31, June 30, September 30 and December 31 of each calendar year, until all options are fully vested. The options expire on January 18, 2028.

On January 27, 2021, the Company granted 2,400,000 options to a number of its employees and consultants. The options are exercisable at an exercise price of \$0.41 per share for a period of five years. The options vested immediately on grant. The options expire on January 27, 2026.

On February 24, 2021, the Company granted 400,000 options to a number of its employees and consultant. The options are exercisable at an exercise price of \$0.47 per share for a period of five years. The options vest quarterly over two years. The options expire on February 24, 2026.

On March 2, 2021, the Company granted 200,000 options to an officer who subsequently resigned on September 24, 2021, at an exercise price of \$0.48 per share for a period of five years. The options vest quarterly over two years. The terms of the options are currently under negotiation.

On March 9, 2021, the Company granted 300,000 options to a consultant, of which 100,000 options are exercisable at an exercise price of \$0.50 per share, 100,000 exercisable at a price of \$0.70, and 100,000 exercisable at a price of \$1.00, respectively. The options vested immediately. The options expire on March 9, 2026.

On May 12, 2021, the Company granted 300,000 options to a consultant, of which 100,000 options exercisable at an exercise price of \$0.37 per share, 100,000 exercisable at a price of \$0.42 and 100,000 exercisable at a price of \$0.47, respectively. The options vested 100% upon closing of the financing on June 10, 2021. The options expire on May 12, 2026.

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On August 17, 2021, the Company granted 400,000 options, of which 100,000 were issued to an employee, 100,000 to a consultant and 200,000 to the newly appointed Chief Financial Officer (“CFO”) at an exercise price of \$0.23 per share for a period of five years. The options vest quarterly over two years and expire on August 17, 2026.

On September 29, 2021, the Company granted 25,000 options to an employee. The options are exercisable at an exercise price of \$0.17 per share for a period of five year. The options vest quarterly over three years until fully vested and expire on September 29, 2026.

Options forfeited in the nine months ended September 30, 2021

On January 1, 2021, 100,000 options granted on May 11, 2018 at an exercise price of \$0.72 per share were forfeited.

On February 3, 2021, 50,000 options granted on July 10, 2020 at an exercise price of \$0.44 per share were forfeited.

On April 21, 2021, 300,000 options granted on April 10, 2019 at an exercise price of \$0.70 per share expired.

Options exercised in the nine months ended September 30, 2021

On August 8, 2021, 350,000 options granted on August 8, 2016 were fully exercised for gross proceeds of \$28,000.

Options grants in the nine months ended September 30, 2020

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

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

Options cancelled in 2020

On January 27, 2020, 100,000 options granted on November 30, 2018 to an officer were cancelled at an exercise price of \$0.58 per share.

Black-Scholes valuation assumptions

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

Options granted in 2021

Grant date	September 29, 2021	August 17, 2021	May 12, 2021	May 12, 2021	May 12, 2021
Number of options	25,000	400,000	100,000	100,000	100,000
Exercise price per share	\$0.17	\$0.23	\$0.47	\$0.42	\$0.37
Share price	\$0.17	\$0.23	\$0.36	\$0.36	\$0.36
Expected life of options	5 years	5 years	5 years	5 years	5 years
Expected volatility	101.40%	103.41%	109.14%	109.14%	109.14%
Risk-free interest rate	1.11%	0.81%	0.97%	0.97%	0.97%
Forfeiture rate	10%	10%	10%	10%	10%

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Grant date	March 9, 2021	March 9, 2021	March 9, 2021	March 2, 2021	February 24, 2021
Number of options	100,000	100,000	100,000	200,000	400,000
Exercise price per share	\$1.00	\$0.70	\$0.50	\$0.48	\$0.47
Share price	\$0.45	\$0.45	\$0.45	\$0.48	\$0.445
Expected life of options	5 years	5 years	5 years	5 years	5 years
Expected volatility	112.92%	112.92%	112.92%	113.41%	113.92%
Risk-free interest rate	0.87%	0.87%	0.87%	0.78%	0.73%
Forfeiture rate	10%	10%	10%	10%	10%

Grant date	January 27, 2021	January 18, 2021
Number of options	2,400,000	1,500,000
Exercise price per share	\$0.41	\$0.42
Share price	\$0.41	\$0.42
Expected life of options	5 years	7 years
Expected volatility	115.08%	149.27%
Risk-free interest rate	0.41%	0.52%
Forfeiture rate	10%	10%

Options granted in 2020

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

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The following table summarizes information of options outstanding as at September 30, 2021:

Date of expiry	Number of options outstanding	Number of options exercisable	Exercise price	Estimated grant date fair value	Weighted average remaining life
	#	#	\$	\$	Years
November 3, 2021	600,000	600,000	0.33	235,552	0.09
December 2, 2021	100,000	100,000	0.50	14,951	0.17
December 2, 2021	100,000	100,000	0.60	13,554	0.17
December 2, 2021	100,000	100,000	0.70	12,389	0.17
July 12, 2022	600,000	600,000	0.35	132,141	0.78
November 22, 2022	350,000	350,000	0.68	187,294	1.15
April 20, 2023	100,000	100,000	0.87	68,282	1.55
May 11, 2023	50,000	50,000	0.72	27,822	1.61
August 13, 2023	300,000	300,000	0.79	126,429	1.87
November 30, 2023	2,300,000	2,108,333	0.58	984,358	2.17
November 30, 2023	900,000	825,000	0.58	427,982	2.17
December 11, 2023	100,000	91,667	0.58	41,139	2.20
December 14, 2023	250,000	229,167	0.58	107,028	2.21
September 4, 2024	525,000	350,000	0.56	222,965	2.93
November 14, 2024	200,000	200,000	0.37	67,384	3.13
December 23, 2024	2,340,000	1,365,000	0.41	721,961	3.23
December 23, 2024	290,000	169,166	0.41	89,474	3.23
December 23, 2024	75,000	43,750	0.41	23,140	3.23
October 25, 2025	200,000	200,000	0.37	57,083	4.07
January 27, 2026	2,400,000	2,400,000	0.41	711,848	4.33
February 24, 2026	400,000	100,000	0.47	127,417	4.41
March 2, 2026	200,000	50,000	0.48	69,047	4.42
March 9, 2026	100,000	100,000	0.50	31,864	4.44
March 9, 2026	100,000	100,000	0.70	30,356	4.44
March 9, 2026	100,000	100,000	1.00	28,609	4.44
May 12, 2026	100,000	100,000	0.37	25,271	4.62
May 12, 2026	100,000	100,000	0.42	24,808	4.62
May 12, 2026	100,000	100,000	0.47	24,383	4.62
August 17, 2026	400,000	-	0.23	62,708	4.88
September 29, 2026	25,000	-	0.17	2,869	5.00
January 28, 2028	1,500,000	500,000	0.42	540,104	6.30
August 16, 2030	350,000	116,666	0.46	143,063	8.88
	15,355,000	11,648,749	0.49	5,383,275	3.36

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12. Reserve for Warrants

The following summarizes the warrant activities for the nine months ended September 30, 2021 and 2020:

	September 30, 2021		September 30, 2020	
	Number of warrants outstanding	Fair value	Number of warrants outstanding	Fair value
<u>Share purchase warrants</u>	#	\$	#	\$
Balance, beginning of period	22,106,179	8,450,359	17,305,454	8,873,035
Issued	5,785,984	597,925	5,780,000	694,232
Expired	(7,408,554)	(1,530,031)	(5,459,400)	(1,762,815)
Balance, end of period	20,483,609	7,518,253	17,626,054	7,804,452
<u>Broker unit purchase warrants type I (a)</u>				
Balance, beginning of period	910,196	570,125	910,196	570,125
Expired	(910,196)	(570,125)	-	-
Issued	29,750	6,614	-	-
Balance, end of period	29,750	6,614	910,196	570,125
<u>Broker unit purchase warrants type II (b)</u>				
Balance, beginning of period	1,018,376	495,256	1,402,459	176,658
Issued	154,232	64,120	414,704	168,702
Expired	-	-	(202,200)	(56,578)
Balance, end of period	1,172,608	559,376	1,614,963	288,782
Total	21,685,967	8,084,243	20,151,213	8,663,359

- (a) Broker Unit Purchase Warrants Type I are exercisable for one common share and one half of one warrant exercisable into one common share.
- (b) Broker Unit Purchase Warrants Type II are exercisable for one common share and one warrant exercisable into one common share.

Warrant activities for the nine months ended September 30, 2021

On March 30, 2021, the Company issued 2,125,000 Warrants at an exercise price of \$0.40 per each Unit issued. Each Unit is comprised of one common share and one Warrant. Each Warrant is exercisable into one common share at a price of \$0.50 for a period of 36 months from closing. In addition, 154,232 Broker Warrants were issued as compensation to the Agents, to acquire Units for a period of 36 months from the closing date at an exercise price of \$0.40 per Unit. Each Broker Warrant entitles the Agents to acquire one common share and one Warrant, exercisable into one common share at \$0.50 for a period of 36 months from the closing date.

On June 10, 2021, the Company issued 3,660,984 Warrants at an exercise of \$0.33 per each Unit issued. Each Unit is comprised of one common share and one-half of a Warrant. Each warrant is exercisable into one common share at a price of \$0.42 for a period of 24 months from closing. In addition, 29,750 Broker Warrants were issued as compensation to the Agents, to acquire Units for a period of 24 months from the closing date at an exercise price of \$0.33 per Unit. Each Broker Warrant entitles the Agents to acquire one common share and one-half of a Warrant, exercisable into one common share at \$0.42 for a period of 24 months from the closing date.

Warrants expired in the nine months ended September 30, 2021

On April 30, 2021, 4,514,350 Warrants issued on April 30, 2019 at an exercise price of \$0.90 per share, expired. On the same day, 505,917 Broker Unit Purchase Warrants Type I issued on April 30, 2019 at an exercise price of \$0.60, expired.

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On May 10, 2021, 2,894,204 Warrants issued on May 10, 2019 at an exercise price of \$0.90 per share, expired. On the same day, 404,279 Broker Unit Purchase Warrants Type I issued on May 10, 2019 at an exercise price of \$0.60, expired.

Warrant activities for the nine months ended September 30, 2020

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

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

Black-Scholes valuation assumptions

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

Share purchase warrants issued in 2021

Issuance date	June 10, 2021	March 30, 2021
Number of warrants	3,660,986	2,125,000
Exercise price	\$0.42	\$0.50
Share price	\$0.340	\$0.395
Expected life of warrants	2 years	3 years
Expected volatility	84.12%	87.44%
Risk-free interest rate	0.31%	0.49%

Broker unit purchase warrants type I issued in 2021

Issuance date	June 10, 2021
Number of warrants	29,750
Exercise price	\$0.33
Share price	\$0.340
Expected life of warrants	2 years
Expected volatility	84.12%
Risk-free interest rate	0.31%

Broker unit purchase warrants type II issued in 2021

Issuance date	March 30, 2021
Number of warrants	154,232
Exercise price	\$0.40
Share price	\$0.395
Expected life of warrants	3 years
Expected volatility	87.44%
Risk-free interest rate	0.49%

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The following table summarizes information of warrants outstanding as at September 30, 2021:

Date of expiry	Number of warrants outstanding	Exercise price	Weighted average remaining life
	#	\$	Years
<u>Share purchase warrants</u>			
June 30, 2022	3,700,000	0.70	0.75
August 31, 2022	2,080,000	0.70	0.92
November 14, 2022	1,250,000	0.60	1.12
November 26, 2022	2,125,000	0.60	1.16
December 24, 2022	1,062,500	0.60	1.23
June 10, 2023	3,660,984	0.42	1.69
November 23, 2023	2,222,300	0.60	2.15
December 8, 2023	2,257,825	0.60	2.19
March 30, 2024	2,125,000	0.50	2.50
Balance	20,483,609	0.59	1.52
<u>Broker unit purchase warrants type 1</u>			
June 10, 2023	29,750	0.33	1.69
Balance	29,750	0.33	1.69
<u>Broker unit purchase warrants type 2</u>			
June 30, 2022	260,304	0.50	0.75
August 31, 2022	154,400	0.50	0.92
November 14, 2022	87,500	0.40	1.12
November 26, 2022	128,188	0.40	1.16
December 24, 2022	74,375	0.40	1.23
November 23, 2023	155,561	0.40	2.15
December 8, 2023	158,048	0.40	2.19
March 30, 2024	154,232	0.40	2.50
Balance	1,172,608	0.44	1.49

13. Key Management Compensation and Related Party Transactions

Key management compensation

Key management personnel are persons responsible for planning, directing and controlling activities of an entity, and include executives and non-executive directors, officers and any employees. Compensation provided to key management personnel for the three and nine months ended September 30, 2021 and 2020 were as follows:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2021	2020	2021	2020
	\$	\$	\$	\$
Short-term employee benefits,				
Including salaries and consulting fees	258,878	204,494	703,928	647,401
Share-based compensation	80,827	167,964	981,917	661,233
	339,705	372,458	1,685,845	1,308,634

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- (i) During the nine months ended September 30, 2021, the Company incurred consulting fee expenses with the former CEO of \$117,000 (2020 – \$117,000). As at September 30, 2021, a balance of \$14,690 (December 31, 2020 – \$nil) was owed to the former CEO for compensation on services rendered. This outstanding balance was included in accounts payable and accrued liabilities.
- (ii) For the nine months ended September 30, 2021, the Company incurred consulting fees with the former CFO of \$21,000 (2020 – \$56,000). As at September 30, 2021, no balance (December 31, 2020 – \$nil) was owed to the former CFO for compensation on services rendered.
- (iii) For the nine months ended September 30, 2021, the Company incurred consulting fees with a former officer of \$75,250 (2020 – \$nil). As at September 30, 2021, a balance of \$9,140 (December 31, 2020 – \$nil) was owed to the former officer for compensation on services rendered. This outstanding balance was included in accounts payable and accrued liabilities.
- (iv) For the nine months ended September 30, 2021, the Company incurred consulting fees with the newly appointed CFO of \$12,903 (2020 – \$nil). As at September 30, 2021, a balance of \$11,300 (December 31, 2020 – \$nil) remained outstanding. This outstanding balance was included in accounts payable and accrued liabilities.
- (v) For the nine months ended September 30, 2021, the Company incurred wage expenses with the newly appointed President and Chief Operating Officer of \$226,350 (2020 – \$243,738) for services rendered. As at September 30, 2021, no balance (December 31, 2020 – \$nil) was outstanding.
- (vi) For the nine months ended September 30, 2021, the Company incurred consulting fees with the Acting Chief Operating Officer, who is also a director of the Company, of \$113,175 (2020 – \$109,859). As at September 30, 2021, \$10,171 (December 31, 2020 – \$nil) was outstanding. This outstanding balance was included in accounts payable and accrued liabilities.
- (vii) For the nine months ended September 30, 2021, the Company incurred consulting fees with directors considered to be part of key management of \$117,000 (2020 – \$117,000) for services rendered. As at September 30, 2021, an amount of \$14,837 (December 31, 2020 – \$6,500) was outstanding. This outstanding balance was included in accounts payable and accrued liabilities.
- (viii) For the nine months ended September 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 \$21,250 (2020 – \$nil). As at September 30, 2021, an amount of \$21,250 (December 31, 2020 – \$nil) was outstanding. This outstanding balance was included in accounts payable and accrued liabilities.

Other related party transactions

- (ix) For the nine months ended September 30, 2021, directors who are not part of key management received stock-based compensation of \$261,038 (2020 – \$158,987).

14. Capital Risk Management

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

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

As at September 30, 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 \$6,758,762 (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.

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The Company is not subject to externally imposed capital requirements, and there were no changes in the Company's approach to capital management for the nine months ended September 30, 2021 and the year ended December 31, 2020.

15. General and Administrative Expenses

The Company's general and administration expenses incurred for the three and nine months ended September 30, 2021 and 2020 are as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
	\$	\$	\$	\$
Payroll and salaries	396,706	220,067	987,933	633,354
Corporate costs and administration	398,071	348,035	854,729	718,392
Professional fees	204,324	226,320	624,916	408,977
Consulting and management fees	217,076	92,912	419,748	315,842
Interest on lease obligations	39,110	60,653	129,194	197,154
Occupancy cost (recovery)	(46,875)	25,608	55,508	186,130
Travel and promotion	3,190	7,704	13,439	43,736
	1,211,602	981,299	3,085,467	2,503,585

16. Financial Instruments and Risk Management

Fair value

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

Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. Cash is held with reputable Canadian and US chartered banks and in various liquid guaranteed interest-bearing instruments which are closely monitored by management. Management believes that the credit risk concentration with respect to financial instruments is minimal. The maximum exposure to credit risk at period-end is limited to the accounts receivable balance. No ECL has been recorded as at September 30, 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 market is hindered, whether as a result of a downturn in stock market conditions generally or related to matters specific to the Company. The Company generates cash flow primarily from its financing activities.

As at September 30, 2021, the Company had a cash and cash equivalents balance of \$570,510 (December 31, 2020 – \$2,258,526) to settle current liabilities of \$1,975,238 (December 31, 2020 – \$1,676,371). 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	905,138	905,138	-	-
Promissory note	305,784	305,784	-	-
Lease liabilities	1,450,853	868,627	582,226	-
Total	2,661,775	2,079,549	582,226	-

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Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company does not hold any instruments subject to interest rate risk as at September 30, 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, trade receivables and trade payables from operations in the US. The Company believes that its results of operations and cash flows would be affected by a sudden change in foreign exchange rates. The Company mitigates this risk by maintaining sufficient USD-denominated cash to meet its USD-denominated obligations.

As at September 30, 2021 and December 31, 2020, the Company had the following financial assets and liabilities in USD:

	September 30, 2021	December 31, 2020
	\$	\$
Cash and cash equivalents	295,383	132,714
Trade receivables	111,037	11,331
Trade and other payables	(195,747)	(508,402)
Lease obligation	(1,140,925)	(1,639,970)
Net exposure to USD	(930,252)	(2,004,327)

Had the value of the USD increased or decreased by 1%, the net loss and comprehensive loss would have increased or decreased by USD \$9,303 (December 31, 2020 – USD \$20,043), respectively, as a result of this exposure.

17. Contingencies

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

The Company's operations are subject to a variety of local and state regulation. Failure to comply with one or more of those regulations could result in fines, restrictions on its operations, or losses of permits that could result in the Company ceasing operations in that specific state or local jurisdiction. While management of the Company believes that the Company is in compliance with applicable local and state regulations as at September 30, 2021, cannabis regulations continue to evolve and are subject to differing interpretations. As a result, the Company may be subject to regulatory fines, penalties, or restrictions in the future.

18. Subsequent Events

Private Placement

On October 15, 2021, the Company completed a non-brokered private placement offering (the "October 2021 Offering") raising gross proceeds of \$1,865,670 through issuance of 12,437,800 Units at a price of \$0.15 per Unit. Each Unit is comprised of one common share and one Warrant. Each Warrant is exercisable into one common share at a price of \$0.20 until October 15, 2023. In connection with the October 2021 Offering, the Company incurred cash finders' fees \$114,625 to the agents. In addition, 760,256 Broker Warrants Type II were issued as compensation to the agents. Each Broker Warrant entitles the holder to acquire Units for a period of 24 months from the date of closing at an exercise price of \$0.15 per unit. Each Unit is comprised of one common share and one Warrant at a price of \$0.20 per share for a period of 24 months from the closing date.

Under the October 2021 Offering, 1,000,000 shares were issued to the President and Chief Operating Officer of the Company for \$159,262 (USD \$125,000). The subscription amount for these shares of \$159,262 was received on September 30, 2021 and included in accounts payable and accrued liabilities in these financial statements.

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Lawsuit Settlement

The Company confirms it has satisfied its obligations under the settlement regarding the dispute related to the Norm Wilson & Sons, Inc., the Contractor of record for the Company's Long Beach facility, filed claim against ICC Turnkey, Inc., the engineers of the Long Beach facility. The ongoing litigation was formally ended at a final hearing for a court-ordered dismissal in Court in Los Angeles County on October 29, 2021. The case was dismissed with prejudice, and a recorded copy of the released mechanic's lien on the property is expected to be received from the County Recorder imminently, following the contractor's earlier order to release the lien upon settlement.

Options Expired

On November 3, 2021, 600,000 options expired unexercised.

Repayment of Promissory Note

On November 24, 2021, the Company repaid in full the promissory note of USD \$240,000 (see Note 9).