



THE TINLEY BEVERAGE COMPANY INC.

Management's Discussion and Analysis

For the three and nine months ended September 30, 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 and nine months ended September 30, 2022

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’s” or the “Company”) for the three and nine months ended September 30, 2022. It is supplemental to and should be read in conjunction with the Company’s unaudited condensed interim consolidated financial statements for the three and nine months ended September 30, 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 November 28, 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’s” or “we” refers to Tinley’s and its subsidiaries.

This discussion contains forward-looking statements that are not historical in nature and involve 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.

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’s was incorporated under the laws of the Province of Ontario, Canada by Articles of Incorporation dated October 26, 2007. Tinley’s, 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. 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 181 Bay Street, Suite 1800, Toronto, Ontario, M5J 2T9, 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 by the Company at its production facility in Long Beach, California (The “Long Beach Facility”). These products are distributed and sold to licensed dispensaries in California. In Canada, the Tinley’s infused line, branded Tinleys ’27™ and Tinleys Classics™, was adapted to comply with Canadian cannabis regulations. Two inaugural SKU’s began production in March 2022 at Health Canada-licensed, third-party contract manufacturers to fulfill initial orders received from the Ontario Cannabis Store (the “OCS”), the country’s largest Cannabis wholesaler. Tinley’s ’27™ and Tinley’s Tonics™ were made available for purchase through the OCS’s website and for sale to licensed dispensary retailers in Ontario; and

(ii) The Beckett’s Tonics® and Beckett’s ’27® lines of non-cannabis-non-alcoholic spirits and cocktails, which are the non-infused foundation formulas of the cannabis infused beverages, are currently in distribution and relaunching in the US following reformulation, based on purchase orders received from mainstream, multi-regional US retailers. Following the US relaunch, The Company will address opportunities to replicate reformulated production in Canada.

The “Long Beach Facility sits on approximately 45,000 square feet (“sq. ft.”) of property in the City of Long Beach, California, (the “City”). The Long Beach 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

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shapes, for both own-brand and contract manufacturing clients. It includes an adjacent, on-site state distribution-licensed area, enabling the Company to provide certain services, namely, to physically transfer newly manufactured retail-ready batches to the designated distribution licensed space, recording product transfer in the state's system, coordinating by batch quarantine, state lab sample collection, state lab testing, and results reporting, as well as short term storage following passing state testing ('First Mile' distribution services). The Company manages the products batches to the point of passing state testing, and then coordinates transfer to third-party licensed distributors for storage and delivery to licensed retailers ('Last Mile' distribution services).

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"). During the interim period between the signing of the SPA and the closing of the Lakewood Transaction, which occurred on April 29, 2022, the Company provided Lakewood with certain resources, including access to the Long Beach Facility, use of certain intellectual property and equipment and other resources necessary to conduct Lakewood's operations (collectively, the "Tinley's Resources") (See "Business Overview – Business Developments" section).

2. Business Overview

Q3 2022 Business Development Highlights

On September 12, 2022, the Company announced that it had entered into contracts to manufacture infused beverages for two new clients, Gem + Jane, a brand licensed to House of Saka Inc., dba Solidarity Brands, and Moneta-brand, owned by Moneta, LLC, at the Long Beach Facility. Production for both brands is expected to commence in Q4 2022.

On September 12, 2022, Company also announced that it has received a range of cost-saving and capability-enhancing benefits resulting from the June 2022 commitment for strategic investment in the Company by Blaze Life Holdings, LLC ("BLH") and that it had received purchase orders for all of its Beckett's products from retailer Total Wine & More through the Company's direct-to-retail broker, Emergent Beverage Partners. In the same press release, the Company announced that it was working with its sales agents in Ontario to implement a revised sales and marketing program and that discussions were actively underway to schedule presentations of the full Tinley's Canadian line-up to two provincial wholesaler boards, Manitoba Liquor and Lotteries and Société québécoise du cannabis.

On September 16, 2022, the Company announced that its board of directors (the "Board") had appointed Theodore Zittell as Chief Executive Officer and Richard Gillis as President, Tinley's Brands USA and that the Board had granted 6,050,000 stock options to certain officers, directors, employees and consultants of the Company in accordance with the terms of the Company's amended and restated equity incentive plan, which was ratified and approved by shareholders ("Shareholders") of the Company at the Company's annual and special meeting of Shareholders held on October 27, 2022 (the "2022 Meeting"). Each such option is exercisable at a price of \$0.10 per common share for a period of five years from the date of issuance. At the 2022 Meeting, Shareholders elected each of management's five director nominees, which included three new directors, being each of Paul Burgis, Anthony (Tony) Yanow and Kirsten Chapman.

On October 12, 2022, the Company announced that its complete catalogue of adult-beverage inspired Tinley's '27™ and Tinley's Tonics™ were back in distribution across California through an exclusive Distribution Services Agreement entered into between the Company and BLH's SuLo Distro.

On October 27, 2022, the Company announced that it was pursuing opportunities to re-launch its Beckett's line up in Canada, building on the experience gained through the current relaunch of Beckett's 27® and Beckett's Tonics® in the USA. The Company announced that its Canadian program was expected to include the eight newly reformulated products branded for the Canadian market, including four Becketts '27™ non-alcoholic spirits and liqueurs, and four Becketts Classics™ ready-to-drink cocktail-inspired mixed drinks produced in cans.

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Also on October 27, 2022, the Company announced that it has entered into an agreement with Kroniq, LLC to manufacture beer-type and sparkling wine-type non-alcoholic cannabis infused beverages at the Company's Long Beach Facility. The Company also announced that it was making substantial progress on the previously announced commitment to enter into a shared management services agreement with BLH.

Retail Growth Strategy

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

The Company has worked with national brand spirit formulators for several years on developing non-alcoholic versions of popular liquors and cocktails. Beginning in 2018, the Company has 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-style amaretto and Moscow Mule-inspired cocktails. In connection with the implementation of certain amendments to the State of California's cannabis regulations governing cannabis product labeling in 2018, the Company implemented certain fundamental strategic improvements, including:

- **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.

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 has 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 more rapid onset and a broad cannabinoid spectrum effect, as well 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 cannabis effects, and lower calories and sugar than traditional alcohol-based beverages.

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, Lakewood began the production of the Company's products at the Long Beach Facility. The Company managed through supply chain and distribution disruptions throughout 2021 and planned to bring the full line of Tinley's™ infused products back to the California market in Q1 2022. Allocation of limited resources required the Company to focus on contract packing production over own-brand production through Q3 2022 resulting in out of stocks for Tinley's SKUs. Since the strategic investment by BLH in June of 2022, The Company has successfully produced Tinley's brand product to replenish its full product lineup.

Seeking to address systemic infrastructure challenges specific to cannabis-infused beverage distribution and retailer program execution, the Company has worked with Mars HQ distribution, and subsequently with Hard Car Distribution with its available inventory, throughout 2021 and through Q2 2022. To improve beverage distribution and efficiently support retailer performance, the Company has partnered with Sulo Distro, and is currently relaunching its full line up of products in California.

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With new capital and the ability to share engineering, operations and support services through BLH and its divisions, the Company intends to pursue the following growth strategies for the remainder of Q4 2022 and going forward.

- **Focus on operations** and direction of resources towards operations improvements to accelerate revenue growth and reduce operating costs. The Company believes that the key to driving up shareholder value and increasing the share price is posting increasing revenue by quarter, driving efficiency and reducing overhead to achieve cash-flow positive growth and become profitable as a going concern. Tinley's revenue continues to increase as (i) its list of co-packing clients and their repeat production volumes grow, (ii) as Tinley's own-brand products relaunch in California, and (iii) as Beckett's US sales continue to accelerate.
- Continued **synergy initiatives** as undertaken by management since June 2022 with the collaboration of BLH. This work has yielded cost savings and improvements in engineering and productivity, enabling revenue growth reported in Q3 and expected to continue in Q4.
- The anticipated **Management Services Agreement** to be entered into between Tinley's and BLH is intended to accelerate and solidify ongoing improvements in productivity and reductions to overhead costs.
- **Forecasting and production to preserve Tinley's brand in-stock position in California and focus on key accounts.** The Company will focus on sales and operations planning and accelerating distribution and sales to multi-store operators and select high-profile retailers. Working with SuLo, the Company intends to seek and support retailers who are organized and equipped to sell beverages as high velocity SKU's per beverage category best practices. Programs at multi-store operators can be deployed at lower cost than servicing many independent operators. In these locations, the Company expects to be able to engage in deeper in-store merchandising, display, promotion and traffic-building initiatives in collaboration with SuLo and the retailer to drive trial and order velocity.
- **Focus on direct-to-consumer delivery.** The Company is working with SuLo to participate in an efficient, state-wide delivery/Direct to Consumer solution to attract new consumers and add convenience to existing consumers.
- **Reformulation to simplify ingredients batching and production and relaunch Beckett's brand.** The Company completed reformulation with a flavour and development provider, designed to reduce complexity of the ingredients required to produce its infused and non-infused products. The reformulation has allowed the Company to relaunch its full lineup of eight Beckett's SKU's including Beckett's Tonics® in cans at Total Wine & More, and pursue opportunities at additional retail chains. Beginning with new Tinley's infused production anticipated in Q1 2023, these new formulations will allow the Company to realize benefits in the infused beverage supply chain and help reduce complexity of own-brand production.
- **New Product Development for 2023**, with considerations including higher dose products to address preferences of traditional dispensary customers, and curated blends of phyto-cannabinoids such as CBD, CBN and CBG with THC.
- **Opportunities for Tinley's brand sales at Consumption Lounges**, and brand experience activations at private events in California, as they continue to develop through emerging state and local regulation.

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

The Company's Beckett's brand products are the base beverage formulations of the infused Tinley's brand products and are produced as non-infused products at non-Cannabis-licensed third-party beverage facilities. The Beckett's-brand products address the rapidly growing, "low-no alcohol" beverage category, which allows retailers to offer and consumers to enjoy premium tasting adult beverages without the intoxicating effects of alcohol.

Subsequent to the launch of Beckett's in 2019 and 2020, the Company decided to reformulate the products for scaled commercialization, to reduce cost and complexity of supply chain and manufacturing, and to seek out low-risk, non-capital-intensive opportunities to expand the brand driven by the new simplified formulations. The reformulation has

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also enabled the production of Beckett's Tonics® in high-demand aluminum cans, and the reintroduction of the coffee-liqueur style multi-serve Beckett's '27® product, for a full lineup of eight reformulated Beckett's products.

Reformulation has reduced supply chain and manufacturing complexity and is expected to benefit Tinley's brand infused production in California by Q2 2023. The Company has now relaunched the Beckett's line at Total Wine & More in over 200 retail locations across 27 US states. The program, managed through the Company's broker, Emergent Beverages, continues to fulfill purchase orders for efficient, direct-to-retailer warehouse delivery for 4-packs of the four flavours of Beckett's Tonics® non-alcoholic ready-to-drink cocktails, and of the four Beckett's '27® non-alcoholic multi-serve spirits and liqueurs. Total Wine & More intends to feature the 8-product program on in-store end-cap displays as part of its 'Dry January' in-store merchandising and promotion initiatives planned for January 2023. The Company is in discussion with additional retailers in the US. The Company's strategic review of Beckett's aimed to accelerate the realization of value from the Beckett's Tonics® and Beckett's '27® brand assets in the US and Canada without requiring additional investment. Strategic options for expansion in the US and Canada include pursuing additional retail programs against purchase orders and exploring licensing of the Beckett's IP.

Third-Party Brand Manufacturing and Distribution & US Cannabis Opportunities

The state and local licences to manufacture and distribute at the Long Beach Facility are held by the Company's wholly-owned Lakewood subsidiary. 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. The Distribution licence is Type 11 enabling most licensed distribution activities.

The Company is actively engaged in productivity enhancement and cost-cutting initiatives at its Long Beach Facility, and is working to address additional opportunities for shared services and cost reduction in collaboration with its strategic investment partner BLH and its operating divisions.

The Company believes that future US Federal legal and regulatory changes and enforcement decisions, addressing the laws and regulations establishing the illegality of cannabis, the related banking restrictions and the prohibitions against inter-state commerce of adult recreational and medical cannabis, may drive new opportunities for revenue and manufacturing efficiencies. The Company also understands that that clarity remains elusive on interstate regulatory harmonization and the prospect of accretive taxation, factors which would directly impact efficiencies and profitability of interstate operations. Multi-state opportunities will be evaluated, as the Company primarily focuses time and resources to create value through increased revenue in California, the world's largest regulated adult-use cannabis market and through reduced costs of its operation. Synergy initiatives undertaken by management since June 2022 with the collaboration our strategic investor partner BLH and its divisions have already yielded cost savings and improvements in engineering and productivity, enabling Q3 2022 revenue growth reported here and expected for Q4. The anticipated Management Services Agreement to be entered into between Tinley's and BLH is planned to accelerate and solidify ongoing reductions to overhead costs.

Tinleys Brand in Canada

Tinleys '27™ SKU and Tinleys Classics™ SKU have been available to be sold by licensed dispensary retailers in Ontario. New Production of the existing formulation of Tinleys '27™ Smooth Coconut is proceeding on schedule for the first week of December 2022 and is anticipated to be available for dispensaries to purchase by early January from the OCS. Currently, Tinley's are working with their Sales Partner, Northern Element, to present a detailed marketing plan to the OCS incorporating a variety of sales and distribution building activities to capitalize on the new lower pricing to the consumer.

The Company is working with developer and manufacturing partners on reformulated infused products in Canada, with reformulation reflecting local market conditions and Health Canada's packaging and label restrictions. These products may include changes to THC potency and other cannabinoid contents, and production of Tinleys Classics cocktail-inspired ready to drink beverages in cans. In Canada, new formulations necessitate filing Notices of New Cannabis Products (NNCPs") with Health Canada in advance of testing and production. These are currently being finalized with the expectation of producing and launching new SKU's in Q2 and Q3 2023.

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Northern Elements, the Company's sales agents, formerly Great North Distribution, and the Company's licensed cannabis producers have been working with the Company to pursue presentations with key provincial wholesalers.

Additional Production of existing formulation of Tinleys '27™ Smooth Coconut is proceeding on schedule for the first week of December 2022 and is anticipated to be available through the OCS for dispensaries to purchase in January 2023.

Based on each geography and brand's potential, The Company's priorities for increasing shareholder value, in order of focus, are: Long Beach Facility contract manufacturing; California Tinley's brand sales growth; Beckett's US sales; and for Canada, Tinley's infused products & reintroducing reformulated Beckett's at low capital cost.

CBD Beverages

Lakewood is currently producing beverages containing cannabis-derived CBD, CBN, and CBG for third-party brands, and the Company does not presently add cannabis-derived CBD to its own cannabis-infused beverages. For both the US and Canadian infused markets, the company will consider multiple dose strengths and cannabinoid combinations as permitted by each jurisdiction for new product development and reformulation for 2023.

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. 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 all reasonable precautions with the intention of mitigating COVID-19 risk at the Long Beach Facility consistent with US federal, State and local health authority regulations and guidelines, and will continually review measures deemed appropriate by local health authorities to minimize the risk of COVID-19 exposure.

Business and Supply Chain Disruption: The Company, over 2020, 2021 and early 2022, experienced and worked to manage through Supply Chain disruptions for ingredients, commodity inputs, and packaging supplies, and equipment, due to global supply and pandemic issues. It 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 manage to reduce the impact of 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.

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

Commodity Prices: There has been an oversupply of cannabis derivative products leading to reduced expectations on commodity prices. As at the date of this MD&A, COVID-19 has had a 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.

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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.

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 Lakewood 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.

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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 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.

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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 principles are included in chapter 9.27.000 of the US Attorneys' Manual and require federal prosecutors deciding which cases to prosecute to weigh all relevant considerations, including federal law enforcement priorities set by the Attorney General, the seriousness of the crime, the deterrent effect of criminal prosecution, and the cumulative impact of particular crimes on the community.

As a result of the Sessions Memorandum, federal prosecutors will now be free to utilize their prosecutorial discretion to decide whether to prosecute 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 Senator Gardner went on to say, "[m]y colleagues and I are continuing to work diligently on a bipartisan legislative solution that can pass Congress and head to the President's desk to deliver on his campaign position." The Company is pleased to see reports that President Trump has promised top Senate Republicans that he will support congressional efforts to protect states that have legalized 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

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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 10th 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 31st and 32nd 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.

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 46th President of the U.S, having announced a goal during his campaign to decriminalize cannabis possession federally; Democrats maintained their House majority and

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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 16th 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 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.

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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 Lakewood, which holds various licenses, including a Type 6 Manufacturing License. Because 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, 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.

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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.

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.

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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.

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.

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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.
- 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.

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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.

The Company and its subsidiary Lakewood Libations Inc, represent that its state-licensed manufacturing and distribution businesses are and have 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. 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.

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

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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 September 30, 2022:

Statement of Financial Position Items	Percentage (%) which related to holdings with US cannabis- related activities
Cash	58%
Accounts receivable	47%
Inventories	62%
Prepaid expenses	22%
Property and equipment	100%
Note Receivable	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:

	2021	2020	2019
	\$	\$	\$
Sales	803,781	304,167	85,128
Operating expenses	(8,635,982)	(7,574,585)	(7,371,429)
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:

	Q3 2022	Q2 2022	Q1 2022	Q4 2021
	\$	\$	\$	\$
Sales	418,987	233,954	171,175	106,292
Operating expenses	(2,314,004)	(1,842,123)	(1,804,009)	(2,002,866)
Net loss	(2,085,320)	(1,808,542)	(1,696,511)	(2,046,662)
Loss per share – basic and diluted	(0.012)	(0.011)	(0.012)	(0.015)
Working capital (deficiency)	(1,097,077)	(1,169,743)	(954,499)	(223,801)

	Q3 2021	Q2 2021	Q1 2021	Q4 2020
	\$	\$	\$	\$
Sales	198,165	360,918	138,406	61,127
Operating expenses	(2,148,599)	(1,905,660)	(2,578,857)	(2,082,140)
Net loss	(2,120,365)	(1,798,002)	(2,584,854)	(2,168,822)
Loss per share – basic and diluted	(0.016)	(0.015)	(0.023)	(0.069)
Working capital	(162,438)	1,774,915	934,166	1,746,576

Three Months ended September 30, 2022

Results of operations

During the three months ended September 30, 2022 (“Q3 2022”), the Company generated sales of \$418,987, compared to sales of \$198,165 for the three months ended September 30, 2021 (“Q3 2021”). Overall sales increased due to an increase in sales of non-infused cannabis beverages, infused cannabis beverages and contract manufacturing in Q3 2022.

During Q3 2022, the Company incurred total operating expenses of \$2,314,004, compared to \$2,148,599 in Q3 2021. The increase in the overall operating expenses is primarily due to an increase in share-based payments.

During Q3 2022, the Company's G&A expenses of \$1,230,495 (Q3 2021 – \$1,211,602), were comprised of:

- Payroll and salaries - \$409,010 (Q3 2021 – \$396,706)
- Corporate costs and administration - \$259,924 (Q3 2021 – \$398,071)
- Professional fees - \$194,610 (Q3 2021 – \$204,324)
- Consulting and management fees - \$76,875 (Q3 2021 – \$217,076)
- Occupancy costs - \$32,884 (Q3 2021 – (\$46,875))
- Interest on lease liabilities - \$18,622 (Q3 2021 – \$39,110)
- Travel and promotion - \$34,514 (Q3 2021 – \$3,190)
- Interest and accretion - \$204,056 (Q3 2021 – \$nil)

Net loss for the three months ended September 30, 2022, was \$2,085,320 (\$0.012 per share on a basic and diluted basis), compared to a net loss of \$2,120,365 (\$0.016 per share on a basic and diluted basis) for Q3 2021.

Cash flows

Net cash flows used in operating activities for Q3 2022 were \$1,194,633, compared to net cash flows used in operations of \$1,165,029 in Q3 2021. Overall cash flows used in operating activities in Q3 2022 were similar to cash flows used in Q3 2021.

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Net cash used in investing activities in Q3 2022 was \$27,457 (Q3 2021 – \$293,903), the decrease is primarily due to less additions to construction in progress.

Net cash flows provided by financing activities in Q3 2022 were \$1,061,307 (Q3 2021 – \$183,640 – used in financing activities), which consisted of proceeds of \$1,286,050 received from the BLH Note, partially offset by lease payments made on the Long Beach facility.

Nine Months ended September 30, 2022

Results of operations

During the nine months ended September 30, 2022, the Company generated sales of \$824,116, compared to sales of \$697,489 for the nine months ended September 30, 2021. Overall sales increased due to an increase in contract manufacturing revenue.

During the nine months ended September 30, 2022, the Company had incurred total operating expenses of \$5,960,136, compared to \$6,633,116 in 2021. The decrease in operating expenses in the current period is primarily due to lower share-based payments of \$538,505 in the current period (2021 – \$1,701,643), partially offset by an increase in the G&A.

During the nine months ended September 30, 2022, the Company incurred total G&A expenses of \$3,258,164 (2021 – \$3,085,467), comprised primarily of:

- Payroll and salaries - \$1,148,227 (2021 – \$987,933)
- Corporate costs and administration - \$862,476 (2021 – \$854,729)
- Professional fees - \$622,209 (2021 – \$624,916)
- Consulting and management fees - \$190,639 (2021 – \$419,748)
- Occupancy cost - \$81,006 (2021 – \$129,194)
- Interest on lease liabilities - \$70,507 (2021 – \$55,508)
- Travel and promotion - \$48,949 (2021 – \$13,439)
- Interest and accretion - \$234,151 (2021 – \$nil)

Net loss for the nine months ended September 30, 2022 was \$5,590,373 (\$0.034 per share on a basic and diluted basis), compared to a net loss of \$6,503,221 (\$0.053 per share on a basic and diluted basis) for the comparative period in 2021.

Cash flows

Net cash used in operating activities for the nine months ended September 30, 2022 was \$2,932,688 (2021 – \$3,184,687). The decrease in the current period is primarily due to lower operating losses.

Net cash used in investing activities for the nine months ended September 30, 2022 was \$233,511 (2021 – \$811,987), from purchases of property and equipment, proceeds from the sale of a company vehicle and additions to construction in progress. The decrease in the current period is primarily due to less additions to construction in progress.

Net cash provided by financing activities for the nine months ended September 30, 2022 was \$3,368,470 (2021 – \$2,391,537), which consisted of \$829,600 in funds from private placements. In connection to the financings, cash commissions and finders' fees of \$38,423 were paid. The financings through convertible notes also raised a total of \$3,278,346 (2021 – \$nil) for the Company. In connection to the funds raised through the convertible notes, legal fees of \$41,994 were paid. The cash inflows were partially offset by lease payments made on the Long Beach facility of \$659,059. For the nine months ended September 30, 2021, the Company raised total funds of \$3,266,250 from non-brokered Private Placement financing. Cash commissions and finders' fees of \$275,508 were paid in connection to the financings. The inflow of funds was partially offset by lease payments of \$627,205 made on the Long Beach facility. The increase in the current period is primarily due to the proceeds received from the convertible notes.

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Liquidity and Capital Resources

As at September 30, 2022, the Company had a working capital deficiency of \$1,097,077, compared to working capital deficiency of \$223,801 as at December 31, 2021.

As at September 30, 2022, the Company had total accessible cash of \$271,235 (December 31, 2021 – \$113,840) available for working capital and other operational purposes, and to settle current liabilities of \$2,347,289 (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.

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 and nine months ended September 30, 2022 and 2021:

	Three Months ended		Nine Months ended	
	September 30,		September 30,	
	2022	2021	2022	2021
	\$	\$	\$	\$
Short-term employee benefits, including salaries and consulting fees	216,210	258,878	610,375	703,928
Share-based compensation	252,827	80,827	300,934	981,917
	469,037	339,705	911,309	1,685,845

- (i) During the three and nine months ended September 30, 2022, the Company incurred consulting fees with the Chief Executive Officer (“CEO”) and director of \$49,000 and \$127,000 (2021 – \$117,000) for services rendered. As at September 30, 2022, \$32,049 (December 31, 2021 – \$14,898) was outstanding and included in accounts payable and accrued liabilities.
- (ii) During the three and nine months ended September 30, 2022, the Company incurred consulting fees with the Chief Financial Officer (“CFO”) of \$40,000 and \$100,000 (2021 – \$12,903). As at September 30, 2022, \$22,600 (December 31, 2021 – \$11,300) was outstanding and included in accounts payable and accrued liabilities.
- (iii) During the three and nine months ended September 30, 2022, the Company incurred wage expenses with the President of Tinley’s Brands USA of \$91,255 and \$271,130 (2021 – \$226,350) for services rendered. As at September 30, 2022, no balance (December 31, 2021 – \$nil) was owed to the President of Tinley’s Brands USA.
- (iv) During the three and nine months ended September 30, 2022, the Company incurred consulting fees with a former a director of the Company, of \$35,955 and \$112,245 (2021 – \$113,175). As at September 30, 2022, no balance (December 31, 2021 – \$nil) was owed to the director.
- (v) During the nine months ended September 30, 2021, the Company incurred consulting fee expenses of \$117,000 with the former CEO. As at September 30, 2022, no balance (December 31, 2021 – \$nil) was owed to the former CEO.
- (vi) During the nine months ended September 30, 2021, the Company incurred consulting fees of \$21,000 with a former CFO. As at September 30, 2022, no balance (December 31, 2021 – \$nil) was owed to the former CFO.

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(vii) During the nine months ended September 30, 2021, the Company incurred consulting fees of \$75,250 with a former CFO. As at September 30, 2022, no balance (December 31, 2021 – \$nil) was owed to the former officer.

(viii) During the nine months ended September 30, 2021, the company incurred consulting fees with a director of \$21,250. As at September 30, 2022, no balance (December 31, 2021 – \$nil) was owed to the director.

Other related party transactions

(ix) During the nine months ended September 30, 2022, directors who are not part of key management received stock-based compensation of \$69,053 (2021 – \$261,038).

6. Financial Instruments and Risk Management

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. 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 allowance for the expected credit losses (“ECL”) has been recorded as at September 30, 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 market is hindered, whether as a result of a downturn in stock market conditions generally or related to matters specific to the Company. The Company generates cash flow primarily from its financing activities.

As at September 30, 2022, the Company had a cash balance of \$271,235 (December 31, 2021 – \$113,840) to settle current liabilities of \$2,347,289 (December 31, 2021 – \$1,616,428). The undiscounted contractual maturity of all financial liabilities is as follows:

	Total	Within 1 year	1 to 3 years	3 to 5 years
	\$	\$	\$	\$
Accounts payable and accrued liabilities	742,070	742,070	-	-
Convertible note	939,916	939,916	-	-
Convertible grid note	4,369,341	-	-	4,369,341
Lease payable	626,369	626,369	-	-
Total	6,677,696	2,308,355	-	4,369,341

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’s convertible notes have fixed interest rates. As at September 30, 2022, the Company had no hedging agreements in place with respect to floating interest rates.

Foreign currency risk

The Company operates in Canada and the US and is exposed to foreign exchange risk with respect to USD. The Company normally 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.

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As at September 30, 2022, the Company had the following financial assets and financial liabilities in USD:

	September 30, 2022	December 31, 2021
	\$	\$
Cash	114,762	32,309
Trade receivables	42,197	35,921
Note receivable	29,399	-
Trade and other payables	(129,968)	(114,345)
Lease obligations	(456,970)	(970,736)
Convertible note	(634,794)	-
Convertible grid note	(2,060,658)	-
Net exposure to USD	(3,096,032)	(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 \$30,960 (December 31, 2021 – USD \$10,169), respectively, as a result of this exposure.

Fair value

Fair value estimates of financial instruments are made at a specific point in time based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values. The Company's financial instruments consist of cash, trade receivables, note receivable, trade and other payables, lease payable, convertible notes.

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

The fair values of the lease liabilities and convertible notes approximate their carrying amounts as they were measured taking into consideration comparable instruments with similar risks in determining the rates at which to discount their amount in applying their respective measurement models.

The Company classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

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

As at September 30, 2022 and December 31, 2021, the Company did not have any financial instruments carried at fair value.

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

As at September 30, 2022, the Company considers its capital to be share capital, equity component of convertible notes, reserve for share-based payments, reserve for warrants and contributed surplus, and reduced by accumulated deficit and accumulated other comprehensive loss, totaling \$3,625,142 (December 31, 2021 – \$6,544,815).

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Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

The Company is not subject to externally imposed capital requirements, and there were no changes in the Company's approach to capital management for the nine months ended September 30, 2022 and the year ended December 31, 2021.

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.

(a) Compound Instruments

The components of compound instruments issued by the Company are classified separately as financial liabilities and equity in accordance with the contractual agreement. At the date of issue, the fair value of the liability component is estimated using the market interest rate then in effect for a similar non-convertible instrument. This amount is recorded as a liability, at amortized cost, using the effective interest rate method until its expiry at the time of conversion or maturity of the instrument. The equity component is determined by deducting the amount of the liability component from the total fair value of the compound instrument. This amount is recognized in equity, net of income tax effects, and is not subsequently remeasured.

Transaction costs related to the issuance of the convertible debts are allocated to the liability and equity components in proportion to their initial carrying amounts. Transaction costs relating to the liability component are included in the carrying amount of the liability component and are amortized over the life of the convertible debts using the effective interest method. Interest and accretion expense are recognized as a finance cost in the consolidated statements of loss and comprehensive loss.

In situations where the convertible debts contain contractual terms that result in the potential adjustment in the conversion or exercise price, the conversion feature does not meet equity classification and is accounted for as a derivative liability as the fair value is affected by changes in the fair value of the Company's common shares. The effect is that the debt component will be accounted for at amortized cost, with the derivative liability being measured at fair value with changes in value being recorded in profit or loss.

(b) 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 Company's unaudited condensed interim consolidated 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.

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Disclosure of Outstanding Share Data as at November 28, 2022

	Authorized	Outstanding
Voting or equity securities issued and outstanding	Unlimited Common Shares	150,859,565 Common Shares
Securities convertible or exercisable into voting or equity shares		Stock Options to acquire up to 16,190,000 Common Shares of the Company, and Warrants to acquire up to 29,297,080 Common Shares of the Company. Broker compensation options to acquire up to 1,444,135 Common Shares and broker warrants to acquire 1,429,260 Common Shares of the Company.

Off-Balance Sheet Arrangements

As at September 30, 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 September 30, 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

On October 24, 2022, the Company received additional funds of \$686,100 (USD \$500,000) representing a scheduled installment per the BLH Note.

On November 14, 2022, 1,250,000 share purchase warrants and 87,500 broker warrants type II issued as part of the November 14, 2019 private placement expired.

On November 26, 2022, 2,125,000 share purchase warrants and 128,188 broker warrants type II issued as part of the November 26, 2019 private placement expired.

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 MD&A for the year ended December 31, 2021 which may be viewed on the Company's SEDAR profile at www.sedar.com. Additional risks and

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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.

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.

November 28, 2022

(signed) "Theodore Zittell"

Theodore Zittell
Director and CEO