THE TINLEY BEVERAGE COMPANY INC.

Consolidated Financial Statements

(Expressed in Canadian Dollars)

December 31, 2021 and 2020

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of The Tinley Beverage Company Inc.

Opinion

We have audited the accompanying consolidated financial statements of The Tinley Beverage Company Inc. and its subsidiaries (together, the "Company"), which comprise the consolidated statements of financial position as at December 31, 2021 and 2020 and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2021 and 2020 and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis of Opinion

We conduced our audits in accordance with Canadian generally accepted auditing standards ("GAAS"). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 2(b) to the consolidated financial statements, which indicates that during the year ended December 31, 2020, the Company incurred a net loss of $8,549,883 and had negative cash flows from operations of $5,259,476 and its continued existence is dependent on its ability to obtain additional financing. As stated in Note 2(b), these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other information

Management is responsible for the other information. The other information comprises the information included in the Management's Discussion and Analysis ("MD&A"), but does not include the consolidated financial statements and our auditors' report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits, or otherwise appears to be misstated.

We obtained the MD&A prior to the date of this auditors' report. If based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditors' report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosure are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are

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responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditors' report is Laurence W. Zeifman, CPA, CA.

Zeifmans LLP

May 2, 2022	Chartered Professional Accountants
Toronto, Ontario	Licensed Public Accountants

THE TINLEY BEVERAGE COMPANY INC.
Consolidated Statements of Financial Position
As at December 31, 2021 and 2020
(Expressed in Canadian Dollars)

	2021	2020
	$	$
Assets		
Current Assets		
Cash and cash equivalents	**113,840**	2,258,526
Accounts receivable (Note 4)	**165,729**	90,100
Inventories (Note 5)	**768,823**	785,896
Prepaid expenses (Note 6)	**344,235**	288,425
Total Current Assets	**1,392,627**	3,422,947
Non-Current Assets		
Property and equipment (Note 7)	**6,128,261**	6,398,317
Right-of-use assets (Note 9)	**862,851**	1,478,192
Security deposits	**134,653**	135,227
Total Non-Current Assets	**7,125,765**	8,011,736
Total Assets	**8,518,392**	11,434,683
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities (Note 8)	**669,688**	933,180
Current portion of lease liabilities (Note 9)	**787,850**	686,211
Deferred revenue	**158,890**	56,980
Total Current Liabilities	**1,616,428**	1,676,371
Non-Current Liabilities		
Lease liabilities (Note 9)	**357,149**	1,149,876
Total Liabilities	**1,973,577**	2,826,247
Shareholders' Equity		
Share capital (Note 10)	**41,520,254**	37,977,603
Reserve for share-based payments (Note 11)	**6,052,920**	5,151,049
Reserve for warrants (Note 12)	**8,701,200**	9,515,740
Contributed surplus	**4,993,337**	2,019,826
Accumulated other comprehensive loss	**(512,858)**	(395,627)
Accumulated deficit	**(54,210,038)**	(45,660,155)
Total Shareholders' Equity	**6,544,815**	8,608,436
Total Liabilities and Shareholders' Equity	**8,518,392**	11,434,683

Nature of operations (Note 1)
Going concern (Note 2(b))
Contingencies (Note 19)
Subsequent events (Note 21)

Approved on behalf of the Board of Directors

"Curt Marvis" (signed)
Director

"Ted Zittell" (signed)
Director

THE TINLEY BEVERAGE COMPANY INC.
Consolidated Statements of Loss and Comprehensive Loss
For the Years ended December 31, 2021 and 2020
(Expressed in Canadian Dollars)

	2021	2020
	$	$
Sales	**803,781**	304,167
Cost of goods sold (Notes 5 and 16)	**(717,682)**	(419,552)
Gross profit (loss)	**86,099**	(115,385)
Operating Expenses		
General and administration (Note 17)	**4,394,378**	3,432,049
Share-based payments (Notes 11)	**1,787,649**	1,274,212
Depreciation of property and equipment (Note 7)	**1,013,215**	1,019,522
Sales and marketing	**610,349**	802,208
Depreciation of right-of-use assets (Note 9)	**602,202**	644,478
Product development	**205,657**	418,587
Foreign currency translation loss (gain)	**22,532**	(16,471)
	8,635,982	7,574,585
Net loss	**(8,549,883)**	(7,689,970)
Other Comprehensive Loss		
Loss on translation of foreign operations	**(117,231)**	(182,817)
Comprehensive loss	**(8,667,114)**	(7,872,787)
Weighted average number of common shares outstanding	**135,265,326**	113,722,720
Net Loss per Share		
Basic and diluted	**(0.062)**	(0.069)

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

THE TINLEY BEVERAGE COMPANY INC.
Consolidated Statements of Changes in Shareholders' Equity
For the Years ended December 31, 2021 and 2020
(Expressed in Canadian Dollars)

	Share Capital		Reserves					
	Number of shares	**Amount**	**Share-based payments**	**Warrants**	**Contributed surplus**	**Accumulated deficit**	**Accumulated other comprehensive loss**	**Total**
	#	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Balance, December 31, 2019	110,681,641	35,036,761	3,922,338	9,619,818	157,627	(37,970,185)	(212,810)	10,553,549
Issuance of shares and warrants via private placements (Note 10)	10,260,125	3,328,573	-	1,952,465	-	-	-	5,281,038
Share issuance costs (Notes 10 and 12)	-	(493,332)	-	(237,150)	-	-	-	(730,482)
Share-based payments (Note 11)	-	-	1,261,454	-	-	-	-	1,261,454
Exercise of options (Note 11)	935,500	105,601	(2,696)	-	-	-	-	102,905
Forfeiture of options (Note 11)	-	-	(30,047)	-	42,806	-	-	12,759
Expiry of warrants (Note 12)	-	-	-	(1,819,393)	1,819,393	-	-	-
Exchange loss on translation of foreign operations	-	-	-	-	-	-	(182,817)	(182,817)
Net loss for the year	-	-	-	-	-	(7,689,970)	-	(7,689,970)
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)	**21,884,776**	**3,886,413**	**-**	**1,439,214**	**-**	**-**	**-**	**5,325,627**
Share issuance costs (Notes 10 and 12)	**-**	**(384,185)**	**-**	**(153,598)**	**-**	**-**	**-**	**(537,783)**
Share-based payments (Note 11)	**-**	**-**	**1,787,649**	**-**	**-**	**-**	**-**	**1,787,649**
Issuance of shares on exercises of options (Note 11)	**350,000**	**40,423**	**(12,423)**	**-**	**-**	**-**	**-**	**28,000**
Forfeiture of options (Note 11)	**-**	**-**	**(873,355)**	**-**	**873,355**	**-**	**-**	**-**
Expiry of warrants (Note 12)	**-**	**-**	**-**	**(2,100,156)**	**2,100,156**	**-**	**-**	**-**
Exchange loss on translation of foreign operations	**-**	**-**	**-**	**-**	**-**	**-**	**(117,231)**	**(117,231)**
Net loss for the year	**-**	**-**	**-**	**-**	**-**	**(8,549,883)**	**-**	**(8,549,883)**
Balance, December 31, 2021	**144,112,042**	**41,520,254**	**6,052,920**	**8,701,200**	**4,993,337**	**(54,210,038)**	**(512,858)**	**6,544,815**

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

THE TINLEY BEVERAGE COMPANY INC.
Consolidated Statements of Cash Flows
For the Years ended December 31, 2021 and 2020
(Expressed in Canadian Dollars)

	2021	2020
	$	$
Operating Activities		
Net loss for the year	**(8,549,883)**	(7,689,970)
Adjustments for non-cash items:		
Share-based payments (Note 11)	**1,787,649**	1,274,212
Depreciation of property and equipment (Note 7)	**1,013,215**	1,019,522
Depreciation of right-of-use assets (Note 9)	**602,202**	644,478
Interest on lease obligations (Note 9)	**163,291**	251,876
Non-cash exercise of option	**-**	100,155
Fair market value changes to short-term investments	**-**	23,963
	(4,983,526)	(4,375,764)
Changes in non-cash working capital:		
Accounts receivable (Note 4)	**(75,629)**	(25,831)
Inventories (Note 5)	**17,073**	(186,811)
Prepaid expenses (Note 6)	**(55,810)**	(82,134)
Accounts payable and accrued liabilities (Note 8)	**(263,494)**	61,943
Deferred revenue	**101,910**	56,980
Cash Flows used in Operating Activities	**(5,259,476)**	(4,551,617)
Investing Activities		
Purchases of property and equipment (Note 7)	**(186,571)**	(376,853)
Construction in progress (Note 7)	**(710,386)**	-
Change in security deposits	**-**	2,718
Proceeds on redemptions of investments	**-**	974,992
Cash Flows provided by (used in) Investing Activities	**(896,957)**	600,857
Financing Activities		
Proceeds from private placements (Note 10)	**5,131,921**	4,906,057
Share issue costs (Note 10)	**(344,078)**	(355,500)
Proceeds from exercise of options (Note 11)	**28,000**	2,750
Lease payments (Note 9)	**(838,885)**	(875,892)
Cash Flows provided by Financing Activities	**3,976,958**	3,677,415
Decrease in cash for the year	**(2,179,475)**	(273,345)
Cash, beginning of year	**2,258,526**	2,614,342
Effects of foreign exchange on cash	**34,789**	(82,471)
Cash, end of year	**113,840**	2,258,526

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

1. Nature of Operations

The Tinley Beverage Company Inc. ("Tinley") was incorporated under the laws of the Province of Ontario, Canada by Articles of Incorporation dated October 26, 2007. Tinley, with its subsidiaries (see Note 2(c)) (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 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"). The accounting policies set out below were consistently applied to all periods presented unless otherwise noted.

These consolidated financial statements were reviewed, approved and authorized for issuance by the Board of Directors ("Board") of the Company on May 2, 2022.

(b) Going Concern

These 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.

These consolidated financial statements have been prepared on the basis that the Company will continue as a going concern, which contemplates the realization of assets and the settlement of liabilities in the normal course of operations. 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. While the Company was able to raise funds during the year ended December 31, 2021, it incurred a net loss of $8,549,883 (2020 - $7,689,970), and incurred negative cash flow from operating activities of $5,259,476 (2020 - $4,551,617), and as of that date, had a working capital deficiency of $223,801 (2020 - $1,746,576 surplus) and an accumulated deficit of $54,210,038 (2020 - $45,660,155). It is not possible to predict whether financing efforts will continue to be successful in the future or if the Company will attain profitable levels of operations. These conditions, including the unpredictability of the cannabis-infused beverage business and the continued evolution of the novel coronavirus ("COVID-19") pandemic, represent material uncertainties which may cast doubt on the Company's ability to continue as a going concern.

These 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 consolidated financial statements. Such adjustments could be material.

(c) Basis of Consolidation

These 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, as explained in the accounting policies set out in Note 3. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

These consolidated financial statements include the accounts of Tinley and its wholly-owned subsidiaries: Hemplify Inc., Algonquin Springs Beverage Management LLC, Beckett Tonics California Inc. (formerly Boardwalk Beverages, Inc.), Beckett's Tonics Canada Inc., and Tinley's 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. Additionally, these consolidated financial statements also include the accounts of Lakewood Libations Inc. ("Lakewood"), pursuant to an agreement between Tinley and the 100% shareholder of Lakewood, which effectively transferred the risks and rewards of Lakewood to Tinley. On May 2, 2022, the Company acquired 100% of Lakewood (see Note 21).

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 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.

(d) Significant Accounting Judgments and Estimates

The preparation of these 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. The conclusion that the Company will be able to continue as a going concern is subject to critical judgments of management with respect to assumptions surrounding the short and long-term operating budgets, expected profitability, investment and financing activities and management's strategic planning. The assumptions used in management's going concern assessment are derived from actual operating results along with industry and market trends. Management believes there is sufficient capital to meet the Company's business obligations for at least the next 12 months, after taking into account expected cash flows, capital commitments, future financings and the Company's cash position at year-end.

COVID-19 Pandemic

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 continued change in the severity of and response to the COVID-19 outbreak, uncertainty remains for the Company make further assumptions or estimates. The situation is dynamic and the ultimate duration and magnitude of the continued impact of COVID-19 on the economy and the financial effect on the business remains 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.

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

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

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

(a) Cash and Cash Equivalents

Cash and cash equivalents consist of bank balances and short-term deposits with an original maturity of three months or less held in Canadian chartered banks and reputable Canadian and US financial institutions. As at December 31, 2021 and 2020, the Company did not have any cash equivalents.

(b) Inventories
Inventories are initially recognized at cost, and subsequently measured at the lower of cost and net realizable value (the estimate selling price in the ordinary course of business less estimated costs of completion and estimated costs necessary to make the sale) using the "weighted average cost" method. Cost comprises all costs of purchase, and other costs incurred in bringing the inventories to their present location and condition.

(c) Revenue from Contracts with Customers
Revenue is recognized at the transaction price, which is the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods to a customer. Net revenue from sale of goods, as presented in the consolidated statements of loss and comprehensive loss, represents revenue from the sale of goods less expected price discounts.

The Company's contracts with customers for the sales of cannabis-infused and non-cannabis infused beverages consist of one performance obligation. The Company has concluded that revenue from the sale of these products should be recognized at the point in time when control is transferred to the customer, which is on shipment or delivery, depending on the contract.

The Company's payment terms vary by customer types. Typically, payment is due 30 days after the transfer of control.

(d) Property and Equipment
Property and equipment are carried at cost less accumulated depreciation and impairment losses. Cost includes the acquisition costs or construction costs, as well as the costs directly attributable to bringing the asset to the location and condition necessary for its use in operations. When property and equipment include significant components with different useful lives, they are recorded and depreciated separately.

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.

Depreciation is computed using the straight-line method based on the estimated useful life of the assets and commences when title and ownership have transferred to the Company and is readily available for its intended use. The residual value, useful life and depreciation methods are reviewed at the end of each reporting period. Such a review takes into consideration the nature of the asset, the intended use and impact of technological changes. Where parts of an item of property and equipment have different useful lives, they are accounted for as separate items of capital assets. Subsequent costs are included in the asset carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

Depreciation is recorded on a straight-line basis as follows:

- Machinery and equipment: 10 years
- Leasehold improvements: Straight-line over the term of the lease
- Vehicles: 5 years

(e) Income Taxes
Income tax expense comprises current and deferred income tax expense. Current and deferred taxes are recognized in net loss, except to the extent that it relates to items recognized directly in equity or in other comprehensive income (loss).

Current income taxes
Current income taxes are recognized and measured at the amount expected to be recovered from, or payable to, the taxation authorities based on the income tax rates enacted or substantively enacted at the end of the reporting period and includes any adjustment to taxes payable in respect of previous years.

Deferred income taxes
Deferred income taxes are recorded for temporary differences at the date of the consolidated statements of financial position between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The carrying amount of a deferred income tax asset is reviewed at the end of the reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at the end of the reporting period and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of the reporting period.

Deferred income tax assets and deferred income tax liabilities are offset if, and only if, they relate to income taxes levied by the same taxation authority and the Company has the legal rights and intent to offset.

(f) Equity
Common shares, stock options and warrants are classified as equity. Incremental costs directly attributable to the issuance of common shares and warrants are recognized as a deduction from equity, net of any tax effects.

(g) Loss per Share
The basic loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding for the period. The diluted loss per share reflects the potential dilution of common share equivalents, such as outstanding stock options and share purchase warrants, in the weighted average number of common shares outstanding for the year, if dilutive. Dilution is calculated based on the net number of common shares issued after proceeds upon the exercise of the options and warrants to purchase common shares at the average market price for the year. For the year ended December 31, 2021 and 2020, all of the outstanding share options and warrants were anti-dilutive.

(h) Share-Based Payments
Employees (including directors and senior executives) of the Company receive a portion of their remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments. The costs of share-based payments are recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "Vesting Date"). The cumulative expense is recognized for such transactions at each reporting date until the Vesting Date and reflects the Company's best estimate of the number of equity instruments that will ultimately vest.

The fair value of the options granted is measured using the Black-Scholes option pricing model ("Black-Scholes") taking into account the terms and conditions which the options were granted, the estimated volatility, estimated risk free rate and estimated forfeitures. In situations where equity instruments are issued to parties other than employees and the fair value of some or all of the goods or services received by the entity as consideration cannot be reliably measured, the transactions are measured at the fair value of the instruments.

If a grant of the share-based payments is cancelled or settled during the vesting period (other than a grant cancelled by forfeiture when the vesting conditions are not satisfied), the Company accounts for the cancellation or settlement as an acceleration of vesting, and recognized immediately the amount that otherwise would have been recognized for services over the remainder of the vesting period.

The amount recognized for goods or services received during the vesting period are based on the best available estimate of the number of equity instruments anticipated to vest. The Company revises that estimate, if necessary, if subsequent information indicates that the number of share options anticipated to vest differs from previous estimates. On the Vesting Date, the Company revises the estimate to equal the number of equity instrument that ultimately vested. After the Vesting Date, the Company makes no subsequent adjustment to total equity for goods or services received if the share options are later forfeited or they expire at the end of the share option's life.

If a grant of the share based payment is modified during the vesting period (other than a grant cancelled by forfeiture when the vesting conditions are not satisfied) and their fair value of the new instruments is higher than the fair value of the original instrument, the incremental fair value granted is included in the measurement of the amount recognized for services received over the period from modification date until the date when the modified equity instruments vests, in addition to the amount based on the grant date fair value of the original equity instruments, which is recognized over the remainder of the original vesting period of the original instrument.

(i) Warrants

The Company follows the relative fair value method with respect to the measurement of common shares and warrants issued as units (each being a "Unit"). The proceeds from the issuance of units are allocated between share capital and warrants. The warrant component is recorded in warrant reserves. Unit proceeds are allocated to common shares and warrants using Black-Scholes and the share price at the time of financing, if and when the warrants are exercised, consideration paid by the warrant holder, together with the amount previously recognized in warrant reserves, is recorded as an increase to share capital A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of warrants that vest. When warrants are cancelled, they are treated as if they have vested on the date of cancellation and any cost not yet recognized in profit or loss is immediately expensed. Upon expiration of warrants, the amount applicable to expired warrants is moved to contributed surplus.

(j) Research and Development

Research costs are expensed as incurred. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and use or sell the asset. Other development expenditures are recognized in net loss as incurred. To date, no development costs have been capitalized.

(k) Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) that has arisen as a result of a past event, it is probable that a future outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

As at December 31, 2021 and 2020, the Company had no material provisions.

(l) Financial Instruments

The Company classifies and measures financial instruments in accordance with IFRS 9 *'Financial Instruments'* ("IFRS 9"). A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial assets and financial liabilities, including derivatives, are recognized on the statements of financial position when the Company becomes a party to the financial instrument or derivative contract.

Classification

The Company classifies its financial instruments in the following measurement categories: (a) those to be measured subsequently at fair value through profit and loss ("FVTPL"); (b) those to be measured subsequently at fair value through other comprehensive income ("FVTOCI"); and (c) those to be measured at amortized cost. The classification of financial assets depends on the business model for managing the financial assets and the contractual terms of the cash flows. Financial liabilities are classified as those to be measured at amortized cost unless they are designated as those to be measured subsequently at FVTPL (irrevocable election at the time of recognition). For assets and liabilities measured at FVTPL, gains and losses are recorded in profit and loss.

The Company reclassifies financial assets when its business model for managing those assets changes. Financial liabilities are not reclassified.

FVTPL
This category includes derivative instruments as well as quoted equity instruments which the Company has not irrevocably elected, at initial recognition or transition, to classify at FVTOCI. This category would also include debt instruments whose cash flow characteristics fail the solely principal and interest ("SPPI") criterion or are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell. Financial assets in this category are recorded at fair value with changes recognized in profit or loss. As at December 31, 2021 and 2020, the Company did not have any financial assets at FVTPL.

FVTOCI
Equity instruments that are not held-for-trading can be irrevocably designated to have their change in FVTOCI instead of through profit or loss. This election can be made on individual instruments and is not required to be made for the entire class of instruments. Attributable transaction costs are included in the carrying value of the instruments. Financial assets at FVTOCI are initially measured at fair value and changes therein are recognized in other comprehensive income (loss). As at December 31, 2021 and 2020, the Company did not have any financial assets at FVTOCI.

Amortized cost
This category includes financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion. Financial assets classified in this category are measured at amortized cost using the effective interest method.

Measurement
All financial instruments are required to be measured at fair value on initial recognition, plus, in the case of a financial asset or financial liability not at FVTPL, transaction costs that are directly attributable to the acquisition or issuance of the financial asset or financial liability. Transaction costs of financial assets and financial liabilities carried at FVTPL are expensed in profit or loss. Financial assets and financial liabilities with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of the subsequent accounting periods. All other financial assets including equity investments are measured at their fair values at the end of subsequent accounting periods, with any changes taken through profit and loss or other comprehensive income (loss) (irrevocable election at the time of recognition). For financial liabilities measured subsequently at FVTPL, changes in fair value due to credit risk are recorded in other comprehensive income (loss).

The Company's classification of financial assets and liabilities is summarized below:

	Classification
Cash and cash equivalents	Amortized cost
Accounts receivable (excluding sales tax recoverable)	Amortized cost
Security deposits	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Lease payable	Amortized cost

Expected credit loss impairment model
IFRS 9 introduced a single ECL impairment model, which is based on changes in credit quality since initial application. The adoption of the ECL impairment model had resulted in a provision of ECL recorded on the Company's consolidated statements of loss and comprehensive loss.

- A maximum 12-month allowance for ECL is recognized from initial recognition reflecting the portion of lifetime cash shortfalls that would result if a default occurs in the 12 months after the reporting date, weighted by the risk of a default occurring.

- A lifetime ECL allowance is recognized if a significant increase in credit risk is detected subsequent to the instruments initial recognition reflecting lifetime cash shortfalls that would result over the expected life of a financial instrument.
- A lifetime ECL allowance is recognized for credit impaired financial instruments.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due. The Company considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Company in full or when the financial asset is more than 90 days past due.

The carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts.

Derecognition
<u>*Financial assets*</u>
The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are generally recognized in the consolidated statements of loss and comprehensive loss.

<u>*Financial liabilities*</u>
The Company derecognizes financial liabilities only when its obligation under the financial liabilities are discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable, including any non-cash assets transferred or liabilities assumed, is recognized in the consolidated statements of loss and comprehensive loss.

Fair value hierarchy
The determination of fair value requires judgment and is based on market information, where available and appropriate. The Company classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

(m) Foreign Currency Translation
Functional and presentation currency
Items included in the consolidated financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The functional currency of Tinley and its Canadian subsidiaries is the Canadian Dollar, which is the presentation currency of the consolidated financial statements. The functional currency of all subsidiaries in the United States of America is the US Dollar (“USD”).

Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains (losses) resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

Translation of foreign operations
The results and financial position of all the entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities are translated at the closing rate at the date of the consolidated statements of financial position.
- Income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate in effect on the dates of the transactions); and
- All resulting exchange differences are recognized as a separate component of equity as accumulated other comprehensive income (loss).

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to accumulated other comprehensive income (loss). When a foreign operation is partially disposed of or sold, exchange differences that were recorded in accumulated other comprehensive income (loss) are recognized in the consolidated statements of loss and comprehensive loss as part of the gain or loss on sale.

(n) Leased Assets

At inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company then recognizes a right-of-use asset ("RUA") and a lease liability at the lease commencement date. The RUA is initially measured based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The assets are depreciated to the earlier of the end of the useful life of the RUA or the lease term using the straight-line method. The lease term includes periods covered by an option to extend if the Company is reasonably certain to exercise that option.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if there is a change in future lease payments arising from a change in an index or rate, or if the Company changes its assessment whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured, the amount of the remeasurement is recognized as a corresponding adjustment to the carrying amount of the RUA, or is recorded in profit or loss if the carrying amount of the RUA has been reduced to zero.

(o) Adoption of New Accounting Standards

The Company adopted the following amendments effective January 1, 2021. There was no material impact upon adoption of these amendments on the Company's consolidated financial statements:

In January 2020, the IASB issued amendments to IAS 1 *'Presentation of Financial Statements'* 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. 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. The Company early-adopted these amendments as permitted.

(Expressed in Canadian Dollars)

(p) Recent Accounting Pronouncements

At the date of authorization of these consolidated financial statements, the IASB and IFRS Interpretations Committee had issued the following new and revised standard which is effective for annual periods beginning on or after January 1, 2022. Many are not applicable or do not have a significant impact to the Company and have been excluded.

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. Management has determined that these amendments will not have a significant effect on the consolidated financial statements of the Company.

In February 2021, the IASB issued *Definition of Accounting Estimates*, which amended IAS 8 *'Accounting Policies, Changes in Accounting Estimates and Errors'* ("IAS 8"). The amendments clarify how companies should distinguish changes in accounting policies from changes in accounting estimates. That distinction is important because changes in accounting estimates are applied prospectively only to future transactions and other future events, but changes in accounting policies are generally also applied retrospectively to past transactions and other past events. The amendments to IAS 8 are effective for annual periods beginning on or after January 1, 2023. Early application is permitted. Management is currently assessing the impact of adopting the amendment on its consolidated financial statements.

4. Accounts Receivable

Accounts receivable consisted of the following:

	2021	2020
	$	$
Sales taxes recoverable	**119,970**	75,674
Trade receivables	**45,759**	14,426
	165,729	90,100

5. Inventories

Inventories consisted of the following:

	2021	2020
	$	$
Raw materials	**532,964**	507,064
Finished goods	**235,859**	224,223
Work in process	**-**	54,609
	768,823	785,896

For the year ended December 31, 2021, inventories recognized as an expense in cost of goods sold amounted to $717,682 (2020 – $419,552).

6. Prepaid

Prepaid expenses consisted of the following:

	2021	2020
	$	$
Prepaid insurance	**82,611**	21,907
Advances paid to suppliers	**261,624**	266,518
	344,235	288,425

(Expressed in Canadian Dollars)

7. Property and Equipment

	Construction in Progress	Plant Equipment	Leasehold Improvements	Vehicles	Total
	$	$	$	$	$
Cost at:					
January 1, 2020	-	5,953,786	1,461,817	170,255	7,585,858
Additions	-	47,970	328,883	-	376,853
Effects of foreign exchange	-	(127,307)	(45,557)	(3,356)	(176,220)
December 31, 2020	-	**5,874,449**	**1,745,143**	**166,899**	**7,786,491**
Accumulated depreciation at:					
January 1, 2020	-	292,482	130,876	13,321	436,679
Depreciation	-	616,224	368,127	35,171	1,019,522
Effects of foreign exchange	-	(44,651)	(21,322)	(2,054)	(68,027)
December 31, 2020	-	**864,055**	**477,681**	**46,438**	**1,388,174**
Cost at:					
January 1, 2021	-	5,874,449	1,745,143	166,899	7,786,491
Additions	710,386	36,684	149,887	-	896,957
Adjustment due to lawsuit settlement	-	(69,037)	(54,885)	-	(123,922)
Effects of foreign exchange	8,105	(25,285)	(6,317)	(708)	(24,205)
December 31, 2021	**718,491**	**5,816,811**	**1,833,828**	**166,191**	**8,535,321**
Accumulated depreciation at:					
January 1, 2021	-	864,055	477,681	46,438	1,388,174
Depreciation	-	580,343	400,012	32,860	1,013,215
Effects of foreign exchange	-	2,953	2,536	182	5,671
December 31, 2021	-	**1,447,351**	**880,229**	**79,480**	**2,407,060**
Net Book Value:					
December 31, 2020	-	5,010,394	1,267,462	120,461	6,398,317
December 31, 2021	**718,491**	**4,369,460**	**953,599**	**86,711**	**6,128,261**

During the year ended December 31, 2021, the Company settled a legal dispute with the engineering firm that performed contractual work at the Company’s Long Beach facility in California. Under the settlement the Company obtained the release of a mechanics lien the Company had previously provisioned at a value of $554,047 ($442,000 USD). Under the settlement, the Company is to make reduced payments 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 was recorded as a reduction in the carrying value of property and equipment of $123,922 ($98,861USD) (plant equipment $69,037, leasehold improvement $54,885). This non-cash transaction has been excluded from the consolidated statements of cash flows.

8. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consisted of the following:

	2021	2020
	$	$
Trade payables	**380,290**	851,708
Accrued liabilities	**289,398**	81,472
	669,688	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.

(Expressed in Canadian Dollars)

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

	2021	2020
	$	$
Less than 1 month	**412,363**	351,227
1 to 3 months	**159,813**	5,058
Over 3 months	**97,512**	576,895
	669,688	933,180

9. 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 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 as at December 31, 2021 and 2020:

	$
Cost at:	
January 1, 2020	**3,275,814**
Additions	**-**
Effect of foreign exchange	**(64,568)**
December 31, 2020	**3,211,246**
Accumulated depreciation at:	
January 1, 2020	**1,143,935**
Depreciation	**644,478**
Effect of foreign exchange	**(55,359)**
December 31, 2020	**1,733,054**
Cost at:	
January 1, 2021	**3,211,246**
Additions	**-**
Effect of foreign exchange	**(13,620)**
December 31, 2021	**3,197,626**
Accumulated depreciation at:	
January 1, 2021	**1,733,054**
Depreciation	**602,202**
Effect of foreign exchange	**(481)**
December 31, 2021	**2,334,775**
Net book value:	
December 31, 2020	1,478,192
December 31, 2021	**862,851**

(Expressed in Canadian Dollars)

The following table reflects the changes in the reconciliation of the lease payable on the Long Beach facility as at the years ended December 31, 2021 and 2020:

	2021	2020
		$
Lease liability, beginning of the year	**1,836,087**	2,477,159
Lease payments	**(838,885)**	(875,892)
Interest on lease obligations	**163,291**	251,876
Effect of foreign exchange	**(15,494)**	(17,056)
Total lease liability, end of the year	**1,144,999**	1,836,087
Current	**787,850**	686,211
Non-current	**357,149**	1,149,876
	1,144,999	1,836,087

Lease commitment consisted of the following:

	Total	**Within 1 year**	**1 to 3 years**	**3 to 5 years**
	$	$	$	$
Lease payable	1,230,700	869,653	361,047	-
Total	**1,230,700**	**869,653**	**361,047**	**-**

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.

	Number of shares	**Proceeds**	**Proceeds on exercised**	**Consulting fees paid in shares**	**Share issuance costs**	**Allocated to reserve for warrants**	**Allocated from reserve for share based payments**	**Resulting share capital amount**
	#	$			$	$		$
Balance, December 31, 2019	**110,681,641**	-	-	-	-	-	-	**35,036,761**
Issuance on private placement June 30, 2020 (a)	3,700,000	1,850,000	-	-	(183,576)	(558,166)	-	**1,108,258**
Issuance on private placement August 31, 2020 (b)	2,080,000	1,040,000	-	-	(103,526)	(285,208)	-	**651,266**
Issuance on exercised options November 16, 2020 (c)	25,000	-	2,750	-	-	-	1,500	**4,250**
Issuance on exercised options November 16, 2020 (d)	910,500	-	-	100,155	-	-	1,196	**101,351**
Issuance on private placement November 23, 2020 (e)	2,222,300	1,000,035	-	-	(110,919)	(376,010)	-	**513,106**
Issuance on private placement December 8, 2020 (f)	2,257,825	1,016,021	-	-	(95,311)	(358,099)	-	**562,611**
Balance, December 31, 2020	**121,877,266**	**4,906,056**	**2,750**	**100,155**	**(493,332)**	**(1,577,483)**	**2,696**	**37,977,603**
Issuance on private placement March 30, 2021 (g)	2,125,000	850,000	-	-	(97,252)	(283,691)	-	**469,057**
Issuance on private placement June 10, 2021 (h)	7,321,971	2,416,250	-	-	(83,848)	(395,754)	-	**1,936,648**
Issuance on exercised options August 3, 2021 (i)	350,000	28,000	-	-	-	-	12,423	**40,423**
Issuance on private placement October 31, 2021 (j)	12,437,805	1,865,671	-	-	(203,085)	(566,063)	-	**1,096,523**
Balance, December 31, 2021	**144,112,042**	**10,065,977**	**2,750**	**100,155**	**(877,517)**	**(2,822,991)**	**15,119**	**41,520,254**

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 elected to extend the deadline for achieving these sales targets by two years. During the term of the Agreement, the Company is to release 1,500,000 Escrow Shares if sales exceed $1 million over any four consecutive quarters. An additional 1,500,000 consideration shares are to be released if sales exceed $3 million over any four consecutive quarters. The Escrow Shares are expected to be cancelled on October 29, 2022.

2020 Share capital transactions

(a) On June 30, 2020, the Company closed a non-brokered private placement (the "Q2 2020 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 Offering, the Company paid cash commissions of $130,152 to Agents. In addition, 260,304 Broker Unit Purchase Warrants Type II were issued as compensation to the Agents (see Note 12 for details).

(b) On August 31, 2020, the Company closed another non-brokered private placement (the "Q3 2020 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 Offering, the Company paid cash commissions of $77,200 to the Agents. In addition, 154,400 Broker Unit Purchase Warrants Type II were issued as compensation to the Agents (see Note 12 for details).

(c) On November 16, 2020, the Company issued 25,000 common shares through the exercise of options at $0.11 per share, for total proceeds of $2,750.

(d) On November 16, 2020, the Company issued 910,500 common shares through the exercise of options at $0.11 per share, for total proceeds of $100,155. This option exercise was a non-cash transaction as the proceeds of this option exercise were settled as additional compensation for the former CFO and not in cash.

(e) On November 23, 2020, the Company closed a non-brokered private placement (the "Q4 2020 Offering") through the issuance of 2,222,300 Units at a price $0.45 per Unit, for gross proceeds of $1,000,035. 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 $0.60 for a period of 36 months following the closing. In connection with the Q4 2020 Offering, the Company paid cash commissions of $70,002 to the Agents. In addition, 155,561 Broker Unit Purchase Warrants Type II were issued as compensation to the Agents (see Note 12 for details).

(f) On December 8, 2020, the Company closed a second tranche ("Tranche 2") of the Q4 2020 Offering through the issuance of 2,257,825 Units at a price $0.45 per Unit, for gross proceeds of $1,016,021. 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 $0.60 for a period of 36 months following the closing. In connection with Tranche 2 of the Q4 2020 Offering, the Company paid cash commissions of $71,121 to the Agents. In addition, 158,048 Broker Unit Purchase Warrants Type II were issued as compensation to the Agents (see Note 12 for details).

2021 Share capital transactions

(g) On March 30, 2021, the Company closed a non-brokered private placement (the "Q1 2021 Offering") through the issuance of 2,125,000 Units at a price $0.40 per Unit, for gross proceeds of $850,000. 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 $0.50 for a period of 36 months following the closing. In connection with the Q1 2021 Offering, the Company paid cash commissions of $61,693 to the Agents. In addition, 154,232 Broker Unit Purchase Warrants Type II were issued as compensation to the Agents (see Note 12 for details).

(h) On June 10, 2021, the Company closed a non-brokered private placement (the "Q2 2021 Offering") through the issuance of 7,321,971 Units at a price $0.33 per Unit, for gross proceeds of $2,416,250. Each Unit is comprised of one common share of the Company and one half Warrant. Each whole 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 Q2 2021 Offering, the Company paid cash commissions of $9,818 to the Agents. In addition, 29,750 Broker Unit Purchase Warrants Type I were issued as compensation to the Agents (see Note 12 for details).

(i) On August 3, 2021, the Company issued 350,000 common shares through the exercise of options at $0.08 per share, for total proceeds of $28,000.

(Expressed in Canadian Dollars)

(j) On October 14, 2021, the Company closed a non-brokered private placement (the "Q4 2021 Offering") through the issuance of 12,437,805 Units at a price $0.15 per Unit, for gross proceeds of $1,865,671. 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 $0.20 for a period of 24 months following the closing. In connection with the Q4 2021 Offering, the Company paid cash commissions of $114,625 to the Agents. In addition, 764,169 Broker Unit Purchase Warrants Type II 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.

The following summarizes the options activities for the years ended December 31, 2021 and 2020:

	2021		2020	
	Weighted exercise price	**Number of options**	Weighted exercise price	Number of options
	$	**#**	$	#
Outstanding, beginnig of the year	**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**	0.37	200,000
Granted	**0.48**	**200,000**	-	-
Granted	**0.50**	**100,000**	-	-
Granted	**0.70**	**100,000**	-	-
Granted	**1.00**	**100,000**	-	-
Granted	**0.23**	**400,000**	-	-
Granted	**0.17**	**25,000**	-	-
Expired/Cancelled	**0.72**	**(100,000)**	0.58	(100,000)
Expired/Cancelled	**0.44**	**(50,000)**	-	-
Expired/Cancelled	**0.70**	**(300,000)**	-	-
Expired/Cancelled	**0.23**	**(100,000)**	-	-
Expired/Cancelled	**0.33**	**(600,000)**	-	-
Expired/Cancelled	**0.50**	**(100,000)**	-	-
Expired/Cancelled	**0.60**	**(100,000)**	-	-
Expired/Cancelled	**0.70**	**(100,000)**	-	-
Expired/Cancelled	**0.48**	**(200,000)**	-	-
Expired/Cancelled	**0.41**	**(290,000)**	-	-
Expired/Cancelled	**0.58**	**(250,000)**	-	-
Expired/Cancelled	**0.68**	**(350,000)**	-	-
Exercised	**0.08**	**(350,000)**	0.11	(935,500)
Outstanding, end of the year	**0.48**	**12,965,000**	0.50	10,630,000
Exercisable, end of the year	**0.49**	**10,414,166**	0.51	6,640,417

Options grants in 2020

On July 10, 2020, the Company granted 50,000 stock options to an employee, at an exercise price of $0.44 per share. The options expire on July 9, 2025. The options vest in 12 quarterly instalments until options are fully vested.

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

On October 6, 2020, the Company granted 200,000 stock options to a consultant, at an exercise price of $0.37 per share. The options expire on October 6, 2025. The options vest upon the completion of the three-month initial terms of the consulting agreement.

Options cancelled/expired in 2020

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

Options exercised in 2020

On November 16, 2020, 25,000 options granted on January 27, 2016 were fully exercised for gross proceeds of $2,750.

On November 16, 2020, 910,500 options granted on December 23, 2015 were fully exercised for gross proceeds of $100,155. This option exercise was a non-cash transaction as the proceeds were settled as additional compensation for the CFO and not in cash.

Options grants in 2021

On January 18, 2021, the Company granted 1,500,000 stock options to a consultant at an exercise price of $0.42 per share. The options expire on January 18, 2028. The options vest 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.

On January 27, 2021, the Company granted 2,400,000 stock options to a number of its employees and consultants at an exercise price of $0.41 per share. The options expire on January 27, 2026. The options vest immediately.

On February 24, 2021, the Company granted 400,000 stock options to a number of its employees and consultant, at an exercise price of $0.47 per share. The options expire on February 24, 2026. The options vest in 8 quarterly installments of 50,000 until the options are fully vested.

On March 2, 2021, the Company granted 200,000 stock options to a former officer who subsequently resigned on September 24, 2021, at an exercise price of $0.48 per share. The options expire on March 2, 2026. The options vest in 8 quarterly installments of 25,000 options until the options are fully vested.

On March 9, 2021, the Company granted 300,000 stock options to a consultant, at an exercise price $0.50, $0.70 and $1.00 for each of the 100,000 stock options respectively. The options expire on March 9, 2026. The stock options are vest immediately.

On August 17, 2021, the Company granted 300,000 stock options to various officers, consultants and employees, including 200,000 options granted to the new Chief Financial Officer ("CFO") of the Company, at an exercise price of $0.23 per share. The options expire on August 17, 2026. The options vest in 8 quarterly installments of 37,500 options until the options are fully vested.

On September 29, 2021, the Company granted 25,000 stock options to an employee, at an exercise price of $0.17 per share. The options expire on September 29, 2026. The options vest in 12 quarterly installments of 2,083 options until the options are fully vested.

(Expressed in Canadian Dollars)

Options cancelled/expired in 2021

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

On February 3, 2021, 50,000 options granted on July 10, 2020 to its employee were cancelled at an exercise price of $0.44 per share.
On April 10, 2021, 300,000 options granted on April 10, 2019 to its consultant were expired unexercised at an exercise price of $0.70 per share.

On November 4, 2021, 600,000 options granted on November 4, 2016 to its directors expired unexercised at an exercise price of $0.33 per share.

On December 2, 2021, 300,000 options granted on December 2, 2019 its consultant at an exercise price of $0.50 for 100,000 options per share, $0.60 for 100,000 options per shares, and $0.70 for 100,000 per share expired.

On December 22, 2021, 200,000 options granted on March 2, 2021 to a former officer at an exercise price of $0.48 per share were cancelled.

On December 29, 2021, the following options were cancelled: 350,000 options granted on November 22, 2017 to a former officer at an exercise price of $0.68 per share. 250,000 options granted on November 20, 2018 to a former officer at an exercise price of $0.58 per shares. And 290,000 options granted on December 23, 2019 to a former officer were at an exercise price of $0.41 per share.

Options exercised in 2021

On August 3, 2021, 350,000 options granted on August 8, 2016 to its officer at an exercise price of $0.08 per share were fully exercised for gross proceeds of $28,000.

Black-Scholes valuation assumptions

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

Options granted in 2020

Grant date	**October 6, 2020**	**August 16, 2020**	**July 10, 2020**
Number of options	200,000	350,000	50,000
Exercise price per share	$0.37	$0.46	$0.44
Share price	$0.37	$0.46	$0.44
Expected life of options	5 years	10 years	5 years
Expected volatility	135%	157%	120%
Risk-free interest rate	0.35%	0.61%	0.36%
Forfeiture rate	10%	10%	10%

Options granted in 2021

Grant date	**September 29, 2021**	**August 17, 2021**	**March 9, 2021**	**March 9, 2021**	**March 9, 2021**
Number of options	25,000	300,000	100,000	100,000	100,000
Exercise price per share	$0.17	$0.23	$1.00	$0.70	$0.50
Share price	$0.17	$0.23	$0.45	$0.45	$0.45
Expected life of options	5 years	5 years	5 years	5 years	5 years
Expected volatility	101.40%	103.41%	112.92%	112.92%	112.92%
Risk-free interest rate	1.11%	0.81%	0.87%	0.87%	0.87%
Forfeiture rate	10%	10%	10%	10%	10%

(Expressed in Canadian Dollars)

Grant date	**March 2, 2021**	**February 24, 2021**	**January 27, 2021**	**January 18, 2021**
Number of options	200,000	400,000	2,400,000	1,500,000
Exercise price per share	$0.48	$0.47	$0.41	$0.42
Share price	$0.48	$0.445	$0.41	$0.42
Expected life of options	5 years	5 years	5 years	7 years
Expected volatility	113.41%	113.92%	115.08%	149.27%
Risk-free interest rate	0.78%	0.73%	0.41%	0.52%
Forfeiture rate	10%	10%	10%	10%

The following table summarizes information of options outstanding as at December 31, 2021:

	Number of options outstanding	**Numbers of options exercisable**	**Exercise price**	**Estimated grant date fair value**	**Weighted average remaining life**
	#	**#**	**$**	**$**	**Years**
July 12, 2022	600,000	600,000	0.35	132,141	0.53
April 20, 2023	100,000	100,000	0.87	68,282	1.30
May 11, 2023	50,000	50,000	0.72	27,822	1.36
August 13, 2023	300,000	300,000	0.79	126,429	1.62
November 30, 2023	2,050,000	2,050,000	0.58	877,362	1.92
November 30, 2023	900,000	900,000	0.58	385,183	1.92
December 11, 2023	100,000	100,000	0.58	41,139	1.95
December 14, 2023	250,000	250,000	0.58	107,028	1.95
September 4, 2024	525,000	393,750	0.56	222,965	2.68
November 14, 2024	200,000	200,000	0.37	67,384	2.87
December 23, 2024	2,050,000	1,366,667	0.41	632,487	2.98
December 23, 2024	290,000	193,333	0.41	89,474	2.98
December 23, 2024	75,000	50,000	0.41	23,140	2.98
October 25, 2025	200,000	200,000	0.37	57,083	3.82
January 27, 2026	2,400,000	2,400,000	0.41	711,848	4.08
February 24, 2026	400,000	150,000	0.47	127,417	4.15
March 9, 2026	100,000	100,000	0.50	31,864	4.19
March 9, 2026	100,000	100,000	0.70	30,356	4.19
March 9, 2026	100,000	100,000	1.00	28,609	4.19
August 17, 2026	300,000	37,500	0.23	47,031	4.63
September 29, 2026	25,000	2,083	0.17	2,869	4.75
January 18, 2028	1,500,000	625,000	0.42	540,074	6.05
August 16, 2030	350,000	145,833	0.46	143,063	8.63
	12,965,000	**10,414,166**	**0.49**	**4,521,050**	**3.36**

During the year ended December 31, 2021, the Company recognized share-based payments related to the vesting of stock options of $1,787,649 (2020 - $1,274,212).

(Expressed in Canadian Dollars)

12. Reserve for Warrants

The following summarizes the warrant activities for the years ended December 31, 2021 and 2020:

	2021		2020	
	warrants outstanding	**Fair value**	Number of warrants outstanding	Fair value
Share purchase warrants	**#**	**$**	#	$
Balance, beginning of year	**22,106,179**	**8,450,359**	17,305,454	8,873,035
Issued June 30, 2020	-	-	3,700,000	478,847
Issued August 31, 2020	-	-	2,080,000	246,089
Issued November 23, 2020	-	-	2,222,300	309,176
Issued December 8, 2020	-	-	2,257,825	306,222
Issued March 31, 2021	**2,125,000**	**234,973**	-	-
Issued June 10, 2021	**3,660,984**	**379,331**	-	-
Issued October 14, 2021	**12,437,805**	**477,606**	-	-
Expired	**(7,408,554)**	**(1,530,031)**	(5,459,400)	(1,763,010)
Balance, end of the year	**32,921,414**	**8,012,238**	22,106,179	8,450,359
Broker unit purchase warrants type I (a)				
Balance, beginning of year	**910,196**	**570,125**	910,196	570,125
Expired	**(910,196)**	**(570,125)**	-	-
Issued June 10, 2021	**29,750**	**6,614**	-	-
Balance, end of the year	**29,750**	**6,614**	910,196	570,125
Broker unit purchase warrants type II (b)				
Balance, beginning of year	**1,018,376**	**495,256**	492,263	176,658
Issued June 30, 2020	-	-	260,304	133,393
Issued August 31, 2020	-	-	154,400	57,769
Issued November 23, 2020	-	-	155,561	107,752
Issued December 8, 2020	-	-	158,048	76,067
Issued March 31, 2021	**154,232**	**64,120**	-	-
Issued October 14, 2021	**764,169**	**122,972**	-	-
Expired	**-**	**-**	(202,200)	(56,383)
Balance, end of the year	**1,936,777**	**682,348**	1,018,376	495,256
Total	**34,887,941**	**8,701,200**	24,034,751	9,515,740

(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 in 2020

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

On August 31, 2020, the Company issued 2,080,000 share purchase warrants, at an exercise price of $0.70 per share, in connection with the Q3 2020 Offering, as disclosed in Note 10 (b). 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 Offering. Each broker unit is comprised of one common share and one share purchase warrant, exercisable into one common share at $0.70 per share for a period of 24 months.

On November 23, 2020, the Company issued 2,222,300 share purchase warrants, at an exercise price of $0.60 per share, in connection with the Q4 2020 Offering, as disclosed in Note 10 (e). In addition, 155,561 Broker Unit Purchase Warrants Type II were issued as compensation to Agents, to acquire one broker unit at an exercise price of $0.45 per unit for a period of 36 months following the closing of the Q4 2020 Offering. Each Broker Unit is comprised of one common share and one share purchase warrant, exercisable into one common share at $0.60 per share for a period of 36 months.

On December 8, 2020, the Company issued 2,257,825 share purchase warrants, at an exercise price of $0.60 per share, in connection with Tranche 2 of the Q4 2020 Offering, as disclosed in Note 10 (f). In addition, 158,048 broker units purchase warrants were issued as compensation to Agents, to acquire one broker unit at an exercise price of $0.45 per unit for a period of 36 months following the closing of Tranche 2 of the Q4 2020 Offering. Each Broker Unit is comprised of one common share and one share purchase warrant, exercisable into one common share at $0.60 per share for a period of 36 months.

Expired warrants in 2020

On April 6, 2020, 5,549,400 share purchase warrants and 202,200 broker unit purchase warrants issued under the April 6, 2018 Private Placement expired unexercised.

Warrant activities in 2021

On March 30, 2021, the Company issued 2,125,000 share purchase warrants, at an exercise price of $0.50 per share, in connection with the Q1 2021 Offering as disclosed in Note 10 (g). In addition, 154,232 Broker Units Purchase Warrants Type II were issued as compensation to the Agents, to acquire one broker unit purchase warrant at an exercise price of $0.40 per unit for a period of 36 months from the closing of the Q1 2021 Private Placement Offering. Each Broker Unit is comprised of one common share and one share purchase warrant, exercisable into one common share at $0.50 per share for a period of 36 months.

On June 10, 2021, the Company issued 3,660,984 share purchase warrants, at an exercise of $0.42 per share, in connection with the Q2 2021 Offering, as disclosed in Note 10 (h). In addition, 29,750 Broker Unit Purchase Warrants Type I were issued as compensation to the Agents, to acquire one broker unit purchase warrant at an exercise price of $0.33 per unit for a period of 24 months following the closing of the Q2 2021 Offering. Each Broker Unit is comprised of one common share and one-half of a share purchase warrant, exercisable into one common share at $0.42 for a period of 24 months following the closing date.

On October 14, 2021, the Company issued 12,437,805 share purchase warrants, at an exercise of $0.20 per share, in connection with the Q4 2021 Offering, as disclosed in Note 10 (j). In addition, 764,169 Broker Unit Purchase Warrants Type II were issued as compensation to the Agents, to acquire one broker unit purchase warrant at an exercise price of $0.15 per unit for a period of 24 months following the closing of the Q4 2021 Offering. Each Broker Unit is comprised of one common share and one share purchase warrant, exercisable into one common share at $0.20 for a period of 24 months following the closing date.

Expired warrants in 2021

On April 30, 2021, 4,514,350 share purchased warrants issued on April 30, 2019 at an exercise price of $0.90 per share, and 505,917 Broker Unit Purchase Warrants Type I issued on April 30, 2019 at an exercise price of $0.60, expired unexercised.

(Expressed in Canadian Dollars)

On May 10, 2021, 2,894,204 share purchase warrants issued on May 10, 2019 at an exercise price of $0.90 per share, and 404,279 Broker Unit Purchase Warrants Type I issued on May 10, 2019 at an exercise price of $0.60, expired unexercised.

Black-Scholes valuation assumptions

The fair value of 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 2020

Issuance date	**December 8, 2020**	**November 23, 2020**	**August 31, 2020**	**June 30, 2020**
Number of warrants	2,257,825	2,222,300	2,080,000	3,700,000
Exercise price	$0.60	$0.60	$0.70	$0.70
Share price	$0.42	$0.55	$0.445	$0.54
Expected life of warrants	3 years	3 years	2 years	2 years
Expected volatility	100%	101%	93%	95%
Risk-free interest rate	0.32%	0.30%	0.28%	0.28%

Broker unit purchase warrants type II issued in 2020

Issuance date	**December 8, 2020**	**November 23, 2020**	**August 31, 2020**	**June 30, 2020**
Number of warrants	158,048	155,561	154,400	260,304
Exercise price	$0.45	$0.45	$0.50	$0.50
Share price	$0.42	$0.55	$0.445	$0.54
Expected life of warrants	3 years	3 years	2 years	2 years
Expected volatility	100%	101%	93%	95%
Risk-free interest rate	0.32%	0.30%	0.28%	0.28%

Share purchase warrants issued in 2021

Issuance date	**October 14, 2021**	**June 10, 2021**	**March 30, 2021**
Number of warrants	12,437,805	3,660,986	2,125,000
Exercise price	$0.20	$0.42	$0.50
Share price	$0.17	$0.340	$0.395
Expected life of warrants	2 years	2 years	3 years
Expected volatility	89.78%	84.12%	87.44%
Risk-free interest rate	0.72%	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%

(Expressed in Canadian Dollars)

Broker unit purchase warrants type II issued in 2021

Issuance date	October 14, 2021	March 30, 2021
Number of warrants	764,169	154,232
Exercise price	$0.15	$0.40
Share price	$0.17	$0.395
Expected life of warrants	2 years	3 years
Expected volatility	89.78%	87.44%
Risk-free interest rate	0.72%	0.49%

The following table summarizes information of warrants outstanding as at December 31, 2021:

Date of expiry	Number of warrants outstanding	Exercise price	Weighted average remaining life
	#	$	Years
Share purchase warrants			
June 30, 2022	3,700,000	0.70	0.50
August 31, 2022	2,080,000	0.70	0.67
November 14, 2022	1,250,000	0.60	0.87
November 26, 2022	2,125,000	0.60	0.90
December 24, 2022	1,062,500	0.60	0.98
June 10, 2023	3,660,984	0.42	1.44
October 14, 2023	12,437,805	0.20	1.79
November 23, 2023	2,222,300	0.60	1.90
December 8, 2023	2,257,825	0.60	1.94
March 30, 2024	2,125,000	0.50	2.25
Balance	**32,921,414**	**0.44**	**1.46**
Broker unit purchase warrants type I			
June 10, 2023	29,750	0.33	1.44
Balance	**29,750**	**0.33**	**1.44**
Broker unit purchase warrants type II			
June 30, 2022	260,304	0.50	0.50
August 31, 2022	154,400	0.50	0.67
November 14, 2022	87,500	0.40	0.87
November 26, 2022	128,188	0.40	0.90
December 24, 2022	74,375	0.40	0.98
October 14, 2023	764,169	0.15	1.79
November 23, 2023	155,561	0.45	1.90
December 8, 2023	158,048	0.45	1.94
March 30, 2024	154,232	0.40	2.25
Balance	**1,936,777**	**0.33**	**1.45**

(Expressed in Canadian Dollars)

13. 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 years ended December 31, 2021 and 2020 were as follows:

	2021	2020
	$	$
Short-term employee benefits, including salaries and consulting fees	**991,894**	897,840
Share-based compensation	**1,035,764**	897,365
	2,027,658	1,795,205

(i) For the year ended December 31, 2021, the Company incurred consulting fee expenses with the former CEO of $222,791 (2020 – $156,000). As at December 31, 2021, no balance (December 31, 2020 – $nil) was outstanding.

(ii) For the year ended December 31, 2021, the Company incurred consulting fees with the former CFO of $21,000 (2020 – $74,400). As at December 31, 2021, no balance (December 31, 2020 – $nil) was outstanding

(iii) For the year ended December 31, 2021, the Company incurred consulting fees with a former officer of $75,250 (2020 – $nil). As at December 31, 2021, no balance (December 31, 2020 – $nil) was outstanding.

(iv) For the year ended December 31, 2021, the Company incurred consulting fees with the new CFO of $42,903 (2020 – $nil). As at December 31, 2021, a balance of $11,300 (December 31, 2020 – $nil) remained outstanding, and was included in accounts payable and accrued liabilities.

(v) For the year ended December 31, 2021, the Company incurred wage expenses with the President and Chief Operating Officer of $301,800 (2020 – $323,598) for services rendered. As at December 31, 2021, no balance (December 31, 2020 – $nil) was outstanding.

(vi) For the year ended December 31, 2021, the Company incurred consulting fees with the Acting Chief Operating Officer, who is also a director of the Company, of $150,900 (2020 – $143,921). As at December 31, 2021, no balance (December 31, 2020 – $nil) was outstanding.

(vii) For the year ended December 31, 2021, the Company incurred consulting fees with directors considered to be part of key management of $156,000 (2020 – $156,000) for services rendered. As at December 31, 2021, an amount of $14,897.64 (December 31, 2020 – $6,500) was outstanding and included in accounts payable and accrued liabilities.

(viii) For the year ended December 31, 2021, the Company incurred legal fees with an entity controlled by a former director who is considered to be part of key management of $21,250 (2020 – $nil). As at December 31, 2021, no balance (December 31, 2020 – $nil) was outstanding.

Other related party transactions

(ix) For the year ended December 31, 2021, directors who are not part of key management received stock-based compensation of $269,535 (2020 – $189,618).

(Expressed in Canadian Dollars)

14. Income Taxes

The reported income taxes differ from the amounts obtained by applying domestic rates of Tinley domiciled in Canada of 26.5% (2020 – 26.5%) to the net loss as follows:

	2021	2020
	$	$
Components of income tax provision:		
Income tax at statutory tax rates	**(2,266,000)**	(2,038,000)
IRC 280(e) deductions [(a)]	**709,400**	1,141,000
Difference between Canadian and foreign tax rates	**(105,200)**	387,000
Stock-based compensation and other non-deductible expenses	**503,800**	338,000
Change in tax benefits not recognized	**1,158,000**	172,000
Recovery of income taxes	**-**	**-**

(a) As the Company operates in the cannabis industry, it is subject to the limitations of US Internal Revenue Code Section 280(e) (“IRC 280(e)”) under which the Company is only allowed to deduct direct costs sales. This results in permanent differences between ordinary and necessary business expenses deemed non-allowable under IRC 280(e). Therefore, the effective tax rate can be highly variable and may not necessarily correlate with pre-tax income or loss.

The following are temporary differences that gave rise to the deferred tax assets, which have not been recognized in the consolidated financial statements:

	2021	2020
	$	$
Deferred income tax assets:		
Share issuance costs	**245,000**	269,000
Operating losses carried forward	**7,260,000**	6,078,000
Total	**7,505,000**	6,347,000
Valuation allowance	**(7,505,000)**	(6,347,000)
Deferred tax asset	**-**	-

Share issuance costs are to be fully amortized in 2025. The mineral properties temporary differences may be carried forward indefinitely. Deferred income tax assets have not been recognized due to the uncertainty of realization.

(Expressed in Canadian Dollars)

Tax losses carried forward
The Company has accumulated non-capital losses for income tax purposes, which can be carried forward to be applied against future taxable income. The losses expire as follows:

	Canadian	**Californian**	**Federal US**
	$	**$**	**$**
2025	751,000	-	-
2026	918,000	-	-
2027	890,000	-	-
2028	1,880,000	-	-
2029	45,000	-	-
2030	566,000	-	-
2031	732,000	-	-
2032	1,168,000	-	-
2033	888,000	-	-
2034	497,000	-	-
2035	967,000	-	-
2036	1,076,000	244,000	55,000
2037	709,000	1,090,000	57,000
2038	1,770,000	125,000	125,000
2039	2,072,000	3,290,000	559,000
2040	2,113,000	4,618,000	2,665,000
2041	2,430,000	3,580,000	752,000
	19,472,000	**12,947,000**	**4,213,000**

15. 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 December 31, 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 $6,544,815 (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 year ended December 31, 2021.

(Expressed in Canadian Dollars)

16. Cost of Sales

The Company's cost of sales for the years ended December 31, 2021 and 2020 are as follows:

	2021	2020
	$	$
Raw materials	**368,717**	260,935
Labour	**224,621**	138,741
Quality control and testing	**63,868**	16,489
Shipping and freight	**60,476**	3,387
	717,682	419,552

17. General and Administrative Expenses

The Company's general and administration expenses incurred for the years ended December 31, 2021 and 2020 are as follows:

	2021	2020
	$	$
Payroll and salaries	**1,422,880**	871,260
Corporate costs and administration	**1,144,204**	821,199
Professional fees	**1,076,723**	733,964
Consulting and management fees	**469,758**	499,932
Interest on lease liabilities	**163,291**	251,876
Occupancy cost	**79,368**	211,913
Travel and promotion	**38,154**	41,905
	4,394,378	3,432,049

18. Financial Instruments and Risk Management

Fair value

The carrying amount of cash, trade receivables, trade and other payables and lease payable on the 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 instruments is minimal. The maximum exposure to credit risk at year-end is limited to the accounts receivable balance. No ECL has been recorded as at December 31, 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 December 31, 2021, the Company had a cash and cash equivalents balance of $113,840 (December 31, 2020 – $2,258,526) to settle current liabilities of $1,616,428 (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	669,688	669,688	-	-
Lease payable	1,230,700	869,653	361,047	-
Total	**1,900,388**	**1,539,341**	**361,047**	**-**

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 December 31, 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 December 31, 2021, the Company had the following financial assets and financial liabilities in USD:

	December 31, 2021	December 31, 2020
	$	$
Cash	**32,309**	132,714
Trade receivables	**35.921**	11,331
Trade and other payables	**(114,345)**	(508,402)
Lease obligations	**(970,736)**	(1,639,970)
Net exposure to USD	**(1,016,851)**	(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 $10,000 (December 31, 2020 – USD $20,000), respectively, as a result of this exposure.

19. 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 December 31, 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.

20. Comparative figures

Certain comparative figures have been reclassified to conform to the current year's presentation on the consolidated financial statements and the consolidated statements of loss. Interest and other income have been grouped into finance and administration costs. Net loss previously reported has not been affected by these reclassifications.

21. Subsequent Events

On January 19, 2022, the Company closed a non-brokered private placement through the issuance of 2,080,666 Units at a price of $0.15 per Unit, for gross proceeds of $312,100. 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 $0.20 until January 19, 2024.

On February 28, 2022, the Company closed a non-brokered private placement through the issuance of 3,450,000 Units at a price of $0.15 per unit, for gross proceeds of $517,000. 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 $0.20 until February 28, 2024. In connection with this offering, the Company paid cash commissions of $13,800 to the agents. In addition, 108,000 Broker Unit Purchase Warrants Type II were issued as compensation to the Agents, to acquire units until February 28, 2024 at an exercise price of $0.15 per unit. Each Broker Unit Purchase Warrant Type II entitles the Agents to acquire one common share and one Warrant, with the Warrant exercisable into one common share at $0.20 until February 28, 2024.

On April 25, 2022, the Company received an advance in the aggregate amount of $781,109 ($612,250 USD) (the “Advance”) from Richard Gillis, President and Chief Operating Officer of Tinley’s USA, and member of Tinley’s Office of the CEO.

On May 2, 2022, the Company announced that the Lakewood Acquisition closed on April 29, 2022 and as of that date, Tinley’s acquired 100% of the shares of Lakewood from Richard Gillis and that Lakewood became a wholly owned subsidiary of the Company on that date. The submission of application documents by the Company to the Department of Cannabis Control (“DCC”) to register the Company as owner on the Lakewood licences is expected to be made on or about May 2, 2022 subsequent to the execution of share transfer documents and the closing of the transaction by the Company and Mr. Gillis. Barring unforeseen delays, the State review and registration of the Company as owner of Lakewood on the two licences is expected to conclude on or about June 30, 2022. For clarity, irrespective of the timeframe for the DCC to register the Company’s name on the licences as owner, Tinley’s owns 100% of Lakewood as of April 29, 2022, and the State cannabis licences and the City business licences permitting their operation at the Long Beach Facility remain in Lakewood's name. The Company intends to register "Tinley's Beverages" as a "dba" designation for Lakewood.