



## THE TINLEY BEVERAGE COMPANY INC.

Management's Discussion and Analysis

For the Three Months ended March 31, 2022

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**THE TINLEY BEVERAGE COMPANY INC.**  
**Management’s Discussion and Analysis of Financial Condition and Results of Operations**  
**For the Three Months ended March 31, 2022**

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This Management’s Discussion and Analysis (“MD&A”) constitutes management’s assessment of the financial condition and results of operations of The Tinley Beverage Company Inc. (“Tinley” or the “Company”) for the three months ended March 31, 2022. It is supplemental to and should be read in conjunction with the Company’s unaudited condensed interim consolidated financial statements for the three months ended March 31, 2022 and 2021 and the Company’s audited consolidated financial statements for the year ended December 31, 2021. The Company’s financial statements and the financial information contained in this MD&A have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). In the opinion of management, all adjustments considered necessary for a fair presentation have been included. In preparing this MD&A, management has taken into account information available up to May 30, 2022. Unless otherwise indicated, all figures presented in this MD&A are expressed in Canadian Dollars (“\$” or “C\$”). Unless the context otherwise requires, references in this MD&A to the “Company”, “Tinley” or “we” refers to Tinley and its subsidiaries.

*This discussion contains forward-looking statements that are not historical in nature and involves risks and uncertainties. Forward-looking statements are not guarantees as to Tinley’s future results as there are inherent difficulties in predicting future results. This MD&A includes, but is not limited to, forward-looking statements. Management considers the assumptions on which these forward-looking statements are based to be reasonable at the time the statements were prepared. Accordingly, actual results could differ materially from those expressed or implied in the forward-looking statements. Additional information relevant to Tinley’s activities, including Tinley’s press releases can be found on SEDAR at [www.sedar.com](http://www.sedar.com).*

This MD&A has been prepared with reference to the requirements of National Instrument 51-102 *Continuous Disclosure Obligations* of the Canadian Securities Administrators (“CSA”) and Staff Notice 51-352 (Revised) – Issuers with US Marijuana Related Activities (“Staff Notice”).

## **1. Description of Business**

Tinley was incorporated under the laws of the Province of Ontario, Canada by Articles of Incorporation dated October 26, 2007. Tinley, with its subsidiaries, manufactures a line of liquor-inspired, non-alcoholic, cannabis-infused beverages for use in California, United States (“US”) and in Ontario, Canada. The Company also manufactures a line of liquor-inspired, non-alcoholic, non-cannabis-infused beverages, which are available in retail locations in the US and parts of Canada and online throughout the US. The Company also manufactures cannabis-infused beverages for contract manufacturing clients. 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.

The Company has two primary product lines: (i) the liquor- and cocktail-inspired, cannabis-infused Tinley’s™ Tonics and Tinley’s™ ’27 lines of products, produced at Tinley’s Facility in Long Beach, California, and which are available in licensed dispensaries and delivery services throughout California. In Canada, the Tinley’s infused line, branded Tinley’s ’27 and Tinley’s Classics, was adapted to comply with Canadian cannabis regulations. Two inaugural SKU’s began production in March 2022 at Health Canada-licensed contract manufacturers to fulfill initial orders received from the Ontario Cannabis Store (the “OCS”), the country’s largest Cannabis wholesaler. The first Tinley’s ’27 SKU is now available on-line through the OCS website and is being distributed to and sold by licensed dispensary retailers in Ontario. The second Tinley’s Classics mocktail SKU has been shipped and received by the OCS warehouse and is available for online consumer sales and distribution to licensed dispensary retailers, and (i) the Beckett’s™ Tonics and (ii) Beckett’s™ ’27 lines of non-cannabis-infused, non-alcoholic spirits and cocktails, which are available or eligible for sale in select mainstream food, beverage and specialty retailers, as well as on premises locations, in select US markets and in several locations in Canada.

The Company has built one of the largest cannabis beverage facilities in California. Situated on approximately 45,000 square feet (“sq. ft.”) of property in the City of Long Beach, California, (the “City”). The 20,000 sq. ft. facility is engineered to infuse a variety of beverage types and to run multiple production-lines capable of packing product in glass bottles, aluminum cans and mini-bottles of various sizes and shapes, for both own-brand and contract manufacturing clients, and for cannabis beverage distribution (the “Long Beach Facility” or the “Facility”).

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In December 2018, Richard Gillis, an officer of the Company, formed Lakewood Libations, Inc. ("Lakewood"), a California corporation, to conduct commercial cannabis manufacturing and distribution operations at the Long Beach Facility. The Company and Richard Gillis entered into a stock purchase agreement (the "SPA") pursuant to which the Company agreed to acquire one hundred percent (100%) of the shares of Lakewood from Mr. Gillis for a nominal fee, with the closing of such transaction to take place following receipt of necessary regulatory approvals (the "Lakewood Transaction"). The Lakewood Transaction closed on April 29, 2022.

During the interim period between the signing of the SPA and to the closing of the Lakewood Transaction, Mr. Gillis agreed to detailed "use of proceeds" restrictions that included but were not limited to the requirement that the directors and officers of Lakewood only utilize proceeds from Lakewood's operations to fund ongoing operations and not issue any dividends or otherwise expend profits. Prior to the closing of the Lakewood Transaction, Tinley also had certain audit rights to ensure that Mr. Gillis remained in compliance with the Acquisition Transaction agreement.

The Company agreed and continued through the closing of the Lakewood Acquisition Transaction to provide Lakewood with the Long Beach Facility, certain intellectual property for production, equipment, and other resources for Lakewood's operations (collectively, the "Tinley Resources") (See "Business Overview – Business Developments" section).

## **2. Business Overview**

### **Financing Activities**

January 19, 2022, the Company closed a non-brokered private placement raising gross proceeds of \$312,000 through the issuance of 2,080,666 units (each a "Unit") at a price of \$0.15 per Unit. Each Unit is comprised of one common share and one common share purchase warrant (each a "January Warrant"). Each January Warrant is exercisable into one common share at a price of \$0.20 until January 19, 2024.

On February 25, 2022, the Company closed a non-brokered private placement (the "February 2022 Offering") raising gross proceeds of \$517,000 through the issuance of 3,450,000 Units at a price of \$0.15 per Unit. Each Unit is comprised of one common share and one common share purchase warrant (each, a "February Warrant"). Each February Warrant is exercisable into one common share at a price of \$0.20 until February 25, 2024. In connection with the closing of the February 2022 Offering, the Company paid cash commissions of \$16,200 and issued an aggregate of 108,000 broker options to certain finders, with each broker option exercisable into one common share and one Warrant at a price of \$0.20 until February 25, 2024.

On March 14, 2022, Richard Gillis, the President and Chief Operating Officer of Tinley's US subsidiaries and a member of Tinley's Office of the CEO, advanced the Company \$209,922 (\$167,991 USD). On April 25, 2022, the Company received an additional advance of \$571,187 (\$444,259 USD) from Mr. Gillis. The terms and conditions of Mr. Gillis' advances to the Company will be reflected in a 12% secured convertible promissory note of the Company and other terms and conditions agreed upon by Mr. Gillis and the Company. Mr. Gillis' advance is subject to receipt of all necessary approvals, including final approval from the Canadian Securities Exchange.

### **Business Developments**

On January 18, 2022, the Company announced that, for the first time, a batch of product manufactured at the Long Beach Facility had completed the State of California's testing, quarantine and lab sampling processes onsite under the distribution licence (the "Distribution Licence") granted to Lakewood. Activation of Distribution Licence is expected to expedite the testing and delivery of manufactured products, as client and own-brands now benefit from a new onsite 'first-mile' distribution option adjacent to Lakewood's licensed manufacturing space at the Company's Long Beach Facility.

On January 19, 2022, the Company announced that international cannabis beverage brand 'Green Monké' is scheduled to begin can line production of five planned flavours at its Long Beach Facility in Q1 2022, with production of full-batches expected to repeat near-monthly. Due to supply chain delays, production was rescheduled and took place the week of May 2, 2022.

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On February 3, 2022, the Company announced that the in-line tunnel pasteurizer at the Long Beach Facility has passed validation by a registered process authority, an expert who certifies methods for safe food and beverage manufacturing. The validation process confirmed that the tunnel pasteurizer meets the micro-organism control specifications for temperature and hold time across a representative range of beverage product and container types.

On February 28, 2022, the Company announced that client-supplied materials required for production at its Long Beach Facility that had been delayed by supply chain issues are now expected to be received on site over the next week. In addition, manufacturing of the Company’s Tinley’s ‘27 brand to be launched in Canada was expected to be completed that week at its Ontario licensed contract manufacturer. These products were shipped to the OCS warehouse mid-March 2022 and became available for Ontario dispensaries in April 2022.

On April 4, 2022, the Company announced the production of the first non-alcoholic beer to be infused at the Long Beach facility, which was completed during the week of April 11, 2022. This non-alcoholic beer is crafted by BJ’s Brewhouse team of brew masters and is licensed to Lakewood contract manufacturing client SOMA Beverages.

The Long Beach Facility had successfully produced commercial batches of three Calexo ‘Watercolors’ brand flavours on the newly commissioned Codi can line. Following production, multiple batches of single cans and 4-packs were transferred to Lakewood’s on-site licensed distribution area. The Long Beach Facility is now offering the immediate transfer of products from Lakewood’s licensed manufacturing area ‘through the wall’ to its state-licensed adjacent distribution space to complete mandatory ‘First-Mile’ distribution services including quarantine, lab sampling and full certificate of analysis testing, prior to release for sale.

In addition, the Company announced the launch of the Canadian versions of its award-winning coconut ‘rum’ elixir, and its Paloma-style ready-to-drink mocktail. SKUs were produced for these products in March 2022 at the Company’s two Canadian licensed contract packers to fill initial product orders received from the OCS, Canada’s largest provincial wholesaler.

On April 25, 2022, the Company announced that the launch of its products to an increasing number of dispensaries in key Ontario regional markets by working with Northern Elements.

On April 29, 2022, the Lakewood Acquisition Transaction closed, and Lakewood became a wholly owned subsidiary of the Company.

### **Retail Growth Strategy**

#### **Tinley’s™ Tonics and Tinley’s™ ‘27 Infused Beverages**

The Company has been working with national brand spirit formulators for several years on developing non-alcoholic versions of popular liquors and cocktails. In 2018, the Company licensed its recipes to a third-party manufacturer, which launched an initial run of the first THC-infused product, a non-alcoholic margarita-type mocktail infused with 10mg of THC. This product had been developed with a Southern California-based liquor formulator, along with products inspired by coconut rum, cinnamon whisky, Italian amaretto and Moscow Mule cocktails. In late 2018, after a brief period in market, the State of California made comprehensive updates to its cannabis regulations. One such update provided that cannabis could no longer be manufactured with alcohol-style labeling. As a result, the third-party licensee ceased manufacturing its margarita product and the Company began a process of rebranding and label redesign.

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

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

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The process ultimately resulted in an intellectual property licensing agreement with the former manufacturer for its "Phase 1" operations, and a subsequent arrangement with a new licensed operator and manufacturer its "Phase 2" operations. It also resulted in the aforementioned lease for the "Phase 3" facility in Long Beach for the Company's long-term operations. While this lengthy search process resulted in a delay in producing the Company's products, the Company successfully negotiated lease rates in a highly desirable location – which is critical for beverage distribution – at competitive rates.

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

The Company did not have fulsome production capabilities for most of 2020 during the transition from the "Phase 2" facility to the commissioning of the Long Beach Facility. With the full commissioning of the facility completed in Q4 2020, and the above-mentioned licensing agreement between Lakewood and the Company, the Company's products are now being produced by Lakewood. The Company experienced supply chain and distribution disruptions throughout Q3 2021 and has taken steps to secure materials and refine its distribution processes as a result. With production scheduled for December 2021 and January 2022, the Company anticipates that the full line of Tinley's<sup>TM</sup> infused products will be back in market at key California dispensary accounts and home delivery channels in Q1 2022. The transition to Mars HQ distribution, announced in January 2021, was aimed to enhance the delivery capacity of the Company's products produced by Lakewood, and enhance sales coverage throughout the state of California. The Company is currently also working with Hardcar Distribution to develop optimal fulfillment arrangements for all products produced at the Long Beach facility and continues to evaluate emerging distribution opportunities.

With its manufacturing, delivery and sales agreements in place, the Company intends to pursue the following growth strategy for California for the remainder of Q2 2022 and going forward:

- **Increased focus on key accounts with multiple store locations:** The Company intends to focus on accelerating distribution and sales to multi-store operators and select high-profile retailers who are organized and equipped to sell beverages as high velocity SKU's per beverage best practices. In these locations, the Company can engage in deeper in-store merchandising, display and traffic-building initiatives in collaboration with the retailer. This activity is expected to improve the consistency of the Company's products visibility and pricing in prominent stores. It is anticipated that these programs can be deployed at lower cost than servicing a large number of independent operators. The Company began signing such deals in the first half of 2021, including with Harborside and Planet 13 dispensaries.
- **Increased focus on home delivery:** The Company is working to deepen its relationships with existing home delivery services and is exploring the development of relationships to add additional such services. As a key component of this strategy, the Company signed an agreement with Stem Holdings, a leading home delivery service with statewide coverage in California, in May 2021.
- **Influencer marketing:** The Company aims to leverage the deep media industry relationships of its team to endeavor to enter into agreements with prominent entertainment and sports personalities to provide influencer services. The Company has appointed two-time NBA All-Star Baron Davis to the Advisory Board to assist with this effort.
- **Restarting tastings and demonstrations:** As COVID-19 restrictions have eased, the Company has held private event dispensary education and demo events in compliance with applicable laws. The Company intends to work with third-party brands to partner in conducting these programs, which would be intended to increase visibility for all products as well as enable cost sharing between participants.
- **Reformulation to simplify ingredients batching and production:** The Company engaged a flavour and formulation provider to reduce complexity of the ingredients required to produce its infused and non-infused

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products. It is expected to be able to implement the new easier to ship and produce ingredient solutions by Q3 2022. The revised formulations specifications include the ability to produce the ready-to-drink carbonated products in aluminium cans.

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

The Company's Beckett's™ products are the base beverage formulations of the infused Tinley's™ products and are replicated for the non-infused market produced at non-Cannabis-licensed third-party beverage facilities and packaged under the Beckett's™ brand. The Beckett's™ products are designed for the "low-no alcohol" beverage category, which allows consumers to enjoy premium, adult beverages without intoxication. In late 2019, the Company announced that its first major customer, BevMo!, one of the US's west coast's two largest liquor store retailers, would be launching these products in 150 stores. BevMo! placed an order for the Company's revised bottle format for the Tonics products in June 2021 and certain products have also been made available on BevMo!'s Gopuff web platform.

In January 2020, the Company shipped its Beckett's™ products to BevMo! and became an approved vendor at two additional California and national US retail chains. Collectively, these chains represent over 6,000 stores across the US and Canada. The Company expects to begin trials at these retailers as they reopen their new products launch programs in the wake of COVID-19 restrictions. Several of these trials have begun to take place as at the date of this MD&A, but have been significantly impacted by the inability to conduct sampling as a result of the COVID-19 pandemic. Despite being deemed an essential service, BevMo! voluntarily closed its stores as a result of COVID-19, thereby limiting exposure to the Company's products. BevMo! stores have since re-opened and the retailer has agreed to take the new glass bottle format of the Beckett's™ ready to drink cocktails, which were previously available in cans.

The Beckett's™ products were ordered by Lipman Brothers, a wholesaler in Nashville, Tennessee, for their network of retail customers; Beckett's™ is also distributed in the state of Texas through a leading beverage distributor/broker.

The Beckett's™ products launched in Alberta, Canada in April 2021, having been accepted to the province's Liquor Connect platform in March 2021 and were featured at specialty food retailers in the Greater Toronto Area.

The Company continues its strategic review of Beckett's aimed to accelerate the realization of value from the Beckett's™ brand assets in the US and Canada without requiring additional investment. Strategic options focus on licensing the Beckett's™ IP including trademarks and formulations to third parties; the economics of such licensing is expected to improve when the reformulated ingredients are available, expected in Q3 2022. As noted above, the reformulation is currently planned to include the desired ability to package Beckett's™ ready-to-drink mocktails now made in glass bottles in aluminum cans.

Third-Party Brand Manufacturing

On March 1, 2018, the Company entered into two lease agreements for the Long Beach Facility, which is situated on approximately 45,000 sq. ft. of land approximately 16 miles from downtown Los Angeles. It is now being used as the Company's bottling facility for operations carried out by Lakewood and principal place of business in California.

The Company has retrofitted the existing structure and installed batching and multiple-line bottling equipment that is uniquely designed for the needs of cannabis drinks. The bottling equipment accommodates the solubilization technology and processes that Tinley uses for its cannabis and terpene-infused, liquor-style beverages. It is also designed and continues to provide for a variety of can, bottle, closure and label formats to accommodate future products as well as enable manufacturing services for third-party brands that wish to build cannabis-infused versions of their products. The facility produces both carbonated and non-carbonated beverages, as well as those that contain perishable ingredients and those that require clean-label claims. The Company believes that its combined production line capacity and its menu of services to third-party clients wishing to produce infused beverages of various types is unique in California.

The state and local licences to manufacture and distribute at the Long Beach Facility are held by Lakewood. The State Manufacturing licence is Type N, which covers beverages and all other forms of cannabis-infused products, and also permits cannabis re-packing and other non-extraction manufacturing processes.

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The Company, through its wholly owned Lakewood subsidiary, operates the Long Beach Facility for manufacturing its own products as well as providing manufacturing services for an increasing number of third-party brands. The Company has announced manufacturing and licensing agreements between Lakewood and several prominent cannabis brands as well as a pipeline of prospective clients.

At the Long Beach Facility, Lakewood is able to perform beverage testing and research and development to the extent permitted by the State, to enable continuous product innovation and rigorous quality assurance for the Company's products and its third-party brands' products. The Company believes that its lineup of services enables the Company to maintain control over key aspects of the supply chain and offer an end-to-end beverage development and distribution solutions to market for third-party brands. In doing so, the Company is able to provide investors with exposure to a broader portfolio of beverage products which collectively are driving the accelerating growth of beverage share of total cannabis category in North America's largest cannabis market.

After completing the bottling line, the Company obtained a second bottling line that is capable of producing high-demand mini bottles. It is currently seeking to upgrade this capacity while fulfilling client service requests. It also commissioned and entered commercial client production on its canning line and has inaugurated a closed-loop batching and infusion process designed for non-alcoholic beer that prevents exposure to air and air-borne contaminants such as yeast. Non-alcoholic beer, produced without chemical preservatives, also requires pasteurization which is now achieved for both product contents and containers through a tunnel pasteurizer. The tunnel pasteurizer provides an alternative to chemical preservatives for clients seeking to produce infused products based on more natural formations. The Company continuously assesses and responds to market demand and seeks to add batching and manufacturing capabilities to unlock short term and longer term high-volume revenue from new and existing co-pack clients, all of which are expected to increase the Long Beach Facility's overall manufacturing capacity and efficiency.

Tinley has retrofitted a portion of the non-manufacturing area at Long Beach Facility to be used as a separate licensed cannabis distribution warehouse. This warehouse space adjacent to the manufacturing premises is designed to cater to the unique needs of beverage products, including refrigeration and large-format packaging, as well as provide space for state-mandated batch quarantine and sampling by a licensed laboratory, and storage through and beyond state testing clearance. The Company operates this warehousing facility under Lakewood's distribution licence in cooperation with existing local distributor management personnel and fulfilment networks.

#### Territorial Expansion

In late 2019, the Company announced an agreement with Great North Distribution for distribution of its cannabis beverages in Canada. Great North is an affiliate of Southern Glazers Wine and Spirits, of the world's foremost beverage alcohol distributors. In late 2020, the Company entered into an agreement with Peak Processing Systems, a Canadian licensed cannabis producer, to launch its Tinleys '27 multi-serve products inspired by spirits and liqueurs in Canada. In mid-2021, the Company entered into an agreement with BevCanna Enterprises, a Canadian licensed cannabis producer, to produce its Tinleys Classics single-serve ready-to-drink mocktail products in Canada. Following production in March 2022 of the two inaugural SKU's to fulfill purchase orders received from the OCS. Sales of both products have begun in Ontario, Canada's largest market, online through the OCS website and in licensed retail locations. Northern Elements, the Company's sales agents, formerly known as Great North Distribution, and the Company's two licensed cannabis producers, are collaborating with the Company to pursue listings in provinces across Canada, based on each provinces schedule of sales presentation and review and new product release dates for 2022. Listings in additional provinces are subject to conditions determined by each provincial cannabis boards.

In the US, the Company views Nevada as an additional expansion opportunity due to the state's large tourism industry, year-round warm climate, innovative plans for licensing consumption, and proximity to the California operations. In the short term, the Company is intensifying its own-brand production and distribution in California and remains responsive to multi-state opportunities. The Company believes such opportunities will be facilitated by the reformulation process to simplify ingredients and batching mentioned above

#### CBD Beverages

Subsequent to the passage of the US Farm Bill in late 2018, the US Food and Drug Administration ("FDA") and the California Department of Public Health (the "CDPH") increased enforcement against hemp CBD products in

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mainstream “bricks and mortar” stores within the State. Tinley’s “Hemplify®” products remain out of production given the regulatory headwinds against hemp-based CBD drinks in past years, coupled with the larger opportunity for THC-infused drinks at Tinley’s Long Beach Facility.

In addition to US Food and Drug Administration (the “FDA”) State regulatory enforcement against hemp-derived CBD, the State Bureau of Cannabis Control (“BCC”) stipulated that hemp-derived CBD products were no longer eligible for sale in licensed California dispensaries unless the hemp is grown and distributed under the state’s track and trace system or the CBD is derived from high-THC cannabis plants. This further validated the Company’s decision to reposition its resources entirely and focus on cannabis-derived (i.e., non-hemp-derived) THC and CBD products in the licensed dispensary channel.

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

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

The global pandemic related to the outbreak of COVID-19 cast uncertainty on many of the Company’s assumptions and estimates. There can be no assurance that such assumptions and estimates continue to be valid. Given the rapid pace of change in the severity of and response to the COVID-19 outbreak, it is premature for the Company make further assumptions or estimates relating to the impacts of COVID-19 to its operations. The situation is dynamic and the ultimate duration and magnitude of the impact of COVID-19 on the economy and the financial effect on the business is not known at this time. These impacts could include, amongst others, an impact on the Company’s ability to obtain debt or equity financing, increased credit risk on receivables, impairments in the value of the long-lived assets, or potential future decreases in revenue or profitability of the Company’s ongoing operations.

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

The Company continues to take a number of precautions with the intention of mitigating COVID-19 risk at the Long Beach Facility and corporate office based on federal State and local health authority regulations and guidelines. The Company required that all non-essential production employees work from home, where their duties with the Company allowed. This measure helps minimize the number of potential COVID-19 exposures on a daily basis. While at work, physical distancing measures were enacted, personal protective equipment (such as masks) was made mandatory both inside the production area and outside in office spaces for most of the pandemic. These measures remain in place and to the knowledge of the Company, no employee has tested positive for COVID-19. The Company will continually review the above measures in conjunction with the measures deemed appropriate by local health authorities.

*Business and Supply Chain Disruption:* The Company over 2020, 2021 and early 2022 experienced and continues to manage through Supply Chain disruptions for ingredients, commodity inputs, and packaging supplies, and equipment, due to global supply and pandemic issues. It has also faced cross border and in-Canada shipping delays due to the protest disruptions in Q1 2022. These issues impacted production schedules at the Long Beach facility and at Canadian co-packers for Tinley’s Canadian products, as previously announced. The Company continues to work to reduce the impact of these systemic and beverage manufacturing industry-specific delays in Canada and the US.

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

*Borrowing and Lending Issues:* The Company does not anticipate adverse consequences in the context of borrowing and lending, as a result of the global COVID 19 pandemic.



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

*Commodity Prices:* The price of cannabis derivative products has seen an oversupply, leading to reduced expectations on commodity prices. As at the date of this MD&A, the COVID-19 outbreak has had minimal detrimental effect on our ability to acquire inputs though commodity prices and delivery time-frame challenges are impacting industry-wide pricing and delivery and in both the US and Canada; the Company is working with suppliers to address issues as they arise.

### **3. Canadian Companies with US Marijuana-Related Assets**

The Company has established a board-level committee (“US Cannabis Committee”) to govern all aspects of Tinley’s cannabis activities in the US. This US Cannabis Committee consists of Douglas Fulton, Ted Zittell and Curt Marvis. The Company created this committee in anticipation of receiving approval to commence commercial cannabis operations under a Company-owned licence in the future. Recognizing the enhanced governance and oversight requirements of such cannabis activities in the US, the Company in Q4 2019 began the process of formally delineating the governance of the subsidiaries, assets, personnel and overall corporate resources involved in its cannabis activities from its non-cannabis products. All personnel and overall corporate resources involved in cannabis activities in the US have been given direct reporting accountability to the US Cannabis Committee. The Committee’s Chairman, Mr. Fulton, was installed in the first quarter of 2020 to oversee the day-to-day aspects of US cannabis activities. Mr. Zittell subsequently assumed the Chairman role.

On February 8, 2018, the CSA published the Staff Notice, which provides specific disclosure expectations for issuers that currently have, or are in the process of developing, cannabis-related activities in the US as permitted within a particular state’s regulatory framework. All issuers with US cannabis-related activities are expected to clearly and prominently disclose certain prescribed information in required disclosure documents.

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

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

#### **I. All Issuers with US Marijuana-Related Activities**

##### *A. Nature of the Company Involvement in the US Marijuana Industry*

In July 2020, the Long Beach Facility was granted a Type N Cannabis Manufacturing licence from the State of California. Under the California Business and Professions Code, Section 26000, et seq., short titled, the Medicinal and Adult-Use Cannabis Regulation and Safety Act (“MAUCRSA”) and California Code of Regulations Title 4, Division 19 (the “DCC Regulations”) (hereinafter MAUCRSA and the DCC Regulations shall be referred to as “California Cannabis Law”), a licence is required to conduct commercial cannabis activity.

Through 2019 and Q2 2020, the Company operated under an IP Agreement licensing its proprietary intellectual property to a licensed operator, (hereinafter, the “Prior Manufacturer”), who, utilizing its cannabis licenses, previously manufactured the Company’s Tinley-branded products and paid the Company a royalty fee (“IP License”). The Prior Manufacturer was licensed to produce the Tinley-branded products from its premises in Riverside County.

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In April 2020, the Company and the Prior Manufacturer terminated their production agreement for the ongoing production of Tinley-branded Products in anticipation of the Long Beach Facility becoming operational in the second quarter of 2020.

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

*B. Cannabis Illegality*

In the US, cannabis is largely regulated at the state level. To the Company's knowledge, there are to date a total of 37 states, plus the District of Columbia, Puerto Rico and Guam, which allow their residents to use medical cannabis and a total of 18 states and 3 territories that permit adult-use of cannabis. Notwithstanding the permissive regulatory environment of medical cannabis at the state level, the Federal Controlled Substances Act ("FCSA") makes it illegal under federal law to manufacture, distribute or dispense cannabis. 21 U.S.C § 801, et seq. Cannabis is categorized as a Schedule I controlled substance under the FCSA and as such, violates federal law in the US. Companies that engage in any form of commerce in the cannabis industry and individuals investing in a cannabis business may be subject to federal criminal prosecution along with civil fines and penalties. Federal enforcement could lead to dissolution, asset forfeiture and total loss of investment. Thus, enforcement of relevant laws is a significant risk.

*C. Guidance from Federal Authorities*

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

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

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

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

The DOJ has issued official guidance regarding cannabis enforcement in 2009, 2011, 2013, 2014 and 2018 in response to state laws that legalize medical and adult-use cannabis. In each instance, the DOJ has stated that it is committed to

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

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

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

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

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

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

While there are no explicit federal protections for adult-use commercial cannabis activity, on April 11, 2018, former President Trump made a verbal commitment to former Colorado US Senator, Cory Gardner, to not interfere with the Colorado cannabis industry. Further, Senator Gardner stated, "President Trump has assured me that he will support a federalism-based legislative solution to fix this states' rights issue once and for all." At this time, such bipartisan legislation has not yet been finalized, but Senate Gardner went on to say, "[m]y colleagues and I are continuing to work diligently on a bipartisan legislative solution that can pass Congress and head to the President's desk to deliver on his campaign position." The Company is pleased to see reports that President Trump has promised top Senate Republicans

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that he will support congressional efforts to protect states that have legalized cannabis. The Company is cautiously optimistic that it represents a clear and positive sign that the industry is shifting towards a climate where cannabis users and business can participate in the industry without fear of interference from the federal government.

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

On March 22, 2018, the House of Representatives (the "House") and Senate voted in favor of approving the Omnibus Spending Bill (the "Omnibus Spending Bill") and it was signed into law the following day by former US President Donald Trump. With the Omnibus Spending Bill's approval came an extension of Rohrabacher-Leahy Amendment until September 2018, which is represented by Section 538 of the Bill. The Rohrabacher-Leahy Amendment prevents the DOJ from using federal funds in enforcing federal law relating to medical cannabis, which effectively allows states to implement their own laws that authorize the use, distribution, possession, or cultivation of medical cannabis. The amendment was first introduced in 2014 and has been reaffirmed annually since then. It should be noted that this amendment does not apply to adult-use cannabis.

On November 7, 2018, Mr. Sessions resigned. While pro-cannabis legislation would still require passage by the Senate and enactment by the US federal executive branch of government, the path to legalization seems to have opened up with Mr. Sessions' departure. With divided congressional power, opportunities arose for bipartisanship on a number of issues, including the Strengthening the Tenth Amendment Through Entrusting States (STATES) Act, S. 3032 ("STATES Act"), which would protect individuals working in cannabis sectors from federal prosecution. The STATES Act was introduced in June 2018 through bipartisan efforts initiated by former Colorado US Senator Cory Gardner together with Massachusetts US Senator Elizabeth Warren. In addition, constituents of the State of Michigan voted to legalize recreational cannabis, making Michigan the first state in the Midwest US to do so and the 10<sup>th</sup> in the US overall, demonstrating growing sentiment among Americans towards legalization. Voters in the states of Missouri and Utah also approved ballot measures legalizing cannabis for medical use, making their states the 31<sup>st</sup> and 32<sup>nd</sup> to do so.

On July 10, 2019, the House Judiciary Subcommittee on Crime, Terrorism and Homeland Security gathered to debate cannabis reform, as lawmakers sought input on federal laws reform in a hearing titled "*Marijuana Laws in America: Racial Justice and the Need for Reform.*" Numerous members of Congress had indicated their intention to loosen US federal laws, and to even legalize cannabis. Despite the optimism, no consensus was reached by lawmakers.

On September 25, 2019, the House voted in favor of the Secure and Fair Enforcement (SAFE) Act ("SAFE Banking Act"). The historic vote was the first time that a standalone cannabis bill has come before the House. The vote needed a two-thirds majority to pass and was supported by 321 votes in favor to 103 against.

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

On May 15, 2020, provisions of the SAFE Banking Act have been incorporated into the stimulus package passed by the House. The Health and Economic Recovery Omnibus Emergency Solutions (HEROES) Act is a \$3 trillion stimulus bill passed in response to the economic and health crisis caused by COVID-19.

On November 3, 2020, the US held its 2020 presidential election, and adult-use cannabis legalization was approved via ballot measures in four additional states: Arizona, Montana, South Dakota and New Jersey. Additionally, medical cannabis was legalized via ballot measures in Mississippi and South Dakota, which became the first state to legalize medical and recreational cannabis simultaneously.

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On November 4, 2020, the House passed the MORE Act, the first time that either Congressional house voted to de-schedule cannabis from the FCSA and thus decriminalize manufacturing, distribution, and possession. However, the Senate did not act before the end of the 2020 session.

On January 20, 2021, Joseph R. Biden was sworn in as the 46<sup>th</sup> President of the U.S, having announced a goal during his campaign to decriminalize cannabis possession federally; Democrats maintained their House majority and achieved control of the Senate. On March 10, 2021, House Democrats voted 220 to 211 in favor of passing the American Rescue Plan (ARP) Act, a \$1.9 trillion coronavirus relief package, which is among the largest economic stimulus packages in US history. The ARP Act was signed by President Biden on March 11, 2021. While cannabis companies will likely see increased sales resulting from this third round of federal stimulus payments in the US, some industry experts have claimed that cannabis companies may be ineligible for certain small business credit initiatives outlined in the relief package.

In March 2021, New York became the 16<sup>th</sup> state to legalize adult-use cannabis, both doing so through legislative action. In the same month, Senate Majority Leader Chuck Schumer of New York, and Senators Ron Wyden of Oregon, and Cory Booker of New Jersey met with cannabis industry advocates including the National Cannabis Industry Association and the Minority Cannabis Business Association to announce their intention to introduce legislation in the US Senate that would legalize, tax and regulate commercial cannabis activity at the federal level. While President Biden has supported decriminalization of possession and has not expressed support for de-scheduling cannabis, Vice President Harris was one of the original sponsors of the MORE Act while she was still serving in the US Senate, and has publicly stated her support for cannabis de-scheduling. Senate Majority Leader Schumer has indicated the Senate leadership’s willingness to champion full cannabis legalization even without the support of President Biden. However, the legislation has not yet been introduced, and its passage is not assured, notwithstanding Democratic control of the federal executive and legislature. As such, such statements of support for de-scheduling do not materially affect the likelihood of federal enforcement of current cannabis laws against the Company or any other state-licensed cannabis enterprise.

On April 1, 2022, the House passed the MORE Act for a second time on April 1, 2022. Legislation was supported by 220 votes in favor and 204 against. The bill will now pass to the Senate, where 60 votes are needed.

On April 4, 2022, the House also passed The Medical Marijuana Research (MMR) Act, a bipartisan cannabis research bill that establishes a new, separate registration process to facilitate medical cannabis research. Specifically, it directs the Drug Enforcement Administration to register practitioners to conduct medical cannabis research, and manufacturers and distributors to supply cannabis for such research. The MMR Act was supported by 343 votes in favor and 75 against.

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

**Any increase in the US federal government’s enforcement of current US federal law could cause adverse financial impact and remain a significant risk to the Company’s business, which could in turn have an impact on the Company’s operations or financial results. A change in its enforcement policies could impact the ability of the Company to continue as a going concern** (see “Risk Factors”).

*D. US Enforcement Proceedings*

The US Congress has passed appropriations bills (at various times, the “Rohrabacher-Farr Amendment,” the “Leahy Amendment” and the “Joyce Amendment,” hereinafter the “Budget Rider Protections”) each of the last several years to prevent the federal executive branch (and specifically the DOJ) from using congressionally appropriated funds to enforce the FCSA against regulated medical cannabis businesses operating in compliance with state and local laws, which effectively allows states to implement their own laws that authorize the use, distribution, possession, or

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cultivation of medical cannabis. The Budget Rider Protections were first introduced in 2014 and has been reaffirmed annually since then as an amendment to omnibus appropriations bills, which by their nature expire at the end of a fiscal year or other defined term. The current Budget Rider Protections will remain in effect, through the signing of the Fiscal 2022 Omnibus Spending Bill, through September 30, 2022. At such time, it may or may not be included in the omnibus appropriations package or a continuing budget resolution, and its inclusion or non-inclusion, as applicable, is subject to political changes. It should be noted that this amendment does not apply to adult-use cannabis.

US courts have construed these appropriations bills to prevent the federal government from prosecuting individuals when those individuals comply with applicable state law. However, because this conduct continues to violate US federal law, US courts have observed that should Congress at any time choose to appropriate funds to fully prosecute the FCSA, any individual or business – even those that have fully complied with applicable state law – could be prosecuted for violations of US federal law. Therefore, until Congress amends the FCSA regarding cannabis, enforcement of US federal law remains a significant risk. Any increase in the US federal government's enforcement of current US federal law could cause adverse financial impact and remain a significant risk to the Investees' business, which could in turn have an impact on the Company's operations or financial results. A change in its enforcement policies could indirectly impact the ability of the Company to continue as a going concern.

*E. Related Risks*

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

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

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

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are untested “new drugs” and, thus are illegal for consumption until FDA approval. The CDPH and its successor regulator, the Department of

5. Cannabis Control – The Department of Cannabis Control (“DCC”) have followed the FDA’s lead, stating that such consumable CBD products will not be legal in California until the FDA determines that CBD is safe for human or animal consumption or the California legislature determines otherwise.
6. Product Liability Claims – Insurance law and available products for cannabis operations, and product liability of cannabis, is a major concern for the industry. Investors should be aware that insurance policies may be limited, or claims may be challenged by insurance carriers.
7. Background Checks – California and some local jurisdictions require background checks for management and employees as well as applicants for licences and permits. Although some cannabis-related convictions are not prohibited for obtaining licensing, convictions for other offenses may cause a delay or make a Company ineligible for licensing.
8. Licence Issuance and Renewals – Lakewood, a wholly owned subsidiary of the Company, has acquired licences to conduct commercial cannabis manufacturing and distribution. State cannabis licences must be renewed annually, and there is no guarantee that such licences will be renewed each year.

*F. Ability to Access Public and Private Capital*

While the Company has accessed private and public financing in the past, there is neither a broad nor deep pool of institutional capital that is available to cannabis licence applicants or holders. There can be no assurance that additional financing will be available to Tinley when needed or on terms which are acceptable.

*G. Operating Exposure*

The Company is currently launching operations in Canada (See *Business Overview: Retail Growth Strategy: Territorial Expansion*). Previously, all of the Company’s cannabis and non-cannabis-based operations were located within the State of California.

*H. Legal Advice, Compliance, and Potential Exposure*

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

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

**II. Involvement with Cultivation and Distribution**

*A. US Cannabis Issuers with Direct Involvement in Cultivation or Distribution*

Until July 2020, the Company’s involvement in the California cannabis industry was limited to enter into in IP licensing arrangement with the Prior Manufacturer for the production of Tinley-branded products. The Prior Manufacturer typically used cannabis purchased from third-party licensees in extracted forms, rather than cannabis cultivated under its own licenses, to manufacture the Company’s products. The Prior Manufacturer also contracted directly with licensed cannabis distributors for distribution of the Company’s products. The Prior Manufacturer also has a distribution licence and distributed the Company’s products. Cannabis manufacturing activity commenced in the Long Beach Facility upon this facility receiving a cannabis manufacturing licence from the State of California, and the products continue to be distributed by third-party distributors. Through Lakewood, the Company continues to licence its intellectual property for the production of Tinley-branded products at the Long Beach Facility.

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*B. US Cannabis Issuers with Indirect Involvement in Cultivation or Distribution*

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

**US Cannabis Issuers with Material Ancillary Involvement**

The DCC, the consolidated regulatory successor to the CDPH and the BCC, lists Lakewood as a state licence holder. On this basis, the Company is informed and believes that Lakewood “is in compliance with applicable licensing requirements and the regulatory framework enacted by California.”

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

**III. State-Level Overview**

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

*California*

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

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

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

On June 27, 2017, the Legislature passed state Senate Bill No. 94, also known as the “Medicinal and Adult-Use Cannabis Regulation and Safety Act” (“MAUCRSA”), which amalgamated the MCRSA and AUMA frameworks to provide a single uniform statute governing both medical and adult-use cannabis businesses, and authorizing the adoption of regulations, a licensing regime, and state taxes for cannabis businesses in the state. On November 16, 2017, the state introduced initial “emergency” regulations proposed by the BCC (within the California Department of Consumer Affairs), the Manufactured Cannabis Safety Branch (within the California Department of Public Health (“MCSB”)) and CalCannabis (within the California Department of Food and Agriculture (“CalCannabis,”) and together with the BCC and MCSB, the “Licensing Agencies”), which were ultimately adopted. The regulations built on MCRSA and AUMA and reinforced compliance with local laws as a prerequisite to compliance with the state regulations. On January 1, 2018, the new state regulations took effect, and the first legal adult-use cannabis businesses opened in California.



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On July 13, 2021, California Governor Gavin Newsom signed into law Assembly Bill 141 establishing the DCC. This action consolidates the three Licensing Agencies into a single department. The creation of a standalone cannabis department, proposed by Governor Gavin Newsom, is part of a larger effort to improve access to licensure, simplify regulatory oversight and support California businesses. On September 29, 2021, the DCC released final DCC Regulations, which create consistent standards for cannabis licensees across all licence types, by aligning application requirements, unifying terminology, and clarifying ownership and financial interest requirements. The regulations also establish rules for trade samples between businesses.

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

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

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

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

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

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

- Senate Bill 595 requires the State to implement a program by January 1, 2021, that defers or waives licence application and licensing or renewal fees for qualified “needs-based” applicants. This is a social equity provision to boost minority participation in the industry.
- Assembly Bill 1529 requires adding a universal symbol no smaller than a quarter inch-by-quarter inch on all cannabis vaporizer cartridges. The symbol must be engraved, affixed with a sticker, or printed in black or white.
- Assembly Bill 1291 strengthens an existing provision for cannabis businesses by requiring applicants with 20 or more employees to provide a notarized statement that they will enter into and abide by the terms of a labor peace agreement.

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- Assembly Bill 858 clarifies some requirements for “specialty cottage” growers with a maximum 2,500 sq. ft. of canopy.
- Senate Bill 34 allows cannabis retailers to provide free products to medical patients that meet certain criteria. Such was a common industry practice until new regulations went into effect in 2018.

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

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

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

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

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

*A. Zoning and Land Use Requirements*

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

*B. Record-Keeping and Continuous Reporting Requirements*

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

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*C. Operating Procedure Requirements*

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

*D. Site-Visits & Inspections*

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

The following represents the portion of certain assets on the Company's consolidated statements of financial position that pertain to US cannabis activity as of March 31, 2022:

<b>Statement of Financial Position Items</b>	<b>Percentage (%) which related to holdings with US cannabis-related activities</b>
Cash	18%
Accounts receivable	59%
Inventories	38%
Prepaid expenses	48%
Capital assets	100%
Right-of-use assets	100%
Long-term security deposits	100%

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

**4. Overall Performance**

**Selected Annual Information**

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

	<b>2021</b>	<b>2020</b>	<b>2019</b>
		<b>\$</b>	<b>\$</b>
Sales	803,781	304,167	85,128
Operating expenses	(8,635,982)	(7,574,585)	(7,371,359)
Net loss	(8,549,883)	(7,687,970)	(7,392,122)
Loss per share – basic and diluted	(0.062)	(0.069)	(0.075)
Total assets	8,518,392	11,434,683	13,901,946
Total liabilities	1,973,577	2,826,247	3,348,396
Total shareholders' equity	6,544,815	8,608,436	10,553,550

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**Selected Quarterly Financial Results**

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

	Q1 2022	Q4 2021	Q3 2021	Q2 2021
		\$	\$	\$
Sales	171,175	106,292	198,165	360,918
Operating expenses	(1,804,009)	(2,002,866)	(2,148,599)	(1,905,662)
Net loss	(1,696,511)	(2,046,660)	(2,120,365)	(1,798,002)
Loss per share – basic and diluted	(0.012)	(0.015)	(0.016)	(0.015)
Working capital (deficiency)	(954,499)	(223,801)	(162,438)	1,774,915

  

	Q1 2021	Q4 2020	Q3 2020	Q2 2020
	\$	\$	\$	\$
Sales	138,406	61,127	34,628	34,747
Operating expenses	(2,578,857)	(2,082,140)	(2,387,952)	(1,126,558)
Net loss	(2,584,854)	(2,168,822)	(2,446,443)	(1,111,235)
Loss per share – basic and diluted	(0.023)	(0.069)	(0.022)	(0.018)
Working capital	934,166	1,746,576	1,355,577	2,282,030

**Three Months ended March 31, 2022<sup>1</sup>**

*Results of operations*

During the three months ended March 31, 2022 (“Q1 2022”), the Company generated sales of \$171,175, as compared to sales of \$138,406 for the three months ended March 31, 2021 (“Q1 2021”). This reflects the completion of buildout of the Long Beach Facility, which enabled the Company, through its Lakewood subsidiary, to begin co-manufacturing for third-party brands.

During Q1 2022, the Company had total operating expenses of \$1,804,009 as compared to \$2,578,857 in Q1 2021. The comparative decrease in the overall operating expenses is primarily due to a decrease in share-based payment. The decrease was partially offset by an increase in product development, sales and marketing, and general and administration (“G&A”) costs which was primarily driven by payroll and salaries expenses and professional fees including consulting services related to supporting the Long Beach bottling operations and the Company's development of its business in Canada, as well as corporate costs and administration expenses for the US operations.

During Q1 2022, the Company's G&A expenses of \$927,014 (Q1 2021 – \$867,297), were comprised of:

- Payroll and salaries of \$389,047 (Q1 2021 – \$297,243).
- Corporate costs and administration of \$258,883 (Q1 2021 – \$162,071).
- Professional fees of \$190,202 (Q1 2021 – \$194,020).
- Consulting and management fees of \$53,348 (Q1 2021 – \$99,349).
- Interest on lease obligations of \$28,383 (Q1 2021 – \$47,813).
- Occupancy costs of \$5,276 (Q1 2021 – \$63,383).
- Travel and promotional expenses of \$1,875 (Q1 2021 – \$3,418).

Net loss for the three months ended March 31, 2022, was \$1,696,511 (\$0.012 per share on a basic and diluted basis), as compared to a net loss of \$2,584,854 (\$0.023 per share on a basic and diluted basis) for Q1 2021.

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

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*Cash flows*

Net cash flows used in operating activities for Q1 2022 were \$608,456, as compared to net cash flows used in operations of \$1,080,636 in Q1 2021. The decrease in the net cash used in operations is primarily due to net loss for the period, which was offset in part by increases in other non-cash working capital items including trade and other payables and inventory.

Net cash used in investing activities in Q1 2021 was \$133,455 (Q1 2021 – \$352,576), primarily changes due to additions of construction in progress.

Net cash flows provided by financing activities in Q1 2022 were \$786,617 (Q1 2021 –\$564,371), which consisted of (i) of net proceeds of \$829,600 from private placements in the quarter (less cash commissions and finders' fees of \$38,423 paid to the agents), (ii) related party loan in the amount of \$209,922 (\$167,991 USD). The cash inflows were primarily offset by lease payments made on the Long Beach facility.

**Liquidity and Capital Resources**

As at March 31, 2022, the Company had a working capital deficiency of \$954,499, as compared to working capital deficiency of \$223,801 as at December 31, 2021.

As at March 31, 2022, the Company had total accessible cash and cash equivalents of \$162,261 (December 31, 2021 – \$113,840) available for working capital and other operational purposes, and to settle current liability of \$2,241,948 (December 31, 2021 – \$1,616,428).

All of the Company's current financial liabilities have contractual maturities of less than 365 days and are subject to normal trade terms.

Shortly after the end of the reporting period, the Company received an additional advance under the promissory note of \$571,187 (\$444,259 USD).

**5. Key Management Compensation and Related Party Transactions**

*Key management compensation*

Key management personnel are persons responsible for planning, directing and controlling activities of an entity, and include executives and non-executive directors, officers and any employees. Compensation provided to key management personnel for the three months ended March 31, 2022 and 2021:

	<b>2022</b>	<b>2021</b>
	\$	\$
Short-term employee benefits, including salaries and consulting fees	<b>182,958</b>	219,575
Share-based compensation	<b>22,385</b>	798,187
	<b>205,343</b>	1,017,762

- (i) During the three months ended March 31, 2022, the Company incurred consulting fees with the new CFO of \$30,000 (2021 – \$nil). As at March 31, 2022, a balance of \$33,900 (December 31, 2021 – \$11,300) remained outstanding, and was included in accounts payable and accrued liabilities.
- (ii) During the three months ended March 31, 2022, the Company incurred wage expenses of \$75,972 (2021 – \$75,450) for services rendered by its President and Chief Operating Officer. As at March 31, 2022, a balance of \$89,034 (December 31, 2021 – \$nil) was outstanding, and was included in accounts payable and accrued liabilities.

On March 14, 2022, Richard Gillis, the President and Chief Operating Officer of Tinley's US subsidiaries and a member of Tinley's Office of the CEO, advanced the Company \$209,922 (\$167,991 USD). The terms of the advance will be reflected in a 12% secured convertible promissory note of the Company.

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- (iii) During the three months ended March 31, 2022, the Company incurred consulting fees with the Acting Chief Operating Officer, who is also a director of the Company, of \$37,986 (2021 – \$37,725). As at March 31, 2022, a balance of \$24,992 (December 31, 2021 – \$nil) was outstanding, and was included in accounts payable and accrued liabilities.
- (iv) During the three months ended March 31, 2022, the Company incurred consulting fees with directors considered to be part of key management of \$39,000 (2021 – \$39,000) for services rendered. As at March 31, 2022, an amount of \$44,409 (December 31, 2021 – \$14,898) was outstanding and included in accounts payable and accrued liabilities.
- (v) During the three months ended March 31, 2022, the Company incurred consulting fee expenses with the former CEO of \$nil (2021 – \$39,000). As at March 31, 2022, no balance (December 31, 2020 – \$nil) was outstanding.
- (vi) During the three months ended March 31, 2022, the Company incurred consulting fees with the former CFO of \$nil (2021 – \$18,400). As at December 31, 2021, no balance (December 31, 2020 – \$nil) was outstanding.
- (vii) During the three months ended March 31, 2022, the Company incurred consulting fees with a former officer of \$nil (2021 – \$10,000). As at March 31, 2022, no balance (December 31, 2020 – \$nil) was outstanding.

*Other related party transactions*

- (viii) During the three months ended March 31, 2022, directors who are not part of key management received stock-based compensation of \$2,760 (2021 – \$226,442).

**6. Financial Risk Management**

*Fair value*

The carrying amount of cash, short-term investments, trade receivables, trade and other payables and lease payable on the Company's 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 period-end is limited to the accounts receivable balance. No expected credit losses have been recorded as at March 31, 2022.

*Liquidity risk*

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. The Company's liquidity and operating results may be adversely affected if the Company's access to the capital markets is hindered, whether as a result of a downturn in stock market conditions generally or related to matters specific to the Company. The Company generates cash flow primarily from its financing activities.

As at March 31, 2022, the Company had a cash and cash equivalents balance of \$162,261 (December 31, 2021 – \$113,840) to settle current liabilities of \$2,241,948 (December 31, 2021 – \$1,616,428). The undiscounted contractual maturity of all financial liabilities is as follows:

	<b>Total</b>	<b>Within 1 year</b>	<b>1 to 3 years</b>	<b>3 to 5 years</b>
	\$	\$	\$	\$
Accounts payable and accrued liabilities	1,150,342	1,150,342	-	-
Lease payable	1,001,362	860,664	140,698	-
<b>Total</b>	<b>2,151,704</b>	<b>2,011,006</b>	<b>140,698</b>	<b>-</b>

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*Market risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is subject to market risk on future cash flows through its short-term investments indexed to S&P/TSX Composite. Had the value of the market increased or decreased by 1%, the return would change by approximately \$nil, respectively.

*Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company does not hold any instruments subject to interest rate risk as at March 31, 2022.

*Foreign currency risk*

The Company operates in Canada and the US and is exposed to foreign exchange risk with respect to USD. The Company raises funds in Canadian dollars for its operations in the US. Foreign exchange risk arises on cash and trade payables from operations in the US. The Company believes that its results of operations and cash flows would be affected by a sudden change in foreign exchange rates. The Company mitigates this risk by maintaining sufficient USD-denominated cash to meet its USD-denominated obligations.

As at March 31, 2022 and December 31, 2021, the Company had the following financial assets and financial liabilities in USD:

	<b>March 31, 2022</b>	December 31, 2021
	\$	\$
Cash	<b>22,843</b>	32,309
Trade receivables	<b>97,576</b>	35,921
Trade and other payables	<b>(332,006)</b>	(114,345)
Lease obligations	<b>(801,346)</b>	(970,736)
<b>Net exposure to USD</b>	<b>(1,012,933)</b>	(1,016,851)

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, 2021 – USD \$10,000), respectively, as a result of this exposure.

## **7. Capital Management**

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

The Board of Directors of the Company (the "Board") 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 March 31, 2022, 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 \$5,659,059 (December 31, 2021 – \$6,544,815).

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 three months ended March 31, 2022 and the year ended December 31, 2021.

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**8. Summary of Significant Accounting Policies**

The accounting policies applied by the Company in its condensed interim consolidated financial statements are the same as those noted in the Company’s audited consolidated financial statements for the year ended December 31, 2021, unless otherwise noted below.

*Changes in Accounting Policies*

The Company adopted the following amendments, effective January 1, 2022. There was no material impact upon the adoption of these amendments on the unaudited condensed interim financial statements.

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.

**Disclosure of Outstanding Share Data as at May 30, 2022**

	<b>Authorized</b>	<b>Outstanding</b>
Voting or equity securities issued and outstanding	Unlimited Common Shares	149,642,708 Common Shares
Securities convertible or exercisable into voting or equity shares		Stock Options to acquire up to 12,965,000 Common Shares of the Company, and Warrants to acquire up to 38,452,080 Common Shares of the Company. Broker compensation options to acquire up to 2,074,527 Common Shares and broker warrants to acquire 2,059,652 Common Shares of the Company.

**Off-Balance Sheet Arrangements**

As at March 31, 2022 and the date of this MD&A, the Company does not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on the results of operations or financial condition of the Company.

**Contingencies**

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

The Company’s operations are subject to a variety of local and state regulation. Failure to comply with one or more of those regulations could result in fines, restrictions on its operations, or losses of permits that could result in the Company ceasing operations in that specific state or local jurisdiction. While management of the Company believes that the Company is in compliance with applicable local and state regulations as at March 31, 2022, cannabis regulations continue to evolve and are subject to differing interpretations. As a result, the Company may be subject to regulatory fines, penalties, or restrictions in the future.

**Subsequent Events**

*Financing*

On April 25, 2022, the Company received an additional advance under the promissory note of \$571,187 (\$444,259 USD).



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*Lakewood Acquisition*

On April 29, 2022, the Company acquired 100% of the shares of Lakewood from Richard Gillis.

**9. Risk Factors**

The Company faces exposure to risk factors and uncertainties relating to its business that could significantly negatively impact the Company's operations and financial results. Additional risks and uncertainties not presently known to the Company or currently deemed immaterial by the Company may also impair the Company's operations. If any such risks actually occur, shareholders of the Company could lose all or part of their investment and the business, financial condition, liquidity, results of operations and prospects of the Company could also be materially adversely affected and the ability of the Company to implement its growth plans could be adversely affected. A discussion of the principal risk factors relating to the Company's operations and business appear in the Company's management's discussion and analysis for the year ended December 31, 2021 which may be viewed on the Company's SEDAR profile at [www.sedar.com](http://www.sedar.com). Additional risks and uncertainties, including those that the Company does not know about now or that it currently deems immaterial, may also adversely affect the Company's business.

**10. Cautionary Note Regarding Forward-Looking Statements**

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

**Disclosure of Internal Controls over Financial Reporting**

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

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

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

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

**May 30, 2022**

*(signed) "Theodore Zittel"*

Theodore Zittel  
Director and Co-CEO

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