



THE TINLEY BEVERAGE COMPANY INC.

Consolidated Financial Statements

(Expressed in Canadian Dollars)

December 31, 2022 and 2021

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of The Tinley Beverage Company Inc.

Opinion

We have audited the consolidated financial statements of The Tinley Beverage Company Inc. and its subsidiaries (together, the “Company”), which comprise the consolidated statements of financial position as at December 31, 2022 and 2021, and the consolidated statements of loss and comprehensive loss, changes in shareholders’ equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2022 and 2021 and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (“IFRS”).

Basis for Opinion

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

Material Uncertainty Related to Going Concern

We draw attention to Note 2[b] to the consolidated financial statements which indicates that during the year ended December 31, 2022 the Company incurred a net loss of \$6,171,224 and had negative cash flows for operations of \$3,659,679 and its continued existence is dependent on its ability to obtain additional financing. These events or conditions along with other matters as set forth in Note 2[b], indicate that a material uncertainty exists that may cast significant doubt on the Company’s ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audits of the consolidated financial statements as at and for the year ended December 31, 2022. These matters were addressed in the context of our audits of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matter described below to be the key audit matter to be communicated in our report.

Key audit matter	How our audits addressed the key audit matter
<p data-bbox="203 289 799 319">Classification and measurement of convertible notes</p> <p data-bbox="203 352 799 445"><i>Refer to note 3 – Summary of Significant accounting policies, note 11 - Convertible Note and note 12 – Convertible grid note</i></p> <p data-bbox="203 478 799 928">On June 10, 2022 the Company issued a secured convertible note for \$782,272 (USD \$612,250) which bears interest at 12% per annum maturing 12 months from the date of issuance. Additionally, the Company closed a financing of up to USD \$3.5 million through the issuance of a secured grid note, which bears interest at 12% per annum with a term of 5 years from the date of issuance (together the “Convertible Notes”). The Convertible Notes and any unpaid interest are convertible into units of the Company at a conversion price of \$0.105 per unit (the “Conversion Price”). Each unit consists of one common share and one-half of one common share purchase warrant of the Company, with each whole warrant exercisable for a period of two years from the date of the issuance of such warrant.</p> <p data-bbox="203 961 799 1108">As the Convertible Notes are denominated in USD and not in the functional currency of the Company, the conversion feature does not meet the fixed-to-fixed criteria and is a derivative liability that arises from the changes in exchange rates.</p> <p data-bbox="203 1142 799 1474">On initial recognition, the derivative liability is recognized at fair value using the Black-Scholes model. The difference between the principal amounts of the Convertible Notes and the derivative liability component has been allocated to the liability component of the note and carried at amortized cost. The derivative liability component is recorded at fair value through profit or loss and is required to be remeasured at fair value at each reporting date. The derivative liability is a level 3 financial instrument for which quoted prices or observable inputs are not available.</p> <p data-bbox="203 1507 799 1770">We considered this a key audit matter due to the judgment applied by management in assessing the treatment for the individual components of the Convertible Notes and determining the assumptions used for the fair value of the liability component and the derivative liability at initial recognition. This in turn, led to a high degree of auditor judgement and effort in performing procedures to test management’s assumptions.</p>	<p data-bbox="820 289 1416 352">Our approach to addressing the matter included the following procedures, among others:</p> <ul data-bbox="820 386 1416 1180" style="list-style-type: none"> <li data-bbox="820 386 1416 718">• We read the underlying agreements and evaluated whether management’s interpretation of the agreements in relation to accounting for the financial instrument was reasonable, which included the accounting analysis of whether the Convertible Notes qualified as a compound financial instrument, including assessing whether the criteria were met to recognize components within equity, including the fixed-to-fixed requirements or were required to be recognized as an embedded derivative. <li data-bbox="820 730 1416 781">• We considered the appropriateness of the valuation methodology applied by management; <li data-bbox="820 793 1416 865">• We re-performed the calculation of the valuation of the components of the Convertible Notes at initial recognition and at December 31, 2022; <li data-bbox="820 877 1416 991">• We verified that the terms of the Convertible Notes and management’s assumptions and inputs utilized in the calculation are properly disclosed in the notes to the consolidated financial statements. <li data-bbox="820 1003 1416 1075">• We obtained direct confirmations from the lenders to verify the terms and outstanding balances at the reporting date. <li data-bbox="820 1087 1416 1180">• We also considered the completeness, accuracy and presentation of the Convertible Note and derivative liability disclosures.

Other Information

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

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

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

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

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

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

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

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

Auditors’ Responsibilities for the Audits of the Consolidated Financial Statements

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audits in order to design audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of the Company’s internal control.



- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audits. We remain solely responsible for our audit opinion.

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

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

For the matters communicated with those charged with governance, we determine those matters that were of most significance in the audits of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Toronto, Ontario
May 9, 2023

A stylized, cursive signature of "Zeifmans LLP" in black ink.

Chartered Professional Accountants
Licensed Public Accountants

THE TINLEY BEVERAGE COMPANY INC.
Consolidated Statements of Financial Position
As at December 31, 2022 and 2021
(Expressed in Canadian Dollars)

	2022	2021
	\$	\$
Assets		
Current Assets		
Cash	183,623	113,840
Accounts receivable (Note 4)	208,653	165,729
Inventories (Note 5)	418,190	768,823
Prepaid expenses (Note 7)	166,440	344,235
Total Current Assets	976,906	1,392,627
Non-Current Assets		
Property and equipment (Note 8)	5,659,104	6,128,261
Right-of-use assets (Note 10)	271,116	862,851
Security deposits	143,851	134,653
Note receivable (Note 6)	36,001	-
Total Non-Current Assets	6,110,072	7,125,765
Total Assets	7,086,978	8,518,392
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities (Note 9)	915,994	669,688
Deferred revenue	252,237	158,890
Current portion of lease liabilities (Note 10)	400,493	787,850
Convertible note (Note 11)	614,621	-
Convertible note – embedded derivative (Note 11)	82,144	-
Total Current Liabilities	2,265,489	1,616,428
Non-Current Liabilities		
Convertible grid note (Note 12)	992,473	-
Convertible grid note – embedded derivative (Note 12)	1,610,446	-
Lease liabilities (Note 10)	-	357,149
Total Non-Current Liabilities	2,602,919	357,149
Total Liabilities	4,868,408	1,973,577
Shareholders' Equity		
Share capital (Note 13)	42,192,513	41,520,254
Reserve for share-based payments (Note 14)	5,722,629	6,052,920
Reserve for warrants (Note 15)	7,384,824	8,701,200
Contributed surplus	7,436,623	4,993,337
Accumulated other comprehensive loss	(136,757)	(512,858)
Accumulated deficit	(60,381,262)	(54,210,038)
Total Shareholders' Equity	2,218,570	6,544,815
Total Liabilities and Shareholders' Equity	7,086,978	8,518,392

Nature of operations (Note 1) Going concern (Note 2(b))
Contingencies (Note 22) Subsequent events (Note 23)

Approved on behalf of the Board of Directors

"Paul Burgis" (signed) - Director *"Theodore Zittel" (signed) - Director*

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

THE TINLEY BEVERAGE COMPANY INC.
Consolidated Statements of Loss and Comprehensive Loss
For the Years ended December 31, 2022 and 2021
(Expressed in Canadian Dollars)

	2022	2021
	\$	\$
Sales	1,484,428	803,781
Cost of goods sold (Notes 5 and 19)	(972,188)	(717,682)
Gross profit	512,240	86,099
Operating Expenses		
General and administration (Note 20)	3,966,949	4,394,378
Share-based payments (Notes 14)	549,933	1,787,649
Depreciation of property and equipment (Note 8)	1,098,056	1,013,215
Sales and marketing	860,773	610,349
Depreciation of right-of-use assets (Note 10)	625,069	602,202
Product development	344,865	205,657
Foreign currency translation loss (gain)	(91,560)	22,532
	7,354,085	8,635,982
Net loss before Other Income	(6,841,845)	(8,549,883)
Other Income		
Change in fair value of embedded derivatives (Note 11 & 12)	1,090,807	-
Gain on sale of vehicle	42,982	-
Interest income	1,457	-
Accretion on convertible notes (Note 11 & 12)	(464,625)	-
Net Loss	(6,171,224)	(8,549,883)
Other Comprehensive Income (Loss)		
Gain (loss) on translation of foreign operations	376,101	(117,231)
Comprehensive Loss	(5,795,123)	(8,667,114)
Weighted Average Number of Common Shares Outstanding	149,628,515	135,265,326
Net Loss per Share		
Basic and Diluted	(0.041)	(0.063)

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

THE TINLEY BEVERAGE COMPANY INC.
Consolidated Statements of Changes in Shareholders' Equity
For the Years ended December 31, 2022 and 2021
(Expressed in Canadian Dollars)

	Share Capital		Reserves		Contributed surplus	Accumulated deficit	Accumulated other comprehensive loss	Total
	Number of shares	Amount	Share-based payments	Warrants				
Balance, December 31, 2020	121,877,266	37,977,603	5,151,049	9,515,740	2,019,826	(45,660,155)	(395,627)	8,608,436
Issuance of shares and warrants via private placements (Note 13)	-	3,880,413	-	1,439,214	-	-	-	5,325,627
Share issuance costs (Notes 13 and 15)	21,884,776	(384,185)	-	(153,598)	-	-	-	(537,783)
Share-based payments (Note 14)	-	-	1,787,649	-	-	-	-	1,787,649
Issuance of shares on exercise of options (Note 13)	350,000	40,423	(12,423)	-	-	-	-	28,000
Forfeiture of options (Note 14)	-	-	(873,355)	-	873,355	-	-	-
Expiry of warrants (Note 15)	-	-	-	(2,100,156)	2,100,156	-	-	-
Exchange loss on translation of foreign operations	-	-	-	-	-	-	(117,231)	(117,231)
Net loss for the year	-	-	-	-	(8,549,883)	-	-	(8,549,883)
Balance, December 31, 2021	144,112,042	41,520,254	6,052,920	8,701,200	4,993,337	(54,210,038)	(512,858)	6,544,815
Balance, December 31, 2021	144,112,042	41,520,254	6,052,920	8,701,200	4,993,337	(54,210,038)	(512,858)	6,544,815
Issuance of shares and warrants via private placements (Note 13)	5,530,666	581,127	-	262,307	-	-	-	843,434
Share issuance costs (Notes 13 and 15)	-	(36,638)	-	(15,621)	-	-	-	(52,259)
Issuance of shares for services	1,216,857	127,770	-	-	-	-	-	127,770
Share-based payments (Note 14)	-	-	549,933	-	-	-	-	549,933
Forfeiture of options (Note 14)	-	-	(880,224)	-	880,224	-	-	-
Expiry of warrants (Note 15)	-	-	-	(1,563,062)	1,563,062	-	-	-
Exchange gain on translation of foreign operations	-	-	-	-	-	-	376,101	376,101
Net loss for the year	-	-	-	-	(6,171,224)	-	-	(6,171,224)
Balance, December 31, 2022	150,859,565	42,192,513	5,722,629	7,384,824	7,436,623	(60,381,262)	(136,757)	2,218,570

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

THE TINLEY BEVERAGE COMPANY INC.
Consolidated Statements of Cash Flows
For the Years ended December 31, 2022 and 2021
(Expressed in Canadian Dollars)

	2022	2021
	\$	\$
<u>Operating Activities</u>		
Net loss for the year	(6,171,224)	(8,549,883)
Adjustments for non-cash items:		
Share-based payments (Note 14)	549,933	1,787,649
Depreciation of property and equipment (Note 8)	1,098,056	1,013,215
Depreciation of right-of-use assets (Note 10)	625,069	602,202
Change in fair value of embedded derivatives	(1,090,807)	-
Gain on sale of vehicle	(42,982)	-
Interest income	(1,457)	-
Interest on lease obligations (Note 10)	83,951	163,291
Interest and accretion on convertible notes (Notes 11 and 12)	464,625	-
	(4,484,836)	(4,983,526)
Changes in non-cash working capital:		
Accounts receivable (Note 4)	(42,924)	(75,629)
Inventories (Note 5)	350,633	17,073
Prepaid expenses (Note 7)	177,795	(55,810)
Accounts payable and accrued liabilities (Note 9)	246,306	(263,494)
Deferred revenue	93,347	101,910
Cash Flows used in Operating Activities	(3,659,679)	(5,259,476)
<u>Investing Activities</u>		
Purchases of property and equipment (Note 8)	(94,041)	(186,571)
Construction in progress (Note 8)	(202,460)	(710,386)
Proceeds from sale of vehicle	37,201	-
Cash Flows used in Investing Activities	(259,300)	(896,957)
<u>Financing Activities</u>		
Proceeds from convertible grid note (Note 12)	3,453,055	-
Lease payments (Note 10)	(874,292)	(838,885)
Proceeds from convertible note (Note 11)	782,272	-
Convertible notes issue costs (Note 11 & 12)	(111,458)	-
Proceeds from private placements of shares (Note 13)	829,600	5,131,921
Share issue costs (Note 13)	(38,423)	(344,078)
Proceeds from exercise of options (Note 13)	-	28,000
Cash Flows provided by Financing Activities	4,040,753	3,976,958
Increase (Decrease) in cash for the year	121,775	(2,179,475)
Cash, beginning of year	113,840	2,258,526
Effects of foreign exchange on cash	(51,992)	34,789
Cash, end of year	183,623	113,840

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

THE TINLEY BEVERAGE COMPANY INC.

Notes to the Consolidated Financial Statements

December 31, 2022 and 2021

(Expressed in Canadian Dollars)

1. Nature of Operations

Tinley Beverage Company Inc. (“Tinley”) was incorporated under the laws of the Province of Ontario, Canada by Articles of Incorporation dated October 26, 2007. Tinley, with its subsidiaries (see Note 2(c)) (together, the “Company”), manufactures a line of liquor-inspired, non-alcoholic, cannabis-infused beverages for use in California, United States (“US”) 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 OTCQB under the trading symbol “TNYBF”.

The address of the Company’s registered office is 181 Bay Street, Suite 1800, Toronto, Ontario, M5J 2T9, Canada.

2. Basis of Presentation

(a) Statement of Compliance

The Company’s consolidated financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). The accounting policies set out below were consistently applied to all periods presented unless otherwise noted.

These consolidated financial statements were reviewed, approved and authorized for issuance by the Board of Directors (“Board”) of the Company on May 9, 2023.

(b) Going Concern

These consolidated financial statements have been prepared on the basis that the Company will continue as a going concern, which contemplates the realization of assets and the settlement of liabilities in the normal course of operations. The application of the going concern basis is dependent upon the Company achieving profitable operations to generate sufficient cash flows to fund continuing operations, or, in the absence of adequate cash flows from operations, obtaining additional financing to support operations for the foreseeable future. While the Company was able to raise funds during the year ended December 31, 2022, it incurred a net loss of \$6,171,224 (2021 - \$8,549,883), and incurred negative cash flow from operating activities of \$3,659,679 (2021 - \$5,259,476), and as of that date, had a working capital deficiency of \$1,288,583 (2021 - \$223,801) and an accumulated deficit of \$60,381,262 (2021 - \$54,210,038). It is not possible to predict whether financing efforts will continue to be successful in the future or if the Company will attain profitable levels of operations. These conditions, including the unpredictability of the cannabis-infused beverage business, represent material uncertainties which may cast significant doubt on the Company’s ability to continue as a going concern. Subsequent to year end, The Company implemented cost cutting measures, is pursuing opportunities to grow the company’s brands with the objective of increasing revenue and management intends to canvas the capital markets to raise capital subject to the financial conditions in the marketplace (See “Note 23” for additional funds that came in in subsequent to year end).

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

(c) Basis of Consolidation

These consolidated financial statements have been prepared in accordance with IFRS, on the historical cost basis except for certain financial instruments which are measured at fair value, as explained in the accounting policies set out in Note 3. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

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

THE TINLEY BEVERAGE COMPANY INC.

Notes to the Consolidated Financial Statements

December 31, 2022 and 2021

(Expressed in Canadian Dollars)

Subsidiaries consist of entities over which the Company is exposed to, or has rights to, variable returns as well as the ability to affect those returns through the power to direct the relevant activities of the entity. Subsidiaries are fully consolidated from the date control is transferred to the Company and are deconsolidated from the date control ceases. The consolidated financial statements include all the assets, liabilities, revenues, expenses and cash flows of Tinley and its subsidiaries after eliminating inter-entity balances and transactions.

(d) Significant Accounting Judgments and Estimates

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

Going concern

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

Fair value of financial assets and financial liabilities

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

THE TINLEY BEVERAGE COMPANY INC.

Notes to the Consolidated Financial Statements

December 31, 2022 and 2021

(Expressed in Canadian Dollars)

Expected credit losses on financial assets

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

Determination of cash generating units

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

Impairment

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

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

Income taxes

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

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

Share-based payment transactions and warrants

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

3. Summary of Significant Accounting Policies

(a) Cash

Cash consists of bank balances held in Canadian and US financial institutions. As at December 31, 2022 and 2021, the Company did not have any cash equivalents.

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(b) Inventories

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

(c) Revenue from Contracts with Customers

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

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

The Company’s contracts with customers for contract manufacturing services includes beverage filling services and the sale of raw materials used in production. The Company has concluded that revenue from contract manufacturing services should be recognized when control of the manufactured product is transferred to the customer which is generally at the point in time when production is completed, and the products pass lab testing.

In some situations, the Company provides storage services to its contract manufacturing clients. These storage services are a separate performance obligation and fees charged for this service are recognized in revenue as the storage service is provided to the customer.

The Company’s payment terms vary by customer types.

(d) Property and Equipment

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

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

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

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

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

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(e) Income Taxes

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

Current income taxes

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

Deferred income taxes

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

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

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

(f) Equity

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

(g) Loss per Share

The basic loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding for the period. The diluted loss per share reflects the potential dilution of common share equivalents, such as outstanding stock options and share purchase warrants, in the weighted average number of common shares outstanding for the year, if dilutive. Dilution is calculated based on the net number of common shares issued after proceeds upon the exercise of the options and warrants to purchase common shares at the average market price for the year. For the year ended December 31, 2022 and 2021, all of the outstanding share options and warrants were anti-dilutive.

(h) Share-Based Payments

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

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

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

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

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

(i) Warrants

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

(j) Research and Development

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

(k) Provisions

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

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

As at December 31, 2022 and 2021, the Company had no material provisions.

(l) Financial Instruments

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

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Classification

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

The Company reclassifies financial assets when its business model for managing those assets changes.

FVTPL

This category includes derivative instruments as well as quoted equity instruments which the Company has not irrevocably elected, at initial recognition or transition, to classify at FVTOCI. This category would also include debt instruments whose cash flow characteristics fail the solely principal and interest (“SPPI”) criterion or are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell. Financial assets and liabilities in this category are recorded at fair value with changes recognized in profit or loss. As at December 31, 2022 and 2021, the Company has issued liability-classified derivatives. Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

Derivatives and separable embedded derivatives are recognized initially at fair value; attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives and separable embedded derivatives are measured at fair value, and all changes in their fair value are recognized immediately in profit or loss.

FVTOCI

Equity instruments that are not held-for-trading can be irrevocably designated to have their change in FVTOCI instead of through profit or loss. This election can be made on individual instruments and is not required to be made for the entire class of instruments. Attributable transaction costs are included in the carrying value of the instruments. Financial assets at FVTOCI are initially measured at fair value and changes therein are recognized in other comprehensive income (loss). As at December 31, 2022 and 2021, the Company did not have any financial assets at FVTOCI.

Amortized cost

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

Measurement

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

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

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

	Classification
Cash	Amortized cost
Accounts receivable	Amortized cost
Security deposits	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Lease payable	Amortized cost
Convertible note	Amortized cost
Convertible note – embedded derivative	FVTPL
Convertible grid note	Amortized cost
Convertible grid note – embedded derivative	FVTPL

Expected credit loss impairment model

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

- A maximum 12-month allowance for ECL is recognized from initial recognition reflecting the portion of lifetime cash shortfalls that would result if a default occurs in the 12 months after the reporting date, weighted by the risk of a default occurring.
- A lifetime ECL allowance is recognized if a significant increase in credit risk is detected subsequent to the instruments initial recognition reflecting lifetime cash shortfalls that would result over the expected life of a financial instrument.
- A lifetime ECL allowance is recognized for credit impaired financial instruments.

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

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

Derecognition

Financial assets

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

Financial liabilities

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

Fair value hierarchy

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

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.

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

(m) Foreign Currency Translation

Functional and presentation currency

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

Transactions and balances

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

Translation of foreign operations

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

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

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

(n) Leased Assets

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

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

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

(o) New Standards, Amendment and Interpretation Not Yet Adopted

IAS 1, Presentation of Financial Statements ("IAS 1") - Classification of Liabilities as Current or Non-Current

In January 2020, the IASB issued amendments to IAS 1. The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the consolidated statements of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current. The amendments include clarifying the classification requirements for debt a company might settle by converting it into equity. The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted. The Company is still assessing the impact of adopting these amendments on its consolidated financial statements.

Amendments to IAS 1 and IFRS Practice Statement 2

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2, Making Materiality Judgements, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policies disclosures that are more useful by replacing the requirement for entities to disclose "significant" accounting policies with a requirement to disclose their "material" accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting disclosures. The amendments to IAS 1 are applicable for annual periods beginning on or after January 1, 2023 with earlier application permitted. Since the amendments to IFRS Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary. The amendments are not expected to have a material impact on the Company's consolidated financial statements.

IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors ("IAS 8") - Definition of Accounting Estimates

In February 2021, the IASB amendments to IAS 8. The amendment will require the disclosure of material accounting policy information rather than disclosing significant accounting policies and clarifies how to distinguish changes in accounting policies from changes in accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty". The amendment provides clarification to help entities to distinguish between accounting policies and accounting estimates. The amendments are effective for annual periods beginning on or after January 1, 2023. The Company has determined that adoption of these amendments has no significant effect on the Company's consolidated financial statements.

IAS 12, Income Taxes ("IAS 12") - Deferred Tax related to Assets and Liabilities Arising from a Single Transaction

In May 2021, the IASB issued amendments to IAS 12. The amendment narrows the scope of the initial recognition exemption so that it does not apply to transactions that give rise to equal taxable and deductible temporary differences. As a result, companies will need to recognize a deferred tax asset and deferred tax liability for temporary differences arising on initial recognition of transactions such as leases and decommissioning obligations. The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and are to be applied retrospectively. The Company has determined that adoption of these amendments has no significant effect on the Company's consolidated financial statements.

All other IFRSs and amendments issued but not yet effective have been assessed by the Company and are not expected to have a material impact on the Company's consolidated financial statements.

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4. Accounts Receivable

Accounts receivable consisted of the following:

	2022	2021
	\$	\$
Sales taxes recoverable	42,323	119,970
Trade receivables	166,330	45,759
	208,653	165,729

5. Inventories

Inventories consisted of the following:

	2022	2021
	\$	\$
Raw materials	292,464	532,964
Finished goods	120,397	235,859
Work in process	5,329	-
	418,190	768,823

For the year ended December 31, 2022, inventories recognized as an expense in cost of goods sold amounted to \$972,188 (2021 – \$717,682).

6. Note Receivable

On August 12, 2022, ILLA Canna LLC, a related party that is controlled by a director of the Company, issued the Company a secured promissory note in the amount of \$37,071 (USD \$29,000) as part of the Company's sale of a vehicle. This amount represents 50% of the sale price of the vehicle; the other 50% was paid in cash. The promissory note is secured against the purchased vehicle. The maturity date of the promissory note is August 12, 2024. Interest accrues on the principal balance of the note at the rate of 10% per annum.

The following table reflects the continuity of the note receivable for the year ended December 31, 2022:

	\$
Balance, beginning of year	-
Issuance	37,071
Accrued interest	1,457
Payments	(4,606)
Effect of foreign exchange	2,079
Balance, December 31, 2022	36,001

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7. Prepaid Expenses

Prepaid expenses consisted of the following:

	2022	2021
	\$	\$
Prepaid insurance	96,341	82,611
Advances paid to suppliers	70,099	261,624
	166,440	344,235

8. Property and Equipment

	Construction in Progress	Plant Equipment	Leasehold Improvements	Vehicles	Total
	\$	\$	\$	\$	\$
Cost at:					
January 1, 2021	-	5,874,449	1,745,143	166,899	7,786,491
Additions	710,386	36,684	149,887	-	896,957
Dispositions	-	-	-	-	-
Adjustment due to lawsuit settlement	-	(69,037)	(54,885)	-	(123,922)
Effects of foreign exchange	8,105	(25,285)	(6,317)	(708)	(24,205)
December 31, 2021	718,491	5,816,811	1,833,828	166,191	8,535,321
Accumulated depreciation at:					
January 1, 2021	-	864,055	477,681	46,438	1,388,174
Dispositions	-	-	-	-	-
Depreciation	-	580,343	400,012	32,860	1,013,215
Effect of foreign exchange	-	2,953	2,536	182	5,671
December 31, 2021	-	1,447,351	880,229	79,480	2,407,060
Cost at:					
January 1, 2022	718,491	5,816,811	1,833,828	166,191	8,535,321
Additions	202,460	94,041	-	-	296,501
Dispositions	-	-	-	(81,497)	(81,497)
Reclassification to Plant Equipment	(920,951)	920,951	-	-	-
Effects of foreign exchange	-	438,996	125,264	8,014	572,274
December 31, 2022	-	7,270,799	1,959,092	92,708	9,322,599
Accumulated depreciation at:					
January 1, 2022	-	1,447,351	880,229	79,480	2,407,060
Dispositions	-	-	-	(49,014)	(49,014)
Depreciation	-	665,417	404,964	27,674	1,098,055
Effect of foreign exchange	-	126,123	76,717	4,554	207,394
December 31, 2022	-	2,238,891	1,361,910	62,694	3,663,495
Net Book Value:					
December 31, 2021	718,491	4,369,460	953,599	86,711	6,128,261
December 31, 2022	-	5,031,908	597,182	30,014	5,659,104

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9. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consisted of the following:

	2022	2021
	\$	\$
Trade payables	659,055	380,290
Accrued liabilities	256,939	289,398
	915,994	669,688

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

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

	2022	2021
	\$	\$
Less than 1 month	414,390	412,363
1 to 3 months	123,909	159,813
Over 3 months	377,695	97,512
	915,994	669,688

10. Right-of-Use Assets and Lease Liability

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

The following is a summary of the RUA as at December 31, 2022 and 2021:

	\$
Cost at:	
January 1, 2021	3,211,246
Additions	-
Effect of foreign exchange	(13,620)
December 31, 2021	3,197,626
Accumulated depreciation at:	
January 1, 2021	1,733,054
Depreciation	602,202
Effect of foreign exchange	(481)
December 31, 2021	2,334,775
Cost at:	
January 1, 2022	3,197,626
Additions	-
Effect of foreign exchange	218,421
December 31, 2022	3,416,047
Accumulated depreciation at:	
January 1, 2022	2,334,775
Depreciation	625,069

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Effect of foreign exchange	185,087
December 31, 2022	3,144,931
Net book value:	
December 31, 2021	862,851
December 31, 2022	271,116

The following table reflects the changes in the lease payable on the Long Beach facility for the years ended December 31, 2022 and 2021:

	2022	2021
		\$
Lease liability, beginning of the year	1,144,999	1,836,087
Lease payments	(874,292)	(838,885)
Interest on lease obligations	83,951	163,291
Effect of foreign exchange	45,835	(15,494)
Total lease liability, end of the year	400,493	1,144,999
Current	400,493	787,850
Non-current	-	357,149
	400,493	1,144,999

Lease commitment consisted of the following:

	Total	Within 1 year	1 to 3 years	3 to 5 years
	\$	\$	\$	\$
Lease payable	404,657	404,657	-	-
Total	404,657	404,657	-	-

11. Convertible Note

On June 10, 2022, the Company issued a secured convertible note (the "Gillis Note") to the President of Tinley's USA branded products for \$782,272 (USD \$612,250) (the "Advance"). The principal amount of the Gillis Note is to be repaid, in cash, by the Company on the date which is one year following issuance of the Note (the "Maturity Date"), and bears interest at 12% per annum. The Gillis Note is convertible at the option of the holder into units (each being a "Unit") at the conversion price of \$0.105 per share (the "Conversion Price"). Each Unit would consist of one common share of the Company and one-half of one Warrant, with each whole Warrant exercisable for a period of two years from the date of issuance of such Warrant at an exercise price equal to the Conversion Price.

The Gillis Note is secured against the assets of the Company and the Company's US subsidiary, Algonquin, which security is second in priority behind the security of Blaze Life Holdings, LLC (defined hereafter in Note 12).

In the event of a Liquidity Event (defined as any one of the following events: (i) the approval by shareholders of the Corporation representing in the aggregate more than 50% of all issued and outstanding Common Shares of any offer, whether by way of a take-over bid, or otherwise, for all or any of the Common Shares; (ii) the acquisition hereafter, by whatever means (including, without limitation, by way of an arrangement, merger or amalgamation), by any person (or two or more persons acting jointly or in concert), directly or indirectly, of the beneficial ownership of Common Shares or rights to acquire Common Shares that, together with such person's then owned Common Shares and rights to acquire Common Shares, if any, represent in the aggregate more than 50% of all issued and outstanding Common Shares; or (iii) the sale by the Corporation of all or substantially all of its assets (other than to an affiliate of the Corporation in circumstances where the affairs of the Corporation are, directly or indirectly, and where holders of Common Shares remain substantially the same following the sale as existed prior to the sale)), all of the remaining

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indebtedness would automatically convert into Units at a 25% discount to the deemed price per common share paid in connection with the Liquidity Event, provided that such discounted deemed price shall be no less than \$0.05 per Unit.

The Gillis Note is a derivative financial instrument as the Gillis Note is denominated in US dollars, while convertible in Canadian dollars. As the conversion price in a different currency requires a variable number of shares to settle the Gillis Note, the Gillis Note is treated as having an embedded derivative that is treated as a financial liability under IFRS. On initial recognition, the derivative is recognized at fair value. The fair value of the derivative upon initial recognition was calculated to be \$384,743 using the Black Scholes valuation model. The difference between the principal amount of the Gillis Note and the derivative component of the note, has been allocated to the convertible note.

The fair value at issuance of the embedded derivative was determined using the Black Scholes valuation model using the following assumptions: stock price of \$0.11; expected life of 1.00 year; \$nil dividends; 119% volatility; risk-free interest of 3.35%; and the exercise price of \$0.105.

The fair value at December 31, 2022 of the embedded derivative was determined using the Black Scholes valuation model using the following assumptions: stock price of \$0.07; expected life of 0.44 years; \$nil dividends; 105% volatility; risk-free interest of 3.30%; and the exercise price of \$0.105.

The embedded derivative is fair valued at each reporting date. The fair value as at December 31, 2022 is \$82,144 and the change in fair value resulted in a gain of \$302,599.

The following table reflects the continuity of the convertible note and embedded derivative as at December 31, 2022:

	Convertible Note	Embedded Derivative
	\$	\$
Balance, beginning of year	-	-
Additions	782,272	-
Allocation to embedded derivative	(384,743)	384,743
Issuance cost	(53,727)	-
Accrued interest	54,773	-
Accretion	247,090	-
Change in fair value	-	(302,599)
Effect of foreign exchange	(31,044)	-
Balance, December 31, 2022	614,621	82,144

12. Convertible Grid Note

On June 10, 2022, the Company closed a financing of up to USD \$3.5 million through the issuance of a secured convertible grid note (the "BLH Note") to Blaze Life Holdings, LLC ("BLH"). The BLH Note bears interest at the rate of 12% per annum, and has a term of five years from the date of issuance. All indebtedness under the BLH Note, including all principal amounts advanced from time to time and accrued and unpaid interest, is convertible into Units at the option of BLH at a Conversion Price of \$0.105 per Unit. Each Unit would consist of one common share of the Company and one-half of one Warrant, with each whole Warrant exercisable for a period of two years from the date of issuance of such Warrant at an exercise price equal to the Conversion Price.

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As a result of this transaction BLH became a related party.

As at December 31, 2022, the amount advanced under the BLH Note is \$3,453,055 (USD \$2.65 million) due on June 10, 2027. The assets of the Company and the Company's US subsidiary, Algonquin, are pledged against the BLH Note.

The BLH Note provides for the automatic conversion of: (i) 33.33% of the indebtedness under the BLH Note if the closing price of the common shares on the CSE exceeds \$0.50 for five consecutive trading days; (ii) an additional 33.33% of the indebtedness under the BLH Note if the closing price of the common shares on the CSE exceeds \$0.75 for five consecutive trading days; and (iii) the remaining 33.33% indebtedness under the BLH Note if the closing price of the common shares on the CSE exceeds \$1.00 for five consecutive trading days.

In connection with the issuance of the BLH Note, the Company issued 1,216,857 common shares as an advisory fee valued at \$127,770 (USD \$100,000) to a director of the Company (see Note 13). The advisory fees were included in share issue costs below.

The BLH Note is a derivative financial instrument as the BLH Note is denominated in US dollars, while convertible in Canadian dollars. As the conversion price in a different currency requires a variable number of shares to settle the BLH Note, the BLH Note is treated as having an embedded derivative that is treated as a financial liability under IFRS. On initial recognition, the derivative is recognized at fair value. The fair value of the derivative upon initial recognition was calculated to be \$2,398,654 using the Black Scholes valuation model. The difference between the principal amount of the BLH Note and the derivative component of the note, has been allocated to the convertible note.

The fair value of the embedded derivative as part of the June 10, 2022, instalment payment of \$1,277,700 (\$1,000,000 USD) was determined using the Black Scholes valuation model using the following assumptions: stock price of \$0.11; expected life of 5.00 years; \$nil dividends; 102% volatility; risk-free interest of 3.35%; and the exercise price of \$0.105.

The fair value of the embedded derivative as part of the July 4, 2022, instalment payment of \$643,350 (\$500,000 USD) was determined using the Black Scholes valuation model using the following assumptions: stock price of \$0.105; expected life of 4.94 years; \$nil dividends; 102% volatility; risk-free interest of 3.17%; and the exercise price of \$0.105.

The fair value of the embedded derivative as part of the August 4, 2022, instalment payment of \$642,700 (\$500,000 USD) was determined using the Black Scholes valuation model using the following assumptions: stock price of \$0.10; expected life of 4.85 years; \$nil dividends; 103% volatility; risk-free interest of 2.66%; and the exercise price of \$0.105.

The fair value of the embedded derivative as part of the October 24, 2022, instalment payment of \$686,100 (\$500,000 USD) was determined using the Black Scholes valuation model using the following assumptions: stock price of \$0.07; expected life of 4.63 years; \$nil dividends; 104% volatility; risk-free interest of 3.57%; and the exercise price of \$0.105.

The fair value of the embedded derivative as part of the December 13, 2022, instalment payment of \$203,205 (\$150,000 USD) was determined using the Black Scholes valuation model using the following assumptions: stock price of \$0.07; expected life of 4.49 years; \$nil dividends; 103% volatility; risk-free interest of 2.85%; and the exercise price of \$0.105.

The fair value at December 31, 2022 of the embedded derivative was determined using the Black Scholes valuation model using the following assumptions: stock price of \$0.07; expected life of 4.44 years; \$nil dividends; 101% volatility; risk-free interest of 3.30%; and the exercise price of \$0.105.

The embedded derivative is fair valued at each reporting date. The fair value as at December 31, 2022 is \$1,610,446 and the change in fair value resulted in a gain of \$788,208.

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The following table reflects the continuity of the convertible note and embedded derivative as at December 31, 2022:

	Convertible Note	Embedded Derivative
	\$	\$
Balance, beginning of year	-	-
Additions	3,453,0555	-
Allocation to embedded derivative	(2,398,654)	2,398,654
Issuance cost	(185,501)	-
Accrued interest	178,548	-
Accretion	106,048	-
Change in fair value	-	(788,208)
Effect of foreign exchange	(31,044)	-
Balance, December 31, 2022	992,473	1,610,446

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13. Share Capital

Authorized share capital

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

Issued

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

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

	Number of shares	Proceeds	Share issuance costs	Allocated to reserve for warrants	Allocated from reserve for shared based payments	Resulting share capital amount
	#	\$	\$	\$	\$	\$
Balance, December 31, 2020	121,877,266	-	-	-	-	37,977,603
Issuance on private placement March 30, 2021 (a)	2,125,000	850,000	(97,252)	(283,691)	-	469,057
Issuance on private placement June 10, 2021 (b)	7,321,971	2,416,250	(83,848)	(395,754)	-	1,936,648
Issuance on Exercised Options August 3, 2021 (c)	350,000	28,000	-	-	12,423	40,423
Issuance on private placement October 14, 2021 (d)	12,437,805	1,865,671	(203,085)	(566,063)	-	1,096,523
Balance, December 31, 2021	144,112,042	5,159,921	(384,185)	(1,245,508)	12,423	41,520,254
Issuance on private placement January 19, 2022 (e)	2,080,666	312,100	(3,912)	(93,918)	-	214,270
Issuance on private placement February 25, 2022 (f)	3,450,000	517,500	(32,725)	(154,556)	-	330,219
Issuance on debt settlement - finders' fees June 27, 2022 (g)	1,216,857	127,770	-	-	-	127,770
Balance, December 31, 2022	150,859,565	957,370	(36,638)	(248,474)	-	42,192,513

Included in the number of shares outstanding above, at no cost, are 3,000,000 common shares in escrow ("Escrow Shares") for the former Chief Executive Officer ("CEO") of the Company, who resigned on September 20, 2021. In accordance with a consulting agreement (the "Agreement") entered between the Company and the former CEO, dated October 29, 2015, the 3,000,000 Escrow Shares were originally to be issued at a price of \$0.05 per share, subject to performance based on the Company meeting a sales target within five years of the Agreement. The Company elected to extend the deadline for achieving these sales targets by two years. During the term of the Agreement, the Company is to release 1,500,000 Escrow Shares if sales exceed \$1 million over any four consecutive quarters. An additional 1,500,000 consideration shares are to be released if sales exceed \$3 million over any four consecutive quarters. The Escrow Shares were due to be returned and cancelled on October 29, 2022, however they still remain outstanding.

2021 Share capital transactions

- On March 30, 2021, the Company closed a non-brokered private placement (the "Q1 2021 Offering") through the issuance of 2,125,000 Units at a price \$0.40 per Unit, for gross proceeds of \$850,000. Each Unit is comprised of one common share of the Company and one Warrant. Each Warrant is exercisable into one common share at a price of \$0.50 for a period of 36 months following the closing. In connection with the Q1 2021 Offering, the Company paid cash commissions of \$61,693 to the Agents. In addition, 154,232 Broker Unit Purchase Warrants Type II were issued as compensation to the Agents (see Note 12 for details).
- On June 10, 2021, the Company closed a non-brokered private placement (the "Q2 2021 Offering") through the issuance of 7,321,971 Units at a price \$0.33 per Unit, for gross proceeds of \$2,416,250. Each Unit is comprised of one common share of the Company and one half Warrant. Each whole Warrant is exercisable into one common share at a price of \$0.42 for a period of 24 months following the closing. In connection with the Q2 2021 Offering, the Company paid cash commissions of \$9,818 to the Agents. In addition, 29,750 Broker Unit Purchase Warrants Type I were issued as compensation to the Agents (see Note 12 for details).
- On August 3, 2021, the Company issued 350,000 common shares through the exercise of options at \$0.08 per share, for total proceeds of \$28,000.
- On October 14, 2021, the Company closed a non-brokered private placement (the "Q4 2021 Offering") through the issuance of 12,437,805 Units at a price \$0.15 per Unit, for gross proceeds of \$1,865,671. Each Unit is comprised of one common share of the Company and one Warrant. Each Warrant is exercisable into one common share at a

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price of \$0.20 for a period of 24 months following the closing. In connection with the Q4 2021 Offering, the Company paid cash commissions of \$114,625 to the Agents. In addition, 764,169 Broker Unit Purchase Warrants Type II were issued as compensation to the Agents (see Note 12 for details).

2022 Share capital transactions

- (e) On January 19, 2022, the Company closed a non-brokered private placement (the “January 2022 Offering”) through the issuance of 2,080,666 Units at a price of \$0.15 per Unit, for gross proceeds of \$312,100. Each Unit is comprised of one common share of the Company and one Warrant. Each Warrant is exercisable into one common share at a price of \$0.20 until January 19, 2024.
- (f) On February 25, 2022, the Company closed a non-brokered private placement (the “February 2022 Offering”) through the issuance of 3,450,000 Units at a price of \$0.15 per unit, for gross proceeds of \$517,500. Each Unit is comprised of one common share of the Company and one Warrant. Each Warrant is exercisable into one common share at a price of \$0.20 until February 25, 2024. In connection with the February 2022 Offering, the Company paid cash commissions of \$16,200 to the Agents. In addition, 108,000 Broker Warrants Type II were issued as compensation to the Agents (see Note 15 for details).
- (g) On June 27, 2022, the Company issued 1,216,857 common shares valued at \$127,770 (USD \$100,000) in connection with an advisory fee for the issuance of the BLH Note (see Note 12).

14. Reserve for Share-Based Payments

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

The following summarizes the options activities for the years ended December 31, 2022 and 2021:

	2022		2021	
	Weighted average exercise price	Number of options outstanding	Weighted average exercise price	Number of options outstanding
	\$	#	\$	#
Outstanding, beginning of year	0.48	12,965,000	0.50	10,630,000
Granted	0.10	6,050,000	-	-
Granted	-	-	0.42	1,500,000
Granted	-	-	0.41	2,400,000
Granted	-	-	0.47	400,000
Granted	-	-	0.48	200,000
Granted	-	-	0.50	100,000
Granted	-	-	0.70	100,000
Granted	-	-	1.00	100,000
Granted	-	-	0.23	400,000
Granted	-	-	0.17	25,000
Expired/Forfeited	0.72	(50,000)	0.72	(100,000)
Expired/Forfeited	0.56	(250,000)	0.23	(100,000)
Expired/Forfeited	0.41	(75,000)	0.33	(600,000)
Expired/Forfeited	0.46	(350,000)	0.50	(100,000)
Expired/Forfeited	0.42	(1,500,000)	0.60	(100,000)
Expired/Forfeited	0.35	(600,000)	0.70	(100,000)
Expired/Forfeited	-	-	0.48	(200,000)
Expired/Forfeited	-	-	0.68	(350,000)
Expired/Forfeited	-	-	0.41	(290,000)

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Expired/Forfeited	-	-	0.58	(250,000)
Expired/Forfeited	-	-	0.70	(300,000)
Expired/Forfeited	-	-	0.44	(50,000)
Exercised	-	-	0.08	(350,000)
Outstanding, end of the year	0.34	16,190,000	0.48	12,965,000
Exercisable, end of the year	0.34	15,975,417	0.49	10,414,166

Options grants in 2021

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

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

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

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

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

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

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

Options cancelled/expired in 2021

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

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

On April 10, 2021, 300,000 options granted on April 10, 2019 to its consultant were expired unexercised at an exercise price of \$0.70 per share.

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

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

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

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

Options exercised in 2021

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

Options grants in 2022

On September 15, 2022, the Company granted 6,050,000 stock options to a number of its directors, officers, employees and consultants at an exercise price of \$0.10 per share. The options expire on September 15, 2027. The options vested immediately on grant.

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Options expired/forfeited in 2022

On June 30, 2022, 50,000 options granted on May 11, 2018 to a consultant were forfeited at an exercise price of \$0.72 per share.

On June 30, 2022, 250,000 options granted on September 4, 2019 to consultants were forfeited at an exercise price of \$0.56 per share.

On June 30, 2022, 75,000 options granted on December 23, 2019 to a consultant were forfeited at an exercise price of \$0.41 per share.

On June 30, 2022, 350,000 options granted on August 16, 2020 to a consultant were forfeited at an exercise price of \$0.46 per share.

On July 12, 2022, 600,000 options granted on July 12, 2017 to consultants at an exercise price of \$0.35 per share expired.

On September 19, 2022, 1,500,000 options granted on January 18, 2021 to a consultant were cancelled at an exercise price of \$0.42 per share.

Black-Scholes valuation assumptions

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

Options granted in 2021

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

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

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Options granted in 2022

Grant date	September 15, 2022
Number of options	6,050,000
Exercise price per share	\$0.10
Share price	\$0.08
Expected life of options	5 years
Expected volatility	98.45%
Risk-free interest rate	3.43%
Forfeiture rate	10%

The following table summarizes information of options outstanding as at December 31, 2022:

Date of expiry	Number of options outstanding #	Number of options exercisable #	Exercise price \$	Estimated grant date fair value \$	Weighted average remaining life Years
April 20, 2023	100,000	100,000	0.87	68,282	0.55
August 13, 2023	300,000	300,000	0.79	126,429	0.87
November 30, 2023	2,050,000	2,050,000	0.58	877,362	1.17
November 30, 2023	900,000	900,000	0.58	385,183	1.17
December 11, 2023	100,000	100,000	0.58	41,139	1.20
December 14, 2023	250,000	250,000	0.58	107,028	1.21
September 4, 2024	275,000	275,000	0.56	222,965	1.93
November 14, 2024	200,000	200,000	0.37	67,384	2.13
December 23, 2024	2,050,000	2,050,000	0.41	632,487	2.23
December 23, 2024	290,000	290,000	0.41	89,474	2.23
October 25, 2025	200,000	200,000	0.37	57,083	3.07
January 27, 2026	2,400,000	2,400,000	0.41	711,848	3.33
February 24, 2026	400,000	350,000	0.47	127,417	3.41
March 9, 2026	100,000	100,000	0.50	31,864	3.44
March 9, 2026	100,000	100,000	0.70	30,356	3.44
March 9, 2026	100,000	100,000	1.00	28,609	3.44
August 17, 2026	300,000	150,000	0.23	47,031	3.88
September 29, 2026	25,000	10,417	0.17	2,869	4.00
September 15, 2027	6,050,000	6,050,000	0.10	314,392	4.96
	16,190,000	15,975,417	0.34	3,969,202	3.00

During the year ended December 31, 2022, the Company recognized share-based payments related to the vesting of stock options of \$549,933 (2021 - \$1,787,649).

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15. Reserve for Warrants

The following summarizes the warrant activities for the years ended December 31, 2022 and 2021:

	2022		2021	
	Number of warrants outstanding #	Fair value \$	Number of warrants outstanding #	Fair value \$
<i>Share purchase warrants</i>				
Balance, beginning of year	32,921,414	8,012,238	22,106,179	8,450,359
Issued March 30, 2021	-	-	2,125,000	234,973
Issued June 10, 2021	-	-	3,660,984	379,331
Issued October 14, 2021	-	-	12,437,805	477,606
Issued January 19, 2022	2,080,666	92,233	-	-
Issued February 25, 2022	3,450,000	140,620	-	-
Expired	(10,217,500)	(1,251,622)	(7,408,554)	(1,530,031)
Balance, end of year	28,234,580	6,993,469	32,921,414	8,012,238
<i>Broker Warrants Type I^(a)</i>				
Balance, beginning of year	29,750	6,614	910,196	570,125
Issued June 10, 2021	-	-	29,750	6,614
Expired	-	-	(910,196)	(570,125)
Balance, end of year	29,750	6,614	29,750	6,614
<i>Broker Warrants Type II^(b)</i>				
Balance, beginning of year	1,936,777	682,348	1,018,376	495,256
Issued March 30, 2021	-	-	154,232	64,120
Issued October 14, 2021	-	-	764,169	122,972
Issued February 25, 2022	108,000	13,833	-	-
Expired	(704,767)	(311,440)	-	-
Balance, end of year	1,340,010	384,741	1,936,777	682,348
Total	29,604,340	7,384,824	34,887,941	8,701,200

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

(b) Broker Unit Purchase Warrants Type II are exercisable for one common share and one warrant exercisable into one common share.

Warrant activities in 2021

On March 30, 2021, the Company issued 2,125,000 share purchase warrants, at an exercise price of \$0.50 per share, in connection with the Q1 2021 Offering as disclosed in Note 13 (a). In addition, 154,232 Broker Units Purchase Warrants Type II were issued as compensation to the Agents, to acquire one broker unit purchase warrant at an exercise price of \$0.40 per unit for a period of 36 months from the closing of the Q1 2021 Private Placement Offering. Each Broker Unit is comprised of one common share and one share purchase warrant, exercisable into one common share at \$0.50 per share for a period of 36 months.

On June 10, 2021, the Company issued 3,660,984 share purchase warrants, at an exercise of \$0.42 per share, in connection with the Q2 2021 Offering, as disclosed in Note 13 (b). In addition, 29,750 Broker Unit Purchase Warrants Type I were issued as compensation to the Agents, to acquire one broker unit purchase warrant at an exercise price of \$0.33 per unit for a period of 24 months following the closing of the Q2 2021 Offering. Each Broker Unit is comprised of one common share and one-half of a share purchase warrant, exercisable into one common share at \$0.42 for a period

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of 24 months following the closing date.

On October 14, 2021, the Company issued 12,437,805 share purchase warrants, at an exercise of \$0.20 per share, in connection with the Q4 2021 Offering, as disclosed in Note 13 (d). In addition, 764,169 Broker Unit Purchase Warrants Type II were issued as compensation to the Agents, to acquire one broker unit purchase warrant at an exercise price of \$0.15 per unit for a period of 24 months following the closing of the Q4 2021 Offering. Each Broker Unit is comprised of one common share and one share purchase warrant, exercisable into one common share at \$0.20 for a period of 24 months following the closing date.

Expired warrants in 2021

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

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

Warrant activities in 2022

On January 19, 2022, the Company issued 2,080,666 Warrants, at an exercise price of \$0.20 per share, in connection with the January 2022 Offering as disclosed in Note 13(e).

On February 25, 2022, the Company issued 3,450,000 Warrants, at an exercise price of \$0.20 per share, in connection with the February 2022 Offering as disclosed in Note 13(f). In addition, 108,000 Broker Warrant Type II were issued as compensation to the Agents, to acquire one Unit at an exercise price of \$0.15 per Unit until February 25, 2024. Each Unit is comprised of one common share and one Warrant, exercisable into one common share at \$0.20 per share for a period of 24 months.

Expired warrants in 2022

On June 30, 2022, 3,700,000 Warrants issued on June 30, 2020 at an exercise price of \$0.70 per share expired. On the same day, 260,304 Broker Warrant Type II issued on June 30, 2020 at an exercise price of \$0.50 also expired.

On August 31, 2022, 2,080,000 Warrants issued on August 31, 2020 at an exercise price of \$0.70 per share expired. On the same day, 154,400 Broker Warrant Type II issued on August 31, 2020 at an exercise price of \$0.50 also expired.

On November 14, 2022, 1,250,000 Warrants issued on November 14, 2019 at an exercise price of \$0.60 per share expired. On the same day, 87,500 Broker Warrant Type II issued on November 14, 2019 at an exercise price of \$0.40 also expired.

On November 26, 2022, 2,125,000 Warrants issued on November 26, 2019 at an exercise price of \$0.60 per share expired. On the same day, 128,188 Broker Warrant Type II issued on November 26, 2019 at an exercise price of \$0.40 also expired.

On December 24, 2022, 1,062,500 Warrants issued on December 24, 2019 at an exercise price of \$0.60 per share expired. On the same day, 74,375 Broker Warrant Type II issued on December 24, 2019 at an exercise price of \$0.40 also expired.

Black-Scholes valuation assumptions

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

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Issuance date	October 14, 2021	June 10, 2021	March 30, 2021
Number of warrants	12,437,805	3,660,986	2,125,000
Exercise price	\$0.20	\$0.42	\$0.50
Share price	\$0.17	\$0.340	\$0.395
Expected life of warrants	2 years	2 years	3 years
Expected volatility	89.78%	84.12%	87.44%
Risk-free interest rate	0.72%	0.31%	0.49%

Broker unit purchase warrants type I issued in 2021

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

Broker unit purchase warrants type II issued in 2021

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

Share purchase warrants issued in 2022

Issuance date	February 25, 2022	January 19, 2022
Number of warrants	3,450,000	2,080,666
Exercise price	\$0.20	\$0.20
Share price	\$0.14	\$0.145
Expected life of warrants	2 years	2 years
Expected volatility	96.86%	96.31%
Risk-free interest rate	1.53%	1.27%

Broker Warrants Type II issued in 2022

Issuance date	February 25, 2022
Number of warrants	108,000
Exercise price	\$0.15
Unit price	\$0.140
Expected life of warrants	2 years
Expected volatility	96.86%

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Risk-free interest rate	0.72%
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The following table summarizes information of warrants outstanding as at December 31, 2022:

	Number of warrants outstanding	Exercise price	Weighted average remaining life
	#	\$	\$
<i>Share purchase warrants</i>			
June 10, 2023	3,660,984	0.42	0.69
October 14, 2023	12,437,805	0.20	1.04
November 23, 2023	2,222,300	0.60	1.15
December 8, 2023	2,257,825	0.60	1.19
January 19, 2024	2,080,666	0.20	1.30
February 25, 2024	3,450,000	0.20	1.41
March 30, 2024	2,125,000	0.50	1.50
Balance, end of year	28,234,580	0.31	0.86

	Number of warrants outstanding	Exercise price	Weighted average remaining life
	#	\$	\$
<i>Broker Warrants Type I</i>			
June 10, 2023	29,750	0.33	0.69
Balance, end of year	29,750	0.33	0.44

<i>Broker Warrants Type II</i>			
October 14, 2023	764,169	0.15	1.04
November 23, 2023	155,561	0.45	1.15
December 8, 2023	158,048	0.45	1.19
February 25, 2024	108,000	0.15	1.41
March 30, 2024	154,232	0.40	1.50
Balance, end of year	1,340,010	0.25	0.90

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16. Related Party Transactions

Key management compensation

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

	2022	2021
	\$	\$
Short-term employee benefits, including salaries and consulting fees	786,904	991,894
Share-based compensation	322,791	1,035,764
	1,109,695	2,027,658

- (i) For the year ended December 31, 2022, the Company incurred consulting fees with the Chief Executive Officer (“CEO”) and director of \$181,000 (2021 – \$156,000) for services rendered. As at December 31, 2022, \$27,425 (December 31, 2021 – \$14,898) was outstanding and included in accounts payable and accrued liabilities.
- (ii) For the year ended December 31, 2022, the Company incurred consulting fees with the Chief Financial Officer (“CFO”) of \$145,000 (2021 – \$42,903) for services rendered. As at December 31, 2022, \$16,950 (December 31, 2021 – \$11,300) was outstanding and included in accounts payable and accrued liabilities.
- (iii) For the year ended December 31, 2022, the Company incurred wage expenses with the President of Tinley’s Brands USA of \$321,805 (2021 – \$301,800) for services rendered. As at December 31, 2022, no balance (December 31, 2021 – \$nil) was outstanding.
- (iv) For the year ended December 31, 2022, the Company incurred director fees with directors who are not part of key management of \$22,000 (December 31, 2021 - \$nil) for services rendered. As at December 31, 2022, \$12,000 (December 31, 2021 – \$nil) was outstanding and included in accounts payable and accrued liabilities.
- (v) For the year ended December 31, 2022, the Company incurred consulting fees with a former director of \$117,099 (2021 – \$150,900) for services rendered. As at December 31, 2022, no balance (December 31, 2021 – \$Nil) was outstanding.
- (vi) For the year ended December 31, 2021, the Company incurred consulting fees with the former CEO of \$117,000 for services rendered. As at December 31, 2021, no balance was outstanding.
- (vii) For the year ended December 31, 2021, the Company incurred consulting fees with a former CFO of \$75,250 for services rendered. As at December 31, 2021, no balance was outstanding.
- (viii) For the year ended December 31, 2021, the Company incurred consulting fees with a former CFO of \$21,000 for services rendered. As at December 31, 2021, no balance was outstanding.
- (ix) For the year ended December 31, 2021, the company incurred consulting fees with a director who is not part of key management of \$21,250.

Other related party transactions

- (x) For the year ended December 31, 2022, directors who are not part of key management received stock-based compensation of \$70,658 (2021 – \$262,756).
- (xi) For the year ended December 31, 2022, two directors of BLH were nominated to the board of directors of the Company as a result of the BLH Note. As a result, BLH became a related party. (see “Note 12”).

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17. Income Taxes

The reported income taxes differ from the amounts obtained by applying domestic rates of Tinley domiciled in Canada of 26.5% (2021 – 26.5%) to the net loss as follows:

	2022	2021
	\$	\$
Components of income tax provision:		
Income tax at statutory tax rates	(1,635,000)	(2,266,000)
IRC 280(e) deductions ^(a)	373,812	709,400
Difference between Canadian and foreign tax rates	342,126	(105,200)
Stock-based compensation and other non-deductible expenses	146,000	503,800
Accretion on convertible notes	123,126	-
Change in fair value of derivative liabilities	(289,064)	-
Change in tax benefits not recognized	939,000	1,158,000
Recovery of income taxes	-	-

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

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

	2022	2021
	\$	\$
Deferred income tax assets:		
Share issuance costs	140,000	245,000
Operating losses carried forward	8,304,000	7,260,000
Total	8,444,000	7,505,000
Valuation allowance	(8,444,000)	(7,505,000)
Deferred tax asset	-	-

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

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Tax losses carried forward

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

	Canadian	Californian	Federal US
	\$	\$	\$
2025	751,000	-	-
2026	918,000	-	-
2027	890,000	-	-
2028	1,880,000	-	-
2029	45,000	-	-
2030	566,000	-	-
2031	732,000	-	-
2032	1,168,000	-	-
2033	888,000	-	-
2034	497,000	-	-
2035	967,000	-	-
2036	1,076,000	244,000	55,000
2037	709,000	1,090,000	57,000
2038	1,770,000	125,000	125,000
2039	2,072,000	3,290,000	559,000
2040	2,113,000	4,618,000	2,665,000
2041	2,430,000	3,580,000	752,000
2042	2,607,476	4,072,022	1,960,088
	22,079,476	17,019,022	6,173,088

18. Capital Risk Management

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

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

As at December 31, 2022, the Company considers its capital to be share capital, reserve for share-based payments, reserve for warrants, and contributed surplus, and reduced by accumulated deficit and accumulated other comprehensive loss, totaling \$2,218,570 (December 31, 2021 – \$6,544,815).

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

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

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19. Cost of Sales

The Company's cost of sales for the years ended December 31, 2022 and 2021 are as follows:

	2022	2021
	\$	\$
Raw materials	411,727	368,717
Labour	322,883	224,621
Quality control and testing	188,853	63,868
Shipping, freight & storage	48,725	60,476
	972,188	717,682

20. General and Administrative Expenses

The Company's general and administration expenses incurred for the years ended December 31, 2022 and 2021 are as follows:

	2022	2021
	\$	\$
Payroll and salaries	1,586,980	1,422,880
Corporate costs and administration	1,139,463	1,144,204
Professional fees	682,327	1,076,723
Consulting and management fees	284,708	469,758
Interest on lease liabilities	83,951	163,291
Occupancy cost	119,306	79,368
Travel and promotion	70,214	38,154
	3,966,949	4,394,378

21. Financial Instruments and Risk Management

Fair value

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

Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. Cash is held with Canadian and US chartered banks which are closely monitored by management. Management believes that the credit risk concentration with respect to financial instruments is minimal. The maximum exposure to credit risk at year-end is limited to the accounts receivable balance. No ECL has been recorded as at December 31, 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 from its financing and revenue activities.

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As at December 31, 2022, the Company had a cash balance of \$183,623 (December 31, 2021 – \$113,840) to settle current liabilities of \$2,265,489 (December 31, 2021 – \$1,616,428). The undiscounted contractual maturity of all financial liabilities for the year ended December 31, 2022 is as follows:

	Total	Within 1 year	1 to 3 years	3 to 5 years
	\$	\$	\$	\$
Accounts payable and accrued liabilities	915,994	915,994	-	-
Convertible note	928,739	928,739	-	-
Convertible grid note	5,683,776	-	-	5,683,776
Lease payable	385,709	385,709	-	-
Total	7,914,218	2,230,442	-	5,683,776

The undiscounted contractual maturity of all financial liabilities for the year ended December 31, 2021 is as follows:

	Total	Within 1 year	1 to 3 years	3 to 5 years
	\$	\$	\$	\$
Accounts payable and accrued liabilities	669,688	669,688	-	-
Lease payable	1,230,700	869,653	361,047	-
Total	1,900,388	1,539,341	361,047	-

Interest rate risk

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

Foreign currency risk

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

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

	December 31, 2022	December 31,
	\$	\$
Cash	128,564	32,309
Trade receivables	121,789	35,921
Note receivable	26,580	-
Trade and other payables	(240,583)	(114,345)
Convertible note	(653,313)	-
Convertible grid note	(2,783,216)	-
Lease obligations	(295,698)	(970,736)
Net exposure to USD	(3,695,877)	(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 \$36,959 (December 31, 2021 – USD \$10,169), respectively, as a result of this exposure.

22. Contingencies

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

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The Company's operations are subject to a variety of local and state regulation. Failure to comply with one or more of those regulations could result in fines, restrictions on its operations, or losses of permits that could result in the Company ceasing operations in that specific state or local jurisdiction. While management of the Company believes that the Company is in compliance with applicable local and state regulations as at December 31, 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.

23. Subsequent Events

On January 30, 2023, the Company granted 1,800,000 options to two directors and a management company controlled by a director. The options are exercisable at an exercise price of \$0.10 per share for a period of five years. The options vested immediately.

On February 1, 2023, the Company received additional funds of \$466,235 (USD \$350,000) representing a scheduled installment per the BLH Note (see Note 12).

On March 16, 2023, the Company received additional funds of \$274,880 (USD \$200,000) representing a scheduled installment per the BLH Note (see Note 12).

On March 21, 2023, the Company decided not to renew its lease at its premises in Long Beach, California and to relocate its plant assets to Canoga Park. Management is still evaluating the costs involved and resulting impacts, potentially involving reclassification and remeasurement of certain leasehold assets (see Note 10).

On April 20, 2023, 100,000 options granted on April 20, 2018, at an exercise price of \$0.87 per share, expired unexercised.