



THE TINLEY BEVERAGE COMPANY INC.

Management's Discussion and Analysis

For the year ended December 31, 2022

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THE TINLEY BEVERAGE COMPANY INC.
Management’s Discussion and Analysis of Financial Condition and Results of Operations
For the year ended December 31, 2022

This Management’s Discussion and Analysis (“MD&A”) constitutes management’s assessment of the financial condition and results of operations of The Tinley Beverage Company Inc. (“Tinley” or the “Company”) for the year ended December 31, 2022. It is supplemental to, and should be read in conjunction with the audited consolidated financial statements of Tinley for the year ended December 31, 2022 and 2021 (the “2022 Financial Statements”). The 2022 Financial Statements and the financial information contained in this MD&A have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and the IFRS Interpretations Committee (“IFRIC”). In the opinion of management, all adjustments considered necessary for a fair presentation have been included. In preparing this MD&A, management has taken into account information available up to May 10, 2023. Unless otherwise indicated, all figures presented in this MD&A are expressed in Canadian Dollars (“\$” or “C\$”). Unless the context otherwise requires, references in this MD&A to the “Company”, “Tinley” or “we” refers to Tinley and its subsidiaries.

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

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

1. Description of Business

Tinley’s was incorporated under the laws of the Province of Ontario, Canada by Articles of Incorporation dated October 26, 2007. Tinley’s, with its subsidiaries, manufactures a line of liquor-inspired, non-alcoholic, cannabis-infused beverages for use in California, United States (“US”). The Company also manufactures a line of liquor-inspired, non-alcoholic, non-cannabis-infused beverages, which are available in retail locations in the US. The Company also manufactures cannabis-infused beverages for contract manufacturing clients. The Company’s common shares are listed on the Canadian Securities Exchange under the trading symbol “TNY” and on the 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.

The Company has two primary product lines, both sharing a common list of base drink ingredients following reformulation in 2022 to optimize taste profiles and reduce production complexity:

- (i) the liquor- and cocktail-inspired, Tinley’sTM Tonics and Tinley’sTM ’27 lines of products, with added terpenes infused with cannabis, currently produced by the Company at its production facility in Long Beach, California (the “Long Beach Facility”). These products are distributed and sold to licensed dispensaries in California through the Company’s exclusive distribution partner, Sulo Distro, and have been relaunched this month in the direct-to-consumer channel through Sulo Distro’s partnership with Grassdoor; and
- (ii) The Beckett’s Tonics[®] and Beckett’s ’27[®] lines of non-cannabis-non-alcoholic spirits and cocktails, the non-infused foundation formulas of the cannabis infused beverages, relaunched following reformulation into distribution at Total Wine & More’s 220+ retail locations across 27 states, with production following reorder completed in March & April of 2023 and also sold at select HEB locations in Texas. Following the success of the US relaunch, the Company will consider opportunities to profitably manufacture and distribute the reformulated Beckett’s products in Canada.

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2. Business Overview

Financing Activities

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

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

On March 14, 2022, Mr. Gillis, also at the time, the President and Chief Operating Officer of Tinley's US subsidiaries and a member of Tinley's Office of the CEO, advanced the Company \$209,922 (USD \$167,991) (the "Advance"). On April 25, 2022, the Company received an additional Advance of \$571,187 (USD \$444,259) from Mr. Gillis. On June 10, 2022, the Company finalized the terms of the aggregate amount of \$782,272 (USD \$612,250) of the Advance from Mr. Gillis, the terms and conditions of which had been reflected in a 12% secured convertible note (the "Gillis Note"). The Gillis Note bears interest at a rate of 12% per annum and has a term of one year from the date of issuance. All indebtedness under the Gillis Note, including all principal amounts advanced under the note from time to time and accrued and unpaid interest, shall be convertible into units of the Company at the option of Mr. Gillis at a price of \$0.105 per Unit (the "Conversion Price"). Each Unit shall consist of one common share and one-half of one common share purchase warrant, with each 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. As of December 31, 2022 and as of the date of this MD&A, an aggregate of USD \$653,313 and USD \$677,467 were outstanding, respectively.

On June 10, 2022, the Company also issued a secured convertible grid note (the "BLH Note") of up to USD \$3.5 million to Blaze Life Holdings, LLC ("BLH"). The BLH Note bears interest at a 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 under the note from time to time and accrued and unpaid interest, shall be convertible into units of the Company at the option of BLH at a price of \$0.105 per Unit (the "Conversion Price"). Each Unit shall consist of one common share and one-half of one common share purchase warrant, with each 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. As of December 31, 2022 and as of the date of this MD&A, an aggregate of USD \$2,783,216 and USD \$3,451,030 were outstanding, respectively.

On June 27, 2022, the company announced that it entered into a debt settlement agreement with Anthony Yanow and agreed to settle the USD \$100,000 capital markets advisory fee owing by the Company to Mr. Yanow, in connection with the Company's previously announced issuance of the BLH Note which indebtedness was settled by way of the issuance of 1,216,857 common shares in the capital of the Company at a price of \$0.105 per share.

Business Developments

On January 18, 2022, the Company announced that, for the first time, a batch of product manufactured at the Long Beach Facility had completed the State of California's testing, quarantine and lab sampling processes onsite under the distribution licence (the "Distribution Licence") granted to Lakewood Libations Inc., a 100% subsidiary of the Company. Activation of Distribution Licence is expected to expedite the testing and delivery of manufactured products, as client and own-brands now benefit from a new onsite 'first-mile' distribution option adjacent to Lakewood's licensed manufacturing space at the Company's Long Beach Facility.

On January 19, 2022, the Company announced that international cannabis beverage brand 'Green Monké' was scheduled to begin can line production of five planned flavours at its Long Beach Facility in Q1 2022, with production

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of full-batches expected to repeat near-monthly. Due to supply chain delays, production was rescheduled and took place the week of May 2, 2022.

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

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

On April 5, 2022, the Company announced the production of the first non-alcoholic beer to be infused at the Long Beach facility, which was completed during the week of April 11, 2022. This non-alcoholic beer is crafted by BJ's Brewhouse team of brew masters and is licensed to Lakewood contract manufacturing client SOMA Beverages.

In March, 2022, the Long Beach Facility had successfully produced commercial batches of three Calexo 'Watercolors' brand flavours on the newly commissioned Codi can line. Following production, multiple batches of single cans and 4-packs were transferred to Lakewood's on-site licensed distribution area. The Long Beach Facility is now offering the immediate transfer of products from Lakewood's licensed manufacturing area 'through the wall' to its state-licensed adjacent distribution space to complete mandatory 'First-Mile' distribution services including quarantine, lab sampling and full certificate of analysis testing, prior to release for sale.

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

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

On May 2, 2022 the Company announced the closing of an acquisition of all of the issued and outstanding shares of Lakewood, and Lakewood became a wholly-owned subsidiary of the Company.

On June 24, 2022, the Company announced that it would be producing Mary Jones cannabis-infused sodas for Jones Soda Co., the original craft soda known for its unconventional flavours and user photo-submitted labels.

On June 27, 2022, the Company announced that through Lakewood, it would be manufacturing infused beverages for three new branded clients, Drippy, Syreness and Vibe. The Company also confirmed that it has served notice and has terminated the previously announced Brand Ambassador and Advisory Agreement with Todd Chrisley.

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

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

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

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

On October 28, 2022, the Company announced that it was pursuing opportunities to re-launch its Beckett's line up in Canada, building on the experience gained through the current relaunch of Beckett's 27® and Beckett's Tonics® in the USA. The Company announced that its Canadian program was expected to include the eight newly reformulated products branded for the Canadian market, including four Becketts '27™ non-alcoholic spirits and liqueurs, and four Becketts Classics™ ready-to-drink cocktail-inspired mixed drinks produced in cans.

Also on October 28, 2022, the Company announced that it has entered into an agreement with Kroniq, LLC to manufacture beer-type and sparkling wine-type non-alcoholic cannabis infused beverages at the Company's Long Beach Facility. The Company also announced that it was making substantial progress on the previously announced commitment to enter into a shared management services agreement with BLH.

On January 23, 2023, the Company announced that it had entered into a Management Services Agreement with BLH.

On January 31, 2023, the Company announced plans for own-brand expansion to accelerate revenue growth for Beckett's and Tinley's.

On the same date, the Company also announced the grant of stock options to purchase up to 1,800,000 common shares in the capital of the Company to certain, directors and a management company controlled by a director of the Company in accordance with the terms of the Company's stock option plan. The stock options will be exercisable at a price of \$0.10 per common share and for a period of five years from the date of issuance.

On March 21, 2023, the Company confirmed that it will decommission its Long Beach bottling assets before the end of the second quarter of 2023, and expects installation and commissioning of bottling lines at strategic partner BLH's Canoga Park facility to take place at the beginning of the third quarter of this year, and that it had successfully completed production of newly formulated infused iced tea and lemonade varieties developed by Green Monké under contract for the well-known "Cookies" brand.

On the same date, the Company also announced production of Beckett's Tonics RTD and Beckett's '27 multi-serve spirits and liqueurs are underway at the Company's chosen contract manufacturers. Delivery to Total Wine & More is expected at or around the end of the current quarter.

On the same date, the Company announced it has immediately implemented substantive cost cutting measures to aggressively preserve capital and accelerate expense reduction.

On the same date, the Company announced it has decided to pause its plan to re-enter Canada indefinitely, however the Company is open to other opportunities such as licensing that may never materialize.

On the same date, the Company announced that effective immediately, Rick Gillis has agreed to step down from his role as President, Tinley's Brands USA and his concurrent appointment to the Company's advisory board.

On the same date, the Company announced the Company's CEO, CFO and certain remaining employees and consultants have temporarily agreed to defer their respective salaries for a limited period of time.

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On the same date, the Company announced that on or about March 16, 2023, the Company received an advance of \$200,000 from the remaining funds available to the Company under the BLH lending facility, with the final \$300,000 from BLH currently expected to be expended by the Company during the move to BLH's Canoga Park facility.

On the same date, the Company announced that effective immediately, Kirsten Chapman had resigned from the Company's Board of Directors for personal reasons and to pursue other commitments.

As of the date of this MD&A, the production schedule at the Long Beach Facility is full as the Company's contract manufacturing clients are pushing production to build inventory levels to carry the brands through the summer, in anticipation of the production outage associated with the relocation of the bottling assets to BLH's Canoga Park facility and the shut-down of the Long Beach Facility. In addition, Tinley's own brand production is scheduled as well as production for new products introduced by BLH for production in Long Beach to take advantage of Q2 & Q3 distribution before the Canoga Park facility is fully permitted and operational. Such additional products run at Long Beach include Illa Canna LLC's own Michelada-type infused NA beer and initial production for CANN on the mini bottle line.

Retail Growth Strategy

Tinley'sTM Tonics and Tinley'sTM '27 Infused Beverages

Beginning in 2018, the Company has pursued a multi-phase growth strategy producing own brand products under licence at licensed manufacturers prior to the move to and commissioning of the current Long Beach Facility. The Company worked with national brand spirit formulators for several years on developing non-alcoholic versions of popular liquors and cocktails.

With new capital and the ability to share engineering, operations and support services through BLH and its divisions, and the plan to relocate bottling assets to BLH's Canoga Park facility and close the Long Beach Facility, the Company has pursued the following growth strategies since the BLH investment in June 2022:

- **Focus on operations** and direction of resources towards operations improvements to accelerate revenue growth and reduce operating costs. The Company believes that it is important to post increasing revenue by quarter, driving efficiency and reducing overhead to achieve cash-flow positive growth and become profitable as a going concern. Tinley's revenue continues to increase as (i) its list of co-packing clients and their repeat production volumes grow, (ii) as Tinley's own-brand products relaunch in California, and (iii) as Beckett's US sales continue to accelerate.
- Continued **synergy initiatives** as undertaken by management since June 2022 with the collaboration of BLH. This work has yielded cost savings and improvements in engineering and productivity, enabling revenue growth reported in Q3 and Q4 and which The Company expects to be able to announce has continued through Q1 and Q2 2023.
- The **Management Services Agreement** entered into between Tinley's and BLH has begun to accelerate and solidify ongoing improvements in productivity and realize reductions to overhead costs.
- **Forecasting and production to preserve Tinley's brand in-stock position in California and focus on key accounts.** The Company will focus on sales and operations planning and accelerating distribution and sales to multi-store operators and select high-profile retailers. Working with SuLo, the Company intends to seek and support retailers who are organized and equipped to sell beverages as high velocity SKU's per beverage category best practices. Programs at multi-store operators can be deployed at lower cost than servicing many independent operators. In these locations, the Company expects to be able to engage in deeper in-store merchandising, display, promotion and traffic-building initiatives in collaboration with SuLo and the retailer to drive trial and order velocity.

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- **Focus on direct-to-consumer delivery.** The Company is working with SuLo to participate in an efficient, state-wide delivery/direct to consumer solution through Grassdoor to attract new consumers and add convenience to existing consumers.
- **Reformulation to simplify ingredients batching and production and relaunch Beckett's brand.** The Company completed reformulation with a flavour and development provider, designed to reduce complexity of the ingredients required to produce its infused and non-infused products from a single, simplified ingredient base. The reformulation has allowed the Company to relaunch its full lineup of eight Beckett's SKU's including Beckett's Tonics® in cans at Total Wine & More, and to pursue opportunities at additional retail chains. Beginning with new Tinley's infused production at Long Beach in Q1 & Q2 2023, the benefits of simplified supply chain and reduced production complexity have begun to be realized for infused own-brands.
- **New Product Development for 2023** is currently underway to include higher dose products to address the industry-acknowledged preferences of traditional dispensary customers including a 25 mg Tinley's Tonics RTD product in 12 oz sleek cans, expected to be produced in Q3 2023.
- **Opportunities for Tinley's brand sales at Consumption Lounges**, and brand experience activations at private events in California, are being explored and will be pursued as they continue to present themselves through emerging state and local regulation.

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

The Company's Beckett's brand products are the base beverage formulations of the infused Tinley's brand products and are produced as non-infused products at non-Cannabis-licensed third-party beverage facilities. The Beckett's brand products address the rapidly growing "low-no alcohol" beverage category, as reported by industry, consumer and business publications (e.g. *Forbes*, December 23, 2022 "*The Low-No Alcohol Drinks Market Surpasses \$11 Billion in 2022*"), allowing retailers to offer and consumers to enjoy premium tasting adult beverages without the intoxicating effects of alcohol.

In 2022, in evaluating the initial production and the launch of Beckett's in 2019 and 2020, the Company decided to reformulate the products for scaled commercialization, ensuring a consistent ingredient and formulation base with its infused Tinley's products, without the terpenes and cannabis emulsion added to the Tinley's infused SKU's and more-closely matching the target beverage alcohol spirits, liqueurs and cocktails. The benefits to the Company include improved taste, reduced cost and complexity of supply chain and manufacturing, and the opportunity to seek out low-risk, non-capital-intensive opportunities to expand the brand driven by the new simplified formulations. The reformulation has enabled the production of Beckett's Tonics® in high-demand aluminum cans and the reintroduction of the coffee-liqueur style multi-serve Beckett's '27® product, for a full lineup of eight reformulated Beckett's products now in distribution.

Reformulation, done at no additional cost to the Company and enabling the Company to retain all IP, has reduced supply chain and manufacturing complexity, and is benefiting Tinley's brand infused production in California this year. The Company has now relaunched the Beckett's line at Total Wine & More in over 200 retail locations across 27 US states. The program, managed through the Company's broker, Emergent Beverages, continues to fulfill purchase orders for efficient, direct-to-retailer warehouse delivery for 4-packs of the four flavours of Beckett's Tonics® non-alcoholic ready-to-drink cocktails, and of the four Beckett's '27® non-alcoholic multi-serve spirits and liqueurs. Total Wine & More featured the 8-product program on in-store end-aisle displays as part of its 'Dry January' in-store merchandising and promotion initiatives in January 2023. The Company is also distributing Beckett's products through HEB stores, including select Central Market locations in Texas and is in discussion with additional retailers in the US. The Company's strategic review of Beckett's aimed to accelerate the realization of value from the Beckett's Tonics® and Beckett's '27® brand assets in the US without requiring additional capital investment. Potential strategic options for expansion in the US and Canada include pursuing additional retail programs and exploring licensing of the Beckett's IP.

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Third-Party Brand Manufacturing and Distribution & US Cannabis Opportunities

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

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

Tinley's Brand in Canada

As announced by the Company on March 21, 2023, the Company has paused its manufacturing and distribution of Tinley's and Beckett's products in Canada, due to market complexity and regulatory constraints. The Company is currently focused on optimizing value-creation in the time remaining in the Long Beach Facility before shut down, and overhead reduction through its Management Services Agreement with strategic partner BLH in the weeks leading up to the transfer of bottling assets to BLH's Canoga Park facility, and in reinvesting free cash in low-capital intensive own-brand expansion for Tinley's and Beckett's in the US. The Company will consider scenarios including IP licensing for Canada for profitable participation in the Canadian market.

CBD Beverages

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

Current and Ongoing impacts from COVID-19

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

Throughout the global pandemic related to the outbreak of COVID-19, the Company worked to mitigate the uncertainty cast on many of the Company's assumptions and estimates, and worked through supply chain disruptions for ingredients, commodity inputs, and packaging supplies, and equipment, due to local regional and global supply and pandemic disruptions. It also faced cross border and in-Canada shipping delays due to the protest disruptions in Canada in Q1 2022. All these issues impacted production schedules at the Long Beach facility and at Canadian co-packers for Tinley's Canadian products, as previously announced. The Company continues to manage to reduce the impact of systemic and beverage manufacturing industry-specific delays.

3. Canadian Companies with US Marijuana-Related Assets

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

Such disclosure includes, but is not limited to: (i) a description of the nature of a reporting issuer's involvement in the US cannabis industry; (ii) disclosure that cannabis is illegal under US federal law and that enforcement of relevant laws is a significant risk; (iii) related risks including, among others, the risk that third-party service providers could

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suspend or withdraw services and the risk that regulatory bodies could impose certain restrictions on the issuer's ability to operate in the US; and (iv) a discussion of the reporting issuer's ability to access public and private capital, including which financing options are and are not available to support continuing operations. Additional disclosures are required to the extent a reporting issuer is deemed to be directly or indirectly engaged in the US cannabis industry, or deemed to have "ancillary industry involvement", all as further described in the Staff Notice. Public reaction to the Staff Notice was generally positive and industry participants welcomed the opportunity to review and provide enhanced disclosure.

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

I. All Issuers with US Marijuana-Related Activities

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

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

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

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

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

B. Cannabis Illegality

In the US, cannabis is largely regulated at the state level. To the Company's knowledge, there are to date a total of 38 states, plus the District of Columbia, Puerto Rico, U.S. Virgin Islands, and Guam, which allow their residents to use medical cannabis and a total of 21 states and 3 territories that permit adult-use of cannabis. Notwithstanding the permissive regulatory environment of medical cannabis at the state level, the Federal Controlled Substances Act ("FCSA") makes it illegal under federal law to manufacture, distribute, sell, cultivate, or dispense cannabis. 21 U.S.C § 801, et seq. Cannabis is categorized as a Schedule I controlled substance under the FCSA and as such, violates federal law in the US. Companies that engage in any form of commerce in the cannabis industry and individuals investing in a cannabis business may be subject to federal criminal prosecution along with civil fines and penalties. Federal enforcement could lead to dissolution, asset forfeiture and total loss of investment. Thus, enforcement of relevant laws is a significant risk.

C. Guidance from Federal Authorities

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

As a result of the conflicting views between state legislatures and the US federal government regarding cannabis, investments in cannabis businesses in the US are subject to inconsistent legislation and regulation. The response to this inconsistency was addressed in August 2013, when then Deputy Attorney General, James Cole, authored a memorandum ("Cole Memorandum") addressed to all US district attorneys acknowledging that, notwithstanding the

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designation of cannabis as a controlled substance at the federal level in the US, several US states had enacted laws relating to cannabis for medical purposes, and that federal enforcement of the applicable federal laws against cannabis-related conduct should be focused on eight priorities, which were to prevent:

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

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

The DOJ has issued official guidance regarding cannabis enforcement in 2009, 2011, 2013, 2014 and 2018 in response to state laws that legalize medical and adult-use cannabis. In each instance, the DOJ has stated that it is committed to the enforcement of federal laws and regulations related to cannabis. However, the DOJ has also recognized that its investigative and prosecutorial resources are limited. As of January 4, 2018, the DOJ has rescinded all federal enforcement guidance specific to cannabis and has instead directed that federal prosecutors should follow the "Principles of Federal Prosecution" originally set forth in 1980 and subsequently refined over time in chapter 9-27.000 of the US Attorney's Manual creating broader discretion for federal prosecutors to potentially prosecute state-legal medical and adult-use cannabis businesses even if they are not engaged in cannabis-related conduct enumerated by the Cole Memorandum.

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

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

Due to the ambiguity of the Sessions Memorandum in relation to medical cannabis, there can be no assurance that the federal government will not seek to prosecute cases involving cannabis businesses that are otherwise compliant with state law. Such potential proceedings could involve significant restrictions being imposed upon the Company or third parties, and also divert the attention of key executives. Such proceedings could have a material adverse effect on the

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Company's business, revenues, operating results, and financial condition as well as the Company's reputation, even if such proceedings were concluded successfully in favor of the Company.

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

While there are no explicit federal protections for adult-use commercial cannabis activity, on April 11, 2018, former President Trump made a verbal commitment to former Colorado US Senator, Cory Gardner, to not interfere with the Colorado cannabis industry. Further, Senator Gardner stated, "President Trump has assured me that he will support a federalism-based legislative solution to fix this states' rights issue once and for all." At this time, such bipartisan legislation has not yet been finalized, but Senate Garner went on to say, "my colleagues and I are continuing to work diligently on a bipartisan legislative solution that can pass Congress and head to the President's desk to deliver on his campaign position." While no bipartisan legislation was passed while President Trump was in office, the Company remains cautiously optimistic that it represents a clear and positive sign that the industry is shifting towards a climate where cannabis users and business can participate in the industry without fear of interference from the federal government.

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

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

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

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

On September 25, 2019, the House voted in favor of the Secure and Fair Enforcement (SAFE) Act ("SAFE Banking Act"). The historic vote was the first time that a standalone cannabis bill has come before the House. The vote needed

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a two-thirds majority to pass and was supported by 321 votes in favor to 103 against. The SAFE Act did not make it through the Senate.

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

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

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

On November 4, 2020, the House passed the MORE Act, the first time that either Congressional house voted to de-schedule cannabis from the FCSA and thus decriminalize manufacturing, distribution, and possession. However, as of December 31, 2022, the MORE Act has not been passed.

On January 20, 2021, Joseph R. Biden was sworn in as the 46th President of the U.S, having announced a goal during his campaign to decriminalize cannabis possession federally; Democrats maintained their House majority and achieved control of the Senate.

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

On April 1, 2022, the House passed the MORE Act for a second time on April 1, 2022. Legislation was supported by 220 votes in favor and 204 against. It was received in the Senate and referred to the Committee on Finance in April 2022, but since then has stalled.

On April 4, 2022, the House also passed The Medical Marijuana Research (MMR) Act, a bipartisan cannabis research bill that establishes a new, separate registration process to facilitate medical cannabis research. Specifically, it directs the Drug Enforcement Administration to register practitioners to conduct medical cannabis research, and manufacturers and distributors to supply cannabis for such research. The MMR Act was supported by 343 votes in favor and 75 against. It too was received in the Senate but since then has not had any actions taken on it. However, on December 2, 2022, the Medical Marijuana and Cannabidiol Research Expansion Act was signed into law, which provides for broader opportunities for the study of cannabis.

While current US Attorney General Merrick Garland had previously commented that he would deprioritize enforcement of low-level cannabis crimes such as possession, and that federal reforms are closely tied to the larger issue of social justice for minorities, Attorney General Garland had not since offered further clarity on how he will enforce federal law or how to deal with states that have legalized medical or recreational cannabis. While bipartisan

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support has been gaining traction on decriminalization and reform for a few years now, there is currently no imminent timeline on any potential legislation. There is no guarantee that the Biden Presidential administration will not change its stated policy regarding the low-priority enforcement of US federal laws that conflict with state laws or that the Rohrabacher-Blumenauer Amendment will continue to be included in future federal budget bills or appropriations legislation.

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

D. US Enforcement Proceedings

The US Congress has passed appropriations bills (at various times, the "Rohrabacher-Farr Amendment," the "Leahy Amendment" and the "Joyce Amendment," hereinafter the "Budget Rider Protections") each of the last several years to prevent the federal executive branch (and specifically the DOJ) from using congressionally appropriated funds to enforce the FCSA against regulated medical cannabis businesses operating in compliance with state and local laws, which effectively allows states to implement their own laws that authorize the use, distribution, possession, or cultivation of medical cannabis. The Budget Rider Protections were first introduced in 2014 and has been reaffirmed annually since then as an amendment to omnibus appropriations bills, which by their nature expire at the end of a fiscal year or other defined term. The current Budget Rider Protections will remain in effect, through the signing of the Consolidated Appropriations Acts of 2023, through September 30, 2023. At such time, it may or may not be included in the omnibus appropriations package or a continuing budget resolution, and its inclusion or non-inclusion, as applicable, is subject to political changes. It should be noted that this amendment does not apply to adult-use cannabis.

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

E. Related Risks

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

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

1. Change in California Cannabis Law – Regular changes in California Cannabis Law that may negatively impact the sale and production of the Tinley-branded products.
2. Banking – Due to federal laws against cannabis, most banks are unwilling to take deposits, issue credit cards, open bank accounts, or assist with payroll services for cannabis businesses. While efforts are underway to address the banking issue, cannabis businesses deal primarily with cash. This presents numerous risks related

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to security, managing cash flow and the inability to invest funds. The California Board of Equalization allows for cash payments of tax bills at county branches located throughout the state. Nevertheless, cash-related issues continue to present risks for investors. The Company presently maintains accounts at multiple major banks for redundancy.

3. Taxes – Under Internal Revenue Code Section 280E, cannabis businesses are prohibited from deducting their ordinary and necessary business expenses, except for the “costs of goods sold” by cultivators. There is risk in that Company’s operations may be required to pay tax on both proceeds received in connection with third-party manufacturing services and proceeds from the sale of the products to be paid out to clients as royalties, without the benefit of being able to deduct the payout of such royalties. This results in cannabis enterprises facing much higher federal tax rates than similar companies in other industries. While opinions differ, experts estimate from 40% to 70% as the effective federal tax rate imposed by Section 280E.
4. Food and Drug Administration – The FDA does not permit or allow any statement that cannabis or cannabinoid, including CBD, is intended to treat or cure any disease. Research and scientific studies are underway throughout the US; however, no product may make statements of diagnosis, treatment, or cure for any disease without FDA approval. Further, the FDA has declared that consumable CBD products, whether cannabis or hemp-derived, are untested “new drugs” and, thus are illegal for consumption until FDA approval. The CDPH and its successor regulator, the Department of Cannabis Control (“DCC”) have followed the FDA’s lead, stating that such consumable CBD products will not be legal in California until the FDA determines that CBD is safe for human or animal consumption or the California legislature determines otherwise.
5. Product Liability Claims – Insurance law and available products for cannabis operations, and product liability of cannabis, is a major concern for the industry. Investors should be aware that insurance policies may be limited, or claims may be challenged by insurance carriers.
6. Background Checks – California and some local jurisdictions require background checks for management and employees as well as applicants for licences and permits. Although some cannabis-related convictions are not prohibited for obtaining licensing, convictions for other offenses may cause a delay or make a Company ineligible for licensing.
7. Licence Issuance and Renewals – Lakewood, a wholly owned subsidiary of the Company, has acquired licences to conduct commercial cannabis manufacturing and distribution. State cannabis licences must be renewed annually, and there is no guarantee that such licences will be renewed each year.

F. Ability to Access Public and Private Capital

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

G. Operating Exposure

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

H. Legal Advice, Compliance, and Potential Exposure

The Company is monitoring compliance with California Cannabis Laws on an ongoing basis. The Company has engaged California-based cannabis regulatory compliance counsel, who have substantial experience advising cannabis companies on how to comply with California Cannabis Laws and other California laws. The Company’s counsel has been tasked with monitoring California law on an ongoing basis and ensuring that the Company’s operations comply with all California Cannabis Laws. The Company has regularly scheduled calls with compliance counsel to discuss compliance matters. Nevertheless, there is no assurance that the Company or Lakewood will be able to maintain or remain in compliance with California or other state laws. Moreover, even if Lakewood complies with each and every law and regulation, they may still be subject to federal criminal prosecution along with civil fines and penalties. Federal enforcement could lead to dissolution, asset forfeiture and total loss of investment.

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II. Involvement with Cultivation and Distribution

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

Until July 2020, the Company's involvement in the California cannabis industry was limited to entering into an IP licensing arrangement with the Prior Manufacturer for the production of Tinley-branded products. The Prior Manufacturer typically used cannabis purchased from third-party licensees in extracted forms, rather than cannabis cultivated under its own licenses, to manufacture the Company's products. The Prior Manufacturer also contracted directly with licensed cannabis distributors for distribution of the Company's products. The Prior Manufacturer also has a distribution licence and distributed the Company's products. Cannabis manufacturing activity commenced in the Long Beach Facility upon this facility receiving a cannabis manufacturing licence from the State of California, and the products continue to be distributed by third-party distributors. Through Lakewood (its wholly owned subsidiary), the Company no longer has a need to license its intellectual property, but rather Lakewood directly manufactures the Tinley-branded products at the Long Beach Facility. As such, the Company, through its wholly owned subsidiary Lakewood, is now directly involved in the manufacture and distribution of cannabis and cannabis products.

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

N/A.

US Cannabis Issuers with Material Ancillary Involvement

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

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

III. State-Level Overview

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

California

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

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

On November 8, 2016, California voted to approve the "Adult Use of Cannabis Act" ("AUMA") to tax and regulate for all adults 21 years of age and older.

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

On July 13, 2021, California Governor Gavin Newsom signed into law Assembly Bill 141 establishing the DCC. This action consolidated the three Licensing Agencies into a single department. The creation of a standalone cannabis department, is part of a larger effort to improve access to licensure, simplify regulatory oversight, and support California businesses. On September 29, 2021, the DCC released final DCC Regulations, which create consistent standards for cannabis licensees across all licence types, by aligning application requirements, unifying terminology, and clarifying ownership and financial interest requirements. The regulations also establish rules for trade samples between businesses. On March 4, 2022, the DCC released further proposed, consolidated regulations, which were eventually approved and became effective on November 7, 2022, which further streamlined and simplified cannabis regulations, eased burdens for licensees, and enhanced consumer and youth protections. This version is now the governing set of regulations for the California cannabis industry.

To operate legally under state law, cannabis operators must obtain a state licence and local approval. Local authorization is a prerequisite to operating, and local governments are permitted to prohibit or otherwise regulate the types and number of cannabis businesses allowed in their locality. The state licence approval process is not competitive and there is no limit on the number of aggregate state licenses issued. Although vertical integration across multiple licence types is typically allowed under MAUCRSA, testing laboratory licensees may not hold any other licenses aside from a testing laboratory license. There are currently no residency requirements for ownership under MAUCRSA (however, local jurisdictions often have a residency requirement; Long Beach does not).

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

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

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

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

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In 2019, Governor Newsom also signed a bill, Assembly Bill 37, that allows cannabis business owners to deduct business expenses at the state level, something that remains illegal federally.

In June and September 2022, California Governor Gavin Newsom signed several cannabis-related bills that, among other things, eliminated the cannabis cultivation tax, allowed for beverages to be packaged in clear or color containers, reduced friction in dismissing or reducing cannabis convictions, additional vaporizer packaging restrictions, and prohibits local jurisdictions from prohibiting the delivery of medical cannabis, among several other bills of lesser import to the Company’s operations. The key bill was the budget trailer bill AB 195 which eliminated the cannabis cultivation tax.

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

The Company and its subsidiary Lakewood Libations Inc, represent that its state-licensed manufacturing and distribution businesses are and have been being conducted in compliance with the regulatory framework enacted by the state of California. The state of California has implemented a robust regulatory system designed to ensure, monitor, and enforce compliance with all aspects of a cannabis operator’s licensed operations. Compliance with local law is a prerequisite to maintaining and renewing state licensure and prerequisite to operating. The Company has implemented robust systems to ensure, monitor and enforce compliance of its operations, including but not limited to, product storage and handling, manufacturing, packaging and labeling, waste handling and disposal, recall events, limited access rules, track and trace, security of the facility, inventory management, and such other aspects of operating a commercial cannabis business in the state of California.

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

Statement of Financial Position Items	Percentage (%) which related to holdings with US marijuana-related activities
Cash	95%
Accounts receivable	17%
Inventories	42%
Prepaid expenses	23%
Capital assets	100%
Right-of-use assets	100%
Long-term security deposits	100%

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

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4. Overall Performance

Selected Annual Information

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

	2022	2021	2020
		\$	\$
Sales	1,484,428	803,781	304,167
Operating expenses	(7,354,085)	(8,635,982)	(7,574,585)
Net loss	(6,171,224)	(8,549,883)	(7,689,970)
Loss per share – basic and diluted	(0.041)	(0.063)	(0.069)
Total assets	7,086,978	8,518,392	11,434,683
Total non-current liabilities	2,602,919	357,149	1,149,876
Total liabilities	4,868,408	1,973,577	2,826,247
Total shareholders' equity	2,218,570	6,544,815	8,608,436

Selected Quarterly Financial Results

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

	Q4 2022	Q3 2022	Q2 2022	Q1 2022
	\$	\$	\$	\$
Sales	660,312	418,987	233,954	171,175
Operating expenses	(1,393,949)	(2,314,004)	(1,842,123)	(1,804,009)
Net loss	(580,851)	(2,085,320)	(1,808,542)	(1,696,511)
Loss per share – basic and diluted	(0.004)	(0.012)	(0.011)	(0.012)
Working capital (deficiency)	(1,288,583)	(1,097,077)	(1,169,743)	(954,499)

	Q4 2021	Q3 2021	Q2 2021	Q1 2021
	\$	\$	\$	\$
Sales	106,292	198,165	360,918	138,406
Operating expenses	(2,002,866)	(2,148,599)	(1,905,660)	(2,578,857)
Net loss	(2,046,662)	(2,120,365)	(1,798,002)	(2,584,854)
Loss per share – basic and diluted	(0.015)	(0.016)	(0.015)	(0.023)
Working capital	(223,801)	(162,438)	1,774,915	934,166

Three Months ended December 31, 2022

Results of operations

During the three months ended December 31, 2022 ("Q4 2022"), the Company generated sales of \$660,312, as compared to sales of \$106,292 for the three months ended December 31, 2021 ("Q4 2021"). This increase is due to an increase in sales of the Company's non-cannabis infused beverages, and increased contract manufacturing services.

During Q4 2022, the Company had total operating expenses of \$1,393,949 as compared to \$2,002,866 in Q4 2021. The comparative decrease in the overall operating expenses is due to a decrease in share-based payments, general administration and a foreign currency translation gain. These decreases were partially offset by an increase in sales and marketing, depreciation, and product development costs.

During Q4 2022, the Company incurred total G&A expenses of \$708,785 (Q4 2021 – \$1,308,911), which was primarily comprised of:

- Professional fees of \$60,118 (Q4 2021 – \$451,807).
- Payroll and salaries of \$438,753 (Q4 2021 – \$434,946).
- Corporate costs and administration of \$276,987 (Q4 2021 – \$289,476).

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- Consulting and management fees of \$94,069 (Q4 2021 – \$50,010).
- Interest on lease obligations of \$13,444 (Q4 2021 – \$34,097).
- Travel and promotional expenses of \$21,265 (Q4 2021 – \$24,716).
- Occupancy costs of \$38,300 (Q4 2021 – \$23,860).

Net loss for the three months ended December 31, 2022 was \$580,851 as compared to a net loss of \$2,046,662 for Q4 2021. The decrease in net loss for three months ended December 31, 2022 is primarily due to increased revenue and the gain on the change on fair value of the embedded derivative.

Cash flows

Net cash flows used in operating activities for Q4 2022 were \$1,191,616, as compared to \$2,074,789 in Q4 2021. The decrease in net cash flows used in operations is primarily due to changes in non-cash working capital items and an increase in sales in Q4 2022.

Net cash flows provided from financing activities in Q4 2022 were \$672,283 (Q4 2021 – \$1,585,421), which consisted of funds received from the convertible grid note offset by lease payments made on the Long Beach facility.

Net cash used in investing activities in Q4 2022 was \$25,788 (Q4 2021 – \$84,970), primarily from purchases of capital assets.

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Results of operations

For the year ended December 31, 2022, the Company generated sales of \$1,484,428, as compared to sales of \$803,781 for the year ended December 31, 2021. This increase is due to an increase in sales of the Company's non-cannabis infused beverages, and increased contract manufacturing services.

For the year ended December 31, 2022, the Company incurred total operating expenses of \$7,354,085, as compared to \$8,635,982 for the year ended December 31, 2021. The decrease in operating expenses is primarily due to the decrease in share-based payments of \$549,933 in the current period (2021 – \$1,787,649).

For the year ended December 31, 2022, the Company incurred total G&A expenses of \$3,966,949 (2021 – \$4,394,378), comprised primarily of:

- Payroll and salaries of \$1,586,980 (2021 – \$1,422,880).
- Corporate costs and administration of \$1,139,463 (2021 – \$1,144,204).
- Professional fees of \$682,327 (2021 – \$1,076,723).
- Consulting and management fees of \$284,708 (2021 – \$469,758).
- Interest on lease obligations of \$83,951 (2021 – \$163,291).
- Occupancy costs of \$119,306 (2021 – \$79,368).
- Travel and promotional expenses of \$70,214 (2021 – \$38,154).

Net loss for the year ended December 31, 2022 was \$6,171,224 (\$0.041 per share on a basic and diluted basis), as compared to a net loss of \$8,549,883 (\$0.062 per share on a basic and diluted basis) for the comparative period in 2021.

Cash flows

Net cash used in operating activities for the year ended December 31, 2022 was \$3,659,679 (2021 – \$5,259,476). The decrease in cash used in operating activities compared to 2021 is due to changes in non-cash working capital and increased sales.

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Net cash provided by financing activities for the year ended December 31, 2022 was \$4,040,753 (2021 – \$3,976,958). This increase is from proceeds received from the Gillis Note, the BLH Note and the private placements that took place in January and February, reduced by issuance costs and lease payments made on the Long Beach Facility.

Net cash used in investing activities for the year ended December 31, 2022 was \$259,300 (2021 – \$896,957), primarily due to purchases of property and equipment, and construction in progress.

Liquidity and Capital Resources

As at December 31, 2022, the Company had a working capital deficiency of \$1,288,583, as compared to working capital deficiency of \$223,801 as at December 31, 2021. The increase in working capital deficiency of \$1,064,782 is due to the Gillis Note of \$696,765, a decrease in inventory and prepaid expenses in the amount of \$528,428 and an increase in accounts payable and accrued liabilities and deferred revenue in the amount of \$339,653 partially offset by an increase in cash and accounts receivable in the amount of \$112,707 and a decrease in the current portion of lease liabilities in amount of \$387,357.

As at December 31, 2022, the Company had total accessible cash of \$183,623 (December 31, 2021 – \$113,840) available for working capital and other operational purposes.

The Company continually monitors its capital resources to assess the liquidity necessary to fund operations and future strategy. The Company incurred a net loss of \$6,171,224 (2021 – \$8,549,883) and negative cash flows from operations of \$3,659,679 (2021 – \$5,259,476) for the year ended December 31, 2022 and, as of that date, the Company had a deficit in the amount of \$60,381,262 (2021 – \$54,210,038).

During the year ended December 31, 2022, the Company had a net increase in cash of \$121,775 (2021 – decrease of \$2,179,475). Cash used in operating activities was \$3,659,679 (2021 – \$5,259,476). Cash used in investing activities was \$259,300 (2021 – \$896,957). Cash provided by financing activities was \$4,040,753 (2021 – \$3,976,958).

The Company anticipates it will require additional funding to finance future growth and expansion of production capacity, and to expand marketing awareness for the Company's brands and products. The Company has historically financed its working capital requirements primarily through equity and debt financing. The Company's ability to continue as a going concern is dependent upon being able to sell cannabis and non-cannabis products and brands and thus, its ability to commence profitable operations, generate revenues there from and raise additional financing as needed to meet its obligations. While the Company has been successful in raising financing in the past, there is no assurance that it will be able to successfully obtain additional financing as needed. These factors cast significant doubt on the ability to continue as a going concern.

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

5. Key Management Compensation and Related Party Transactions

Key management compensation

Key management personnel are persons responsible for planning, directing and controlling activities of an entity, and include executives and non-executive directors, officers and any employees. Compensation provided to key management personnel for the year 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

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- (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.

6. Financial Risk Management

Fair value

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

Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. Cash is held with 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 markets is hindered, whether as a result of a downturn in stock market conditions generally or related to matters specific to the Company. The Company generates cash flow 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 and December 31, 2021, 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

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or decreased by USD \$36,959 (December 31, 2021 – USD \$10,169), respectively, as a result of this exposure.

7. Capital Management

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

The Board 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.

8. Summary of Significant Accounting Policies

Cash

Cash consists of bank balances held in Canadian & US financial institutions.

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.

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.

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Property and Equipment

Property and equipment are carried at cost less accumulated amortization 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 amortized separately.

Amortization 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 amortization 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.

Amortization 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

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.

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.

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,

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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.

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 ("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.

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.

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.

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.

Financial Instruments

Financial assets and financial liabilities, including derivatives, are recognized on the statements of financial position when the Company becomes a party to the financial instrument or derivative contract.

Classification

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

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

Amortized cost

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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 solely principal and interest ("SPPI") criterion. Financial assets classified in this category are measured at amortized cost using the effective interest method.

Expected credit loss impairment model

IFRS 9 'Financial Instruments' 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.

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).

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.

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

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

	Classification
Cash	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

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.
- 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).

Foreign Currency Transactions

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 (“functional currency”). The functional currency of Tinley is the Canadian Dollar, which is the presentation currency of the consolidated financial statements. The functional currency of all subsidiaries 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

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the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

Translation of foreign operations

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

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

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

Leased assets

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

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

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

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

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

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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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Disclosure of Outstanding Share Data as at May 10, 2023

Security	Authorized	Outstanding
Voting or equity securities issued and outstanding	Unlimited Common Shares	150,859,565 Common Shares
Securities convertible or exercisable into voting or equity shares		<p>Stock Options to acquire up to 17,890,000 Common Shares of the Company, and</p> <p>Warrants to acquire up to 28,234,580 Common Shares of the Company.</p> <p>Broker compensation options to acquire up to 1,369,760 Common Shares and broker warrants to acquire 1,354,885 Common Shares of the Company.</p> <p>An aggregate of USD \$3,459,742 and USD \$679,480 were outstanding under the BLH Note and Gillis Note, respectively (see “2. Business Overview – Financing Activities” for convertible features).</p>

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.

Fair value of financial assets and financial liabilities

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

Expected credit losses on financial assets

Determining an allowance for ECL for all debt financial assets not held at FVTPL 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

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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.

Impairment

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

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

Income taxes

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

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

Share-based payment transactions and warrants

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

Off-Balance Sheet Arrangements

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

Contingencies

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

The Company's operations are subject to a variety of local and state regulations. 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.

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Subsequent Events

On January 30, 2023, the Company granted 1,800,000 options to certain 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.

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

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.

9. Risk Factors

The Company faces exposure to risk factors and uncertainties relating to its business that could significantly negatively impact the Company's operations and financial results. Additional risks and uncertainties not presently known to the Company or currently deemed immaterial by the Company may also impair the Company's operations. If any such risks actually occur, shareholders of the Company could lose all or part of their investment and the business, financial condition, liquidity, results of operations and prospects of the Company could also be materially adversely affected and the ability of the Company to implement its growth plans could be adversely affected. The following is a summary of significant business risk factors related to the business of the Company:

US federal laws pertaining to cannabis

Cannabis is illegal under US federal laws and enforcement of relevant laws is a significant risk. The business operations of the Company are dependent on state laws pertaining to the marijuana industry. Continued development of the marijuana industry is dependent upon continued legislative authorization of marijuana at the state level. Any number of factors could slow or halt progress in this area. Further, progress, while encouraging, is not assured. While there may be ample public support for legislative action, numerous factors impact the legislative process. Any one of these factors could slow or halt legal manufacturing and sale of marijuana, which would negatively impact the business of the Company.

The concepts of "medical marijuana" and "retail marijuana" do not exist under US federal law. The FCSA classifies "marijuana" as a Schedule I drug. Under US federal law, a Schedule I drug or substance has a high potential for abuse, no accepted medical use in the US, and a lack of safety for the use of the drug under medical supervision. As such, marijuana-related practices, or activities, including without limitation, the manufacture, importation, possession, use or distribution of marijuana are illegal under US federal law. Strict compliance with state laws with respect to marijuana will neither absolve the Company of liability under US federal law, nor will it provide a defense to any federal proceeding which may be brought against the Company.

Violations of any US federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from civil proceedings conducted by either the US federal government or private citizens, or criminal charges, including, but not limited to, disgorgement of profits, cessation of business activities or divestiture. This could have a material adverse effect, and as a result the Company, including their reputation and ability to conduct business, their holdings (directly or indirectly) of medical cannabis licenses in the US, and the listing of their securities on various stock exchanges, their financial position, operating results, profitability or liquidity or the market price of their publicly-traded shares. In addition, it is difficult for the Company to estimate the time or resources that would be needed for the investigation of any such matters or its final resolution because, in part, the time and resources that may be needed are dependent on the nature and extent of any information requested by the applicable authorities involved, and such time or resources could be substantial.

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As of the date of this MD&A, 38 states, plus the District of Columbia, and several Territories allow their residents to use medical marijuana. Voters in 21 states have approved and have implemented or are implementing regulations to legalize cannabis for adult use. The state laws are in conflict with the FCSA, which makes marijuana use and possession illegal on a national level. While the general trend through the Obama, Trump, and current Biden administration is that it is not an efficient use of resources to direct federal law enforcement agencies to prosecute those lawfully abiding by state-designated laws allowing the use and distribution of medical marijuana, there is no guarantee that current or future administrations will not change the government's policy regarding the low-priority enforcement of federal cannabis laws and decide to enforce the federal cannabis laws to the fullest extent possible. Any such change in the federal government's enforcement of current federal cannabis laws could cause significant financial damage to the Company and its stockholders, including the potential exposure to criminal liability.

The constant evolution of laws and regulations affecting the marijuana industry could detrimentally affect the Company's operations. Local, state, and federal medical marijuana laws and regulations are broad in scope and subject to changing interpretations, amendments, and modifications. These changes may require the Company to incur substantial costs associated with legal and compliance fees and ultimately require the Company to alter its business plan. Furthermore, violations of these laws, or alleged violations, could disrupt the business of the Company and result in a material adverse effect on operations. In addition, the Company cannot predict the nature of any future laws, regulations, interpretations, or applications, and it is possible that regulations may be enacted in the future that will be directly applicable to the business of the Company.

Limited operating history in its new area of business

The Company has a limited operating history in its new area of business, is in the early-stage development and must be considered as a start-up company. As such, the Company is subject to many risks common to such enterprises, including under-capitalization, cash shortages, limitations with respect to personnel, financial and other resources, and lack of revenue. There is no assurance that the Company will be successful in achieving a return on shareholders' investment and the likelihood of success must be considered in light of its early stage of operations. The Company also has no history of earnings.

Because the Company has a limited operating history in emerging area of business, investors should consider and evaluate its operating prospects in light of the risks and uncertainties frequently encountered by early-stage companies in rapidly evolving markets. These risks may include:

- risks that it may not have sufficient capital to achieve its growth strategy.
- risks that it may not develop its product and service offerings in a manner that enables it to be profitable and meet its customers' requirements.
- risks that its growth strategy may not be successful.
- risks that fluctuations in its operating results will be significant relative to its revenues; and
- risks relating to an evolving regulatory regime.

The Company's future growth will depend substantially on its ability to address these and the other risks described in this section. If it does not successfully address these risks, its business may be significantly harmed.

Additional financing

The Company believes that its raised capital, debt financing and access to capital markets will be sufficient to meet its presently anticipated working capital and capital expenditure requirements for the near future. This belief is based on its operating plan which, in turn, is based on assumptions, which may prove to be incorrect. In addition, the Company may need to raise significant additional funds to support its growth, develop new or enhanced services and products, respond to competitive pressures, acquire or invest in complementary or competitive businesses or technologies, or take advantage of unanticipated opportunities. If its financial resources are insufficient, it will require additional financing to meet its plans for expansion. The Company cannot be sure that this additional financing, if needed, will be available on acceptable terms or at all. Furthermore, any debt financing, if available, may involve restrictive covenants, which may limit its operating flexibility with respect to business matters. If additional funds are raised through the issuance of equity securities, the percentage ownership of existing shareholders will be reduced, such shareholders may experience additional dilution in net book value, and such equity securities may have rights,

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preferences or privileges senior to those of its existing shareholders. If adequate funds are not available on acceptable terms or at all, the Company may be unable to develop or enhance its services and products, take advantage of future opportunities, repay debt obligations as they become due, or respond to competitive pressures, any of which could have a material adverse effect on its business, prospects, financial condition, and results of operations.

Volatile global financial and economic conditions

Current global financial and economic conditions remain extremely volatile. Access to public and private capital and financing continues to be negatively impacted by many factors as a result of the global financial crisis and global recession. Such factors may impact the Company's ability to obtain financing in the future on favorable terms or obtain any financing at all. Additionally, global economic conditions may cause a long-term decrease in asset values. If such global volatility, market turmoil and the global recession continue, the Company's operations and financial condition could be adversely impacted.

Reliance on third-party suppliers, manufacturers, distributors and contractors

Due to the uncertain regulatory landscape for regulating cannabis in Canada and the US, Tinley's third-party suppliers, manufacturers, distributors, and contractors may elect, at any time, to decline or withdraw services necessary for Tinley's operations. Loss of these suppliers, manufacturers, distributors, and contractors may have a material adverse effect on the Company's business and operational results. The Company is dependent on a number of key inputs and their related costs, including raw materials and supplies related to the Company's operations, as well as electricity, water and other utilities. Any significant interruption or negative change in the availability or economics of the supply chain for key inputs could materially impact the Company's financial condition and operating results. Any inability to secure required supplies and services or to do so on appropriate terms could have a materially adverse impact on the Company's business, financial condition and operating results.

Reliance on securing agreements with Licensed Producers

The regulatory framework in most States restricts the Company from obtaining a License to grow, store and sell marijuana products. As such, the Company relies on securing agreements with Licensed Producers in the targeted jurisdictions that have been able to obtain a License with the appropriate regulatory authorities. Failure of a Licensed Producer to comply with the requirements of their License or any failure to maintain their License would have a material adverse impact on the business, financial condition, and operating results of the Company. Should the regulatory authorities not grant a License or grant a License on different terms unfavorable to the Licensed Operators, and should the Company be unable to secure alternative Licensed Operators, the business, financial condition and results of the operation of the Company would be materially adversely affected.

If the US federal government changes its approach to the enforcement of laws relating to marijuana, the Company would need to seek to replace those tenants with non-marijuana tenants, who would likely pay lower rents. It is likely that the Company would realize an economic loss on its capital acquisitions and improvements made to its capital assets specific to the marijuana industry, and the Company would likely lose all or substantially all of its investments in the markets affected by such regulatory changes.

Regulation

The activities of the Company are subject to regulation by governmental authorities. Achievement of the Company's business objectives are contingent, in part, upon compliance with regulatory requirements enacted by these governmental authorities and obtaining all regulatory approvals, where necessary, for the sale of its products. The Company cannot predict the time required to secure all appropriate regulatory approvals for its products, or the extent of testing and documentation that may be required by governmental authorities. Any delays in obtaining, or failure to obtain regulatory approvals would significantly delay the development of markets and products and could have a material adverse effect on the business, results of operations and financial condition of the Company.

The Company's operations are subject to a variety of laws, regulations and guidelines relating to the manufacture, management, transportation, storage and disposal of marijuana but also including laws and regulations relating to health and safety, the conduct of operations and the protection of the environment. The Company cannot predict the

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nature of any future laws, regulations, interpretations, policies, or applications, nor can it determine what effect additional governmental regulations or administrative interpretations or procedures, when and if promulgated, could have on the Company’s operations. Changes to such laws, regulations, and guidelines due to matters beyond the control of the Company may cause adverse effects to the production of the Tinley branded products.

Local, state, and federal laws and regulations governing marijuana for medicinal and adult use purposes are broad in scope and are subject to evolving interpretations, which could require the Company to incur substantial costs associated with bringing the Company’s operations into compliance. In addition, violations of these laws, or allegations of such violations, could disrupt the Company’s operations and result in a material adverse effect on its financial performance. It is beyond the Company’s scope to predict the nature of any future change to the existing laws, regulations, policies, interpretations or applications, nor can the Company determine what effect such changes, when and if promulgated, could have on the Company’s business.

US Federal Laws

The business operations of the Company are dependent on State laws pertaining to the marijuana industry. Continued development of the marijuana industry is dependent upon continued legislative authorization of marijuana at the State level. Any number of factors could slow or halt progress in this area. Further, progress, while encouraging, is not assured. While there may be ample public support for legislative action, numerous factors impact the legislative process. Any one of these factors could slow or halt legal manufacturing and sale of marijuana, which would negatively impact the business of the Company.

The concepts of “medical marijuana” and “retail marijuana” do not exist under US federal law. The FCSA classifies “marijuana” as a Schedule I drug. Under US federal law, a Schedule I drug or substance has a high potential for abuse, no accepted medical use in the US, and a lack of safety for the use of the drug under medical supervision. As such, marijuana-related practices, or activities, including without limitation, the manufacture, importation, possession, use or distribution of marijuana are illegal under US federal law. Strict compliance with State laws with respect to marijuana will neither absolve the Company of liability under US federal law, nor will it provide a defense to any federal proceeding which may be brought against the Company.

Violations of any US federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from civil proceedings conducted by either the US federal government or private citizens, or criminal charges, including, but not limited to, disgorgement of profits, cessation of business activities or divestiture. This could have a material adverse effect, and as a result the Company, including their reputation and ability to conduct business, their holdings (directly or indirectly) of medical cannabis licenses in the US, and the listing of their securities on various stock exchanges, their financial position, operating results, profitability or liquidity or the market price of their publicly-traded shares. In addition, it is difficult for the Company to estimate the time or resources that would be needed for the investigation of any such matters or its final resolution because, in part, the time and resources that may be needed are dependent on the nature and extent of any information requested by the applicable authorities involved, and such time or resources could be substantial.

At present, 38 states, the District of Columbia, and several Territories allow their residents to use medical marijuana as of the date of this MD&A. Voters in the 21 states have approved and have implemented or are implementing regulations to legalize cannabis for adult use. The state laws are in conflict with the FCSA, which makes cannabis use and possession illegal at the federal level. While the general trend through the Obama, Trump, and current Biden administration is that it is not an efficient use of resources to direct federal law enforcement agencies to prosecute those lawfully abiding by state-designated laws allowing the use and distribution of medical marijuana, there is no guarantee that current or future administrations will not change the government’s policy regarding the low-priority enforcement of federal cannabis laws and decide to enforce the federal cannabis laws to the fullest extent possible. Any such change in the U.S. federal government’s enforcement of current federal laws could cause significant financial and operational damage to the Company and its stockholders, including the potential exposure to criminal liability.

The constant evolution of laws and regulations affecting the marijuana industry could detrimentally affect the Company’s operations. Local, state, and federal medical marijuana laws and regulations are broad in scope and subject to changing interpretations. These changes may require the Company to incur substantial costs associated with legal

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and compliance fees and ultimately require the Company to alter its business plan. Furthermore, violations of these laws, or alleged violations, could disrupt the business of the Company and result in a material adverse effect on operations. In addition, the Company cannot predict the nature of any future laws, regulations, interpretations, or applications, and it is possible that regulations may be enacted in the future that will be directly applicable to the business of the Company.

Risk of civil asset forfeiture

Because the cannabis industry remains illegal under US federal law, any property owned by participants in the cannabis industry which are either used in the course of conducting such business, or were purchased using the proceeds of such business, could be subject to seizure by law enforcement and subsequent civil asset forfeiture. Even if the owner of the property were never charged with a crime, the property in question could still be seized and subject to an administrative proceeding by which, with minimal due process, it could be subject to forfeiture.

Anti-money laundering laws and regulations

The Company is subject to a variety of laws and regulations domestically and in the US that involve money laundering, financial recordkeeping and proceeds of crime, including the Bank Secrecy Act, as amended by Title III of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (USA PATRIOT Act), Sections 1956 and 1957 of U.S.C. Title 18 (the Money Laundering Control Act), the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* (Canada), as amended and the rules and regulations thereunder, the *Criminal Code* (Canada) and any related or similar rules, regulations or guidelines, issued, administered or enforced by governmental authorities in the US and Canada.

In the event that any of the Company's operations, or any proceeds thereof, any dividends or distributions therefrom, or any profits or revenues accruing from such operations in the US were found to be in violation of money laundering legislation or otherwise, such transactions may be viewed as proceeds of crime under one or more of the statutes noted above or any other applicable legislation. This could restrict or otherwise jeopardize the ability of the Company to declare or pay dividends, effect other distributions or subsequently repatriate such funds back to Canada. Furthermore, while there are no current intentions to declare or pay dividends on the Common Shares in the foreseeable future, in the event that a determination was made that the Company's proceeds from operations (or any future operations or investments in the US) could reasonably be shown to constitute proceeds of crime, the Company may decide or be required to suspend declaring or paying dividends without advance notice and for an indefinite period of time.

Local regulation could change and negatively impact on the Company's operations

Most US states that permit cannabis for adult-use or medical use provide local municipalities with the authority to prevent the establishment of medical or adult-use cannabis businesses in their jurisdictions. If local municipalities where the Company or its Licensed Operators have established facilities decide to prohibit cannabis businesses from operating, the Company or its Licensed Operators could be forced to relocate operations at great cost to the Company, and the Company or its Licensed Operators may have to cease operations in such State entirely if alternative facilities cannot be secured.

There are risks associated with removal of US Federal Budget Rider Protections

The US Congress has passed appropriations bills each of the last three years that included the Rohrabacher Amendment Title: H.R.2578 — Commerce, Justice, Science, and Related Agencies Appropriations Act, 2016 ("Rohrabacher-Blumenauer Amendment"), which by its terms does not appropriate any federal funds to the DOJ for the prosecution of medical cannabis offenses of individuals who are in compliance with state medical cannabis laws. Subsequent to the issuance of the Sessions Memorandum on January 4, 2018, the US Congress passed its omnibus appropriations bill, SJ 1662, which for the fourth consecutive year contained the Rohrabacher-Blumenauer Amendment language (referred to in 2018 as the "Rohrabacher-Leahy Amendment") and continued the protections for the medical cannabis marketplace and its lawful participants from interference by the DOJ up and through the 2018 appropriations deadline of December 31, 2018. These protections were subsequently extended through December 7, 2018 as part of a short-term continuation of appropriations. Following the much-publicized shutdown of

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the US Federal Government, the Consolidated Appropriations Act of 2019 was signed into law on February 15, 2019 with the Joyce Amendment intact (Section 538).

On June 20, 2019, the House voted 267 in favor of, and 165 against, approving a broader amendment that in addition to protecting state medical cannabis programs also protected recreational use. On September 26, 2019, the Senate Appropriations Committee declined to take up the broader amendment but did approve the Rohrabacher–Farr Amendment for the 2020 fiscal year spending bill. On September 27, 2019, the Rohrabacher–Farr Amendment was renewed as part of a stopgap spending bill, in effect through November 21, 2019.

On December 20, 2019, the amendment was renewed through the signing of the “Fiscal Year 2020 spending legislation”, effective through to September 30, 2020. President Trump added a signing statement regarding the amendment similar to the ones he added in May 2017 and February 2019. In July 2020, a House subcommittee introduced a base appropriations bill with the amendment included. On October 1, 2020, the amendment was renewed through the signing of a stopgap spending bill, effective through December 11, 2020. On December 29, 2022 the amendment was renewed as part of the Consolidated Appropriations Act of 2023, which is effective through September 30, 2023.

US courts have construed these appropriations bills to prevent the federal government from prosecuting individuals when those individuals comply with applicable state law. However, because this conduct continues to violate US federal law, US courts have observed that should Congress at any time choose to appropriate funds to fully prosecute the FCSA, any individual or business – even those that have fully complied with applicable State law – could be prosecuted for violations of US federal law. If Congress restores funding, the US federal government will have the authority to prosecute individuals for violations of the law before it lacked funding under the FCSA’s five-year statute of limitations.

Regulation that may hinder the Company’s ability to establish and maintain bank accounts

On September 25, 2019, the House of Representatives passed H.R. 1595 – SAFE Banking Act of 2019, the first time in history that either chamber has approved a standalone cannabis reform bill. This generally prohibits a federal banking regulator from penalizing a depository institution for providing banking services to a legitimate marijuana-related business. The bill stalled in the Senate. The SAFE Banking Act would pass the House again on May 15, 2020 and April 19, 2021, with it dying in the Senate both times; it was subsequently included in other Acts but was removed prior to passage or the underlying acts were not passed.

Notwithstanding that a majority of states have legalized medical marijuana, and the SAFE Banking Act passing the House numerous times, there has been no change in US federal banking laws related to the deposit and holding of funds derived from activities related to the marijuana industry. Given that US federal law provides that the production and possession of cannabis is illegal under the FCSA, there is a strong argument that banks cannot accept for deposit funds from businesses involved with the marijuana industry. To date, there are very few banks and credit unions in the US offer financial services to the cannabis industry. Consequently, businesses involved in the marijuana industry often have difficulty accessing the US banking system and traditional financing sources. The inability to open bank accounts with certain institutions may make it difficult to operate the businesses of the clients and leaves their cash holdings vulnerable.

The US federal prohibitions on the sale of marijuana may result in Licensed Operators being restricted from accessing the US banking system and they may be unable to deposit funds in federally insured and licensed banking institutions. While the Company does not anticipate dealing with banking restrictions directly relating to its business, banking restrictions could nevertheless be imposed due to the Company’s banking institutions not accepting payments from Licensed Operators. Licensed Operators at times do not have deposit services and are at risk that any bank accounts they have could be closed at any time. Such risks increase costs to the Company and Licensed Operators. Additionally, similar risks are associated with large amounts of cash at these businesses. These businesses require heavy security with respect to holding and transport of cash, whether or not they have bank accounts.

In the event that financial service providers do not accept accounts or transactions related to the marijuana industry, it is possible that Licensed Operators may seek alternative payment solutions, including but not limited to crypto currencies such as Bitcoin. There are risks inherent in crypto currencies, most notably its volatility and security issues.

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If the industry were to move towards alternative payment solutions and accept payments in crypto currency the Company would have to adopt policies and protocols to manage its volatility and exchange rate risk exposures. The Company's inability to manage such risks may adversely affect the Company's operations and financial performance.

Lack of access to US bankruptcy protections

Because the use of cannabis is illegal under federal law, many courts have denied cannabis businesses bankruptcy protections, thus making it very difficult for lenders to recoup their investments in the cannabis industry in the event of a bankruptcy. If the Company was to experience a bankruptcy, there is no guarantee that US federal bankruptcy protections would be available to the Company's US operations, which would have a material adverse effect on the Company, its lenders and other stakeholders.

Heightened scrutiny by Canadian regulatory authorities

The Company's existing operations in the US, and any future operations or investments, may become the subject of heightened scrutiny by regulators, stock exchanges and other authorities in Canada. As a result, the Company may be subject to significant direct and indirect interaction with public officials. There can be no assurance that this heightened scrutiny will not in turn lead to the imposition of certain restrictions on the Company's ability to operate or invest in the US or any other jurisdiction, in addition to those described herein.

It had been reported in Canada that the Canadian Depository for Securities Limited is considering a policy shift that would see its subsidiary, CDS Clearing and Depository Services Inc. ("CDS"), refuse to settle trades for cannabis issuers that have investments in the US. CDS is Canada's central securities depository, clearing and settling trades in the Canadian equity, fixed income, and money markets. The TMX Group, the owner and operator of CDS, subsequently issued a statement on August 17, 2017 reaffirming that there is no CDS ban on the clearing of securities of issuers with cannabis-related activities in the US, despite media reports to the contrary and that the TMX Group was working with regulators to arrive at a solution that will clarify this matter, which would be communicated at a later time.

On February 8, 2018, following discussions with the CSA and recognized Canadian securities exchanges, the TMX Group announced the signing of a Memorandum of Understanding ("MOU") with Aequitas NEO Exchange Inc., the CSE, the Toronto Stock Exchange, and the TSXV. The MOU outlines the parties' understanding of Canada's regulatory framework applicable to the rules, procedures, and regulatory oversight of the exchanges and CDS as it relates to issuers with cannabis-related activities in the US. The MOU confirms, with respect to the clearing of listed securities, that CDS relies on the exchanges to review the conduct of listed issuers. As a result, there is no CDS ban on the clearing of securities of issuers with cannabis-related activities in the US. However, there can be no guarantee that this approach to regulation will continue in the future. If such a ban were to be implemented at a time when the Company's shares are listed on a stock exchange, it would have a material adverse effect on the ability of shareholders to make and settle trades. In particular, the Company's shares would become highly illiquid until an alternative was implemented, investors would have no ability to effect a trade of the shares through the facilities of the applicable stock exchange.

Regulatory scrutiny of the Company's interests in the US

For the reasons set forth above, the Company's interests in the US cannabis market, and future licensing arrangements, may become the subject of heightened scrutiny by regulators, stock exchanges, clearing agencies and other authorities in Canada. As a result, the Company may be subject to significant direct and indirect interaction with public officials. There can be no assurance that this heightened scrutiny will not in turn lead to the imposition of certain restrictions on the Company's ability to carry on its business in the US.

US border crossing

Investors in the Company and the Company's directors, officers and employees may be subject to travel and entry bans into the US. Recent media articles have reported that certain Canadian citizens have been rejected for entry into the US due to their involvement in the cannabis sector.

The majority of persons travelling across the Canadian and US border do so without incident, whereas some persons

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are simply barred entry one time. The US Department of State and the Department of Homeland Security have indicated that the US has not changed its admission requirements in response to the pending legalization in Canada of adult-use cannabis, but anecdotal evidence indicates that the US may be increasing its scrutiny of travelers and their cannabis related involvement.

Admissibility to the US may be denied to any person working or “having involvement in” the cannabis industry, according to US Customs and Border Protection. Inadmissibility in the US implies a lifetime ban for entry as such designation is not lifted unless an individual applies for and obtains a waiver. If any of the Company’s directors, officers or other service providers from Canada are denied entry into the US, such action may have a material adverse effect on the Company’s operations and finances.

Travel restrictions associated with COVID-19

The transmission of COVID-19 and efforts to contain its spread resulted in international, national and local border closings, travel restrictions, significant disruptions to business operations, supply chains and customer activity and demand, service cancellations, reductions and other changes, and quarantines, as well as considerable general concern and uncertainty.

The overall severity and duration of COVID-19 related impacts on the Company will depend on future developments which cannot currently be predicted, including directives of government and public health authorities, the speed at which suppliers and logistics providers can return to full production, the status of labor availability, the ability to staff operations and facilities, and the impact of supplier prioritization of order backlogs. Even after the COVID-19 outbreak has subsided, the Company may continue to experience material adverse effects to its businesses as a result of the global economic impact of COVID-19, including any related economic recession or retraction, as well as lingering impacts on demand for, or oversupply of, our products, our suppliers, third-party service providers and/or customers.

Taxes

US federal prohibitions on the sale of cannabis may result in the Company not being able to deduct certain costs from its revenue for US federal taxation purposes if the Internal Revenue Service (“IRS”) determines that revenue sources of the Company are generated from activities which are not permitted under US federal law. Section 280E of the Internal Revenue Code of 1986 prohibits businesses from deducting certain expenses associated with trafficking-controlled substances (within the meaning of Schedule I and II of the FCMA). The IRS has invoked Section 280E in tax audits against various cannabis businesses in the US that are permitted under applicable state laws. Although the IRS issued a clarification allowing the deduction of certain expenses, the scope of such items is interpreted very narrowly, and the bulk of operating costs and general administrative costs are not permitted to be deducted. While there are currently several pending cases before various administrative and federal courts challenging these restrictions, there is no guarantee that these courts will issue an interpretation of Section 280E favorable to cannabis businesses.

Illegal drug dealers could pose threats

Currently, there are many drug dealers and cartels that cultivate, buy, sell, and trade cannabis in the US, Canada and worldwide. Many of these dealers and cartels are violent and dangerous, well financed and well organized. It is possible that these dealers and cartels could feel threatened by legalized cannabis businesses such as those with whom the Company does business and could take action against or threaten the Company, its principals, employees and/or agents and this could negatively impact the Company and its business.

Competition

The beverage industry is highly competitive. The Company will compete with numerous other businesses, many of which possess greater financial and marketing resources than the Company. The beverage business is often affected by changes in consumer tastes and discretionary spending patterns, national and regional economic conditions, demographic trends, consumer confidence in the economy, traffic patterns, local competitive factors, cost and availability of raw material and labor, and governmental regulations. Any change in these factors could materially and

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adversely affect the Company's operations. The Company's operations can also be substantially affected by adverse publicity resulting from quality, illness, injury, health concerns, public opinion, or operating issues. The Company will attempt to manage these factors, but the occurrence of any one or more of these factors could materially and adversely affect the Company's business, financial condition, and results of operations.

Reliance on third-party service providers

Third party service providers to the company may withdraw or suspend their service to the Company under threat of prosecution. Since under US federal law the possession, use, cultivation, and transfer of cannabis and any related drug paraphernalia is illegal, and any such acts are criminal acts under federal law, companies that provide goods and/or services to companies engaged in cannabis-related activities may, under threat of federal civil and/or criminal prosecution, suspend or withdraw their services. Any suspension of service and inability to procure goods or services from an alternative source, even on a temporary basis, that causes interruptions in the Company's operations could have a material and adverse effect on the Company's business.

Reliance on management

The success of the Company is dependent on the performance of its senior management. The loss of services of these persons would have a material adverse effect on the Company's business and prospects in the short-term. There is no assurance the Company can maintain the services of its officers or other qualified personnel required to operate its business. Failure to do so could have a material adverse effect on the Company and its prospects.

Factors which may prevent realization of growth targets

The Company is currently in the early development stage. There is a risk that the additional resources will be needed, and milestones will not be achieved on time, on budget, or at all, as they can be adversely affected by a variety of factors, including some that are discussed elsewhere in these risk factors and the following as it relates to the Company:

- delays in obtaining, or conditions imposed by, regulatory approvals.
- facility design errors.
- environmental pollution.
- non-performance by third party contractors.
- increases in materials or labour costs.
- construction performance falling below expected levels of output or efficiency.
- breakdown, aging or failure of equipment or processes.
- contractor or operator errors.
- labour disputes, disruptions or declines in productivity.
- inability to attract sufficient numbers of qualified workers.
- disruption in the supply of energy and utilities; and
- major incidents and/or catastrophic events such as fires, explosions, earthquakes, or storms.

The products sold by the Company are subject to regulation governing food, dietary supplement, controlled substances and related products

The Company's activities are subject to regulation by governmental authorities. Achievement of the Company's business objectives are contingent, in part, upon compliance with regulatory requirements enacted by these governmental authorities and obtaining all regulatory approvals, where necessary, for the sale of its products. The Company cannot predict the time required to secure all appropriate regulatory approvals for its products, or the extent of testing and documentation that may be required by governmental authorities. Any delays in obtaining, or failure to obtain regulatory approvals would significantly delay the development of markets and products and could have a material adverse effect on the business, results of operations and financial condition of the Company.

Risks associated with increasing competition

There is potential that the Company will face intense competition from other companies, some of which can be expected to have longer operating histories and more financial resources and manufacturing and marketing experience

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the Company. Increased competition by larger and better financed competitors could materially and adversely affect the business, financial condition, and results of operations of the Company.

Due to the early stage of the industry in which the Company operates, the Company expects to face additional competition from new entrants. To remain competitive, the Company will require a continued high level of investment in research and development, marketing, sales, accounting and enterprise management systems, capital improvements to its Long Beach Facility to add client-required capabilities against new revenue, and to maintain client support and service. The Company may not have sufficient resources to maintain research and development, marketing, sales, and client support efforts on a competitive basis which could materially and adversely affect the business, financial condition, and results of operations the Company.

Product liability

As a manufacturer and distributor of products designed to be ingested by humans, the Company faces an inherent risk of exposure to product liability claims, regulatory action, and litigation if its products are alleged to have caused significant loss or injury. In addition, the manufacture and sale of the Company's products involve the risk of injury to consumers due to tampering by unauthorized third parties or product contamination. Previously unknown adverse reactions resulting from human consumption of the Company's products alone or in combination with other medications or substances could occur. The Company may be subject to various product liability claims, including, among others, that the Company's products caused injury or illness, include inadequate instructions for use or include inadequate warnings concerning possible side effects or interactions with other substances. A product liability claim or regulatory action against the Company could result in increased costs, discontinuation of products, adverse impact on the Company's reputation with its clients and consumers generally and could have a material adverse effect on its results of operations and financial condition. There can be no assurances that the Company will be able to obtain or maintain product liability insurance on acceptable terms or with adequate coverage against potential liabilities. Such insurance is expensive and may not be available in the future on acceptable terms, or at all. The inability to obtain sufficient insurance coverage on reasonable terms or to otherwise protect against potential product liability claims could prevent or inhibit the commercialization of the Company potential products.

Product recalls

Manufacturers and distributors of products are sometimes subject to the recall or return of their products for a variety of reasons, including product defects, such as contamination, unintended harmful side effects or interactions with other substances, packaging safety and inadequate or inaccurate labeling disclosure. If any of the products developed by the Company are recalled due to an alleged product defect or for any other reason, the Company could be required to incur the unexpected expense relating to the recall and any legal proceedings that might arise in connection with the recall. The Company may lose a significant amount of revenue and may not be able to replace that revenue at an acceptable margin or at all. In addition, a product recall may require significant management attention. Although the Company is establishing procedures to test finished products, there can be no assurance that any quality, potency, or contamination problems will be detected in time to avoid unforeseen product recalls, regulatory action, or lawsuits. Additionally, if one of the Company's significant brands were subject to recall, the image of that brand and the Company could be harmed. A recall for any of the foregoing reasons could lead to decreased demand for the Company's products and could have a material adverse effect on the results of operations and financial condition of the Company. Product recalls may lead to increased scrutiny of the Company's operations by the regulatory agencies, requiring further management attention and potential legal fees and other expenses.

Potential FDA regulation

Should the US federal government legalize cannabis, it is possible that the FDA, would seek to regulate it under the Food, Drug and Cosmetics Act of 1938. Additionally, the FDA may issue rules and regulations including good manufacturing practices, related to the growth, cultivation, harvesting and processing of cannabis. Clinical trials may be needed to verify efficacy and safety. It is also possible that the FDA would require that facilities where cannabis is grown register with the FDA and comply with certain federally prescribed regulations. In the event that some or all of these regulations are imposed, the impact on the cannabis industry is unknown, including what costs, requirements and possible prohibitions may be enforced. If the Company is unable to comply with the regulations or registration as prescribed by the FDA it may have an adverse effect on the Company's business, operating results, and financial

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condition.

The Company may be vulnerable to unfavorable publicity or consumer perception

The Company believes the cannabis industry is highly dependent upon consumer perception regarding the safety, efficacy and quality of the cannabis produced. Consumer perception can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding the consumption of cannabis products.

Future research reports, findings, regulatory proceedings, litigation, media attention or other publicity that are perceived as less favorable than, or that question, earlier research reports, findings or publicity could have a material adverse effect on the demand for cannabis and on the business, results of operations, financial condition and cash flows of the Company.

Further, adverse publicity reports or other media attention regarding the safety, efficacy, and quality of cannabis in general, or associating the consumption of cannabis with illness or other negative effects or events, could have such a material adverse effect. Such adverse publicity reports or other media attention could arise hindering market growth and state adoption due to inconsistent public opinion and perception of the medical-use and adult-use cannabis industry. Public opinion and support for medical and adult-use cannabis has traditionally been inconsistent and varies from jurisdiction to jurisdiction. While public opinion and support appears to be rising for legalizing medical and adult-use cannabis, it remains a controversial issue subject to differing opinions surrounding the level of legalization (for example, medical cannabis as opposed to legalization in general).

Dependence on suppliers and skilled labour

The ability of the Company to compete and grow will be dependent on it having access, at a reasonable cost and in a timely manner, to skilled labor, equipment, parts, and components. No assurances can be given that the Company will be successful in maintaining its required supply of skilled labor, equipment, parts, and components. It is also possible that the final costs of the major equipment contemplated by the Company's capital expenditure program may be significantly greater than anticipated by the Company's management, and may be greater than funds available to the Company, in which circumstance the Company may curtail, or extend the timeframes for completing, its capital expenditure plans. This could have an adverse effect on the financial results of the Company.

Liability for activity of employees, contractors and consultants

The Company could be liable for fraudulent or illegal activity by its employees, contractors and consultants resulting in significant financial losses to claims or regulatory enforcement actions against the Company. The cannabis industry is under strict scrutiny. Failure to comply with relevant laws could result in fines, suspension of licenses and civil or criminal action being taken against the Company. Consequently, the Company is subject certain risks, including that employees, contractors and consultants may inadvertently fail to follow the law or purposefully neglect to follow the law, either of which could result in material adverse effects to the financial condition of the Company.

Operating risk and insurance coverage

The Company's insurance coverage is intended to address all material risks to which it is exposed and is adequate and customary in its current state of operations. However, such insurance is subject to coverage limits and exclusions and may not be available for the risks and hazards to which the Company is exposed. In addition, no assurance can be given that such insurance will be adequate to cover the Company's liabilities or will be generally available in the future or, if available, that premiums will be commercially justifiable. If the Company were to incur substantial liability and such damages were not covered by insurance or were in excess of policy limits, or if the Company were to incur such liability at a time when it is not able to obtain liability insurance, its business, results of operations and financial condition could be materially adversely affected.

Uninsurable risks

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The medical and retail cannabis business is subject to several risks that could result in damage to or destruction of properties or facilities or cause personal injury or death, environmental damage, delays in production and monetary losses and possible legal liability. It is not always possible to fully insure against such risks, and the Company may decide not to take out insurance against such risks as a result of high premiums or other reasons. Should such liabilities arise, they could reduce or eliminate any future profitability and result in increasing costs and a decline in the value of the securities of the Company. The Company does not currently have any insurance policies covering its properties or the operation of its business and any liabilities that may arise as a result any of the above noted risks may cause a material adverse effect on the financial condition of the Company.

Management of growth

The Company may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The ability of the Company to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The inability of the Company to deal with this growth may have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

Internal controls

Effective internal controls are necessary for the Company to provide reliable financial reports and to help prevent fraud. Although the Company will undertake a number of procedures and will implement a number of safeguards, in each case, in order to help ensure the reliability of its financial reports, including those imposed on the Company under Canadian securities law, the Company cannot be certain that such measures will ensure that the Company will maintain adequate control over financial processes and reporting. Failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm the Company's results of operations, or cause it to fail to meet its reporting obligations. If the Company or its auditors discover a material weakness, the disclosure of that fact, even if quickly remedied, could reduce the market's confidence in the Company's consolidated financial statements and materially adversely affect the trading price of the Company's shares.

Dividends

The Company has no earnings or dividend record and does not anticipate paying any dividends on the Company's shares in the foreseeable future. Dividends paid by the Company would be subject to tax and, potentially, withholdings.

Foreign currency exchange rates

Exchange rate fluctuations may adversely affect the Company's financial position and results. It is anticipated that a significant portion of the Company's business will be conducted in the US using USD. The Company's financial results are reported in CAD and costs are incurred primarily in USD in its Cannabis Cultivation Segment. The depreciation of CAD against USD could increase the actual capital and operating costs of the Company's US operations and materially adversely affect the results presented in the Company's audited consolidated financial statements.

The market price of securities is volatile and may not accurately reflect the long-term value of the Company

Securities markets have a high level of price and volume volatility, and the market price of securities of many companies has experienced substantial volatility in the past. This volatility may affect the ability of holders of Common Shares or warrants to sell their securities at an advantageous price. Market price fluctuations in the Common Shares and warrants may be due to the Company's operating results failing to meet expectations of securities analysts or investors in any period, downward revision in securities analysts' estimates, adverse changes in general market conditions or economic trends, acquisitions, dispositions or other material public announcements by the Company or its competitors, along with a variety of additional factors. These broad market fluctuations may adversely affect the market price of the Common Shares and warrants.

Financial markets historically at times experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities of companies and that have often been unrelated to the operating

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performance, underlying asset values or prospects of such companies. Accordingly, the market price of the shares and warrants may decline even if the Company's investment results, underlying asset values or prospects have not changed. Additionally, these factors, as well as other related factors, may cause decreases in investment values that are deemed to be other than temporary, which may result in impairment losses. There can be no assurance that continuing fluctuations in price and volume will not occur. If such increased levels of volatility and market turmoil continue, the Company's operations could be adversely impacted, and the trading price of the shares and warrants may be materially adversely affected.

Limited market for securities

There can be no assurance that an active and liquid market for the Company's shares will develop or be maintained, and an investor may find it difficult to resell any securities of the Company.

Environmental and employee health and safety regulations

The Company's operations are subject to environmental and safety laws and regulations concerning, among other things, emissions and discharges to water, air and land, the handling and disposal of hazardous and non-hazardous materials and wastes, and employee health and safety. The Company will incur ongoing costs and obligations related to compliance with environmental and employee health and safety matters. Failure to comply with environmental and safety laws and regulations may result in additional costs for corrective measures, penalties or in restrictions on our manufacturing operations. In addition, changes in environmental, employee health and safety or other laws, more vigorous enforcement thereof or other unanticipated events could require extensive changes to the Company's operations or give rise to material liabilities, which could have a material adverse effect on the business, results of operations and financial condition of the Company.

Negative publicity or consumer perception may affect the success of our business

The success of the cannabis industry may be significantly influenced by the public's perception of cannabis. Both the medical and adult-use use of cannabis are controversial topics, and there is no guarantee that future scientific research, publicity, regulations, medical opinion, and public opinion relating to cannabis will be favorable. The cannabis industry is an early-stage business that is constantly evolving with no guarantee of viability. The market for medical and adult-use cannabis is uncertain, and any adverse or negative publicity, scientific research, limiting regulations, medical opinion and public opinion (whether or not accurate or with merit) relating to the consumption of cannabis, whether in Canada, the US or elsewhere, may have a material adverse effect on our operational results, consumer base and financial results. Among other things, such a shift in public opinion could cause State jurisdictions to abandon initiatives or proposals to legalize medical cannabis, thereby limiting the number of new state jurisdictions into which the Company could identify potential acquisition opportunities.

Certain events or developments in the cannabis industry more generally may impact the Company's reputation

Damage to the Company's reputation can be the result of the actual or perceived occurrence of any number of events, and could include any negative publicity, whether true or not. Cannabis has often been associated with various other narcotics, violence and criminal activities, the risk of which is that our business might attract negative publicity. There is also risk that the action(s) of other participants, companies and service providers in the cannabis industry may negatively affect the reputation of the industry as a whole and thereby negatively impact the reputation of the Company. The increased usage of social media and other web-based tools used to generate, publish and discuss user-generated content and to connect with other users has made it increasingly easier for individuals and groups to communicate and share opinions and views in regard to the Company and its activities, whether true or not and the cannabis industry in general, whether true or not. The Company does not ultimately have direct control over how it or the cannabis industry is perceived by others. Reputation loss may result in decreased investor confidence, increased challenges in developing and maintaining community relations and an impediment to the Company's overall ability to advance its business strategy and realize on its growth prospects, thereby having a material adverse impact on the Company.

Disruption of business

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Conditions or events including, but not limited to, those listed below could disrupt the Company’s operations, increase operating expenses, resulting in delayed performance of contractual obligations or require additional expenditures to be incurred: (i) extraordinary weather conditions or natural disasters such as hurricanes, tornadoes, floods, fires, extreme heat, earthquakes, etc.; (ii) a local, regional, national or international outbreak of a contagious disease, including the COVID-19 coronavirus, Middle East Respiratory Syndrome, Severe Acute Respiratory Syndrome, H1N1 influenza virus, avian flu, or any other similar illness could result in a general or acute decline in economic activity (see also, “Public Health Crises, including COVID-19”); (iii) political instability, social and labour unrest, war or terrorism; or (iv) interruptions in the availability of basic commercial and social services and infrastructure including power and water shortages, and shipping and freight forwarding services including via air, sea, rail and road.

Public health crises

The Company’s business, operations and financial condition could be materially adversely affected by the outbreak of epidemics or pandemics or other health crises beyond our control, including the current outbreak of COVID-19. On January 30, 2020, the World Health Organization declared the COVID-19 outbreak a global health emergency. Many governments have likewise declared that the COVID-19 outbreak in their jurisdictions constitutes an emergency. While most of the significant impairments caused by COVID-19 have been rolled back, lifted, or terminated, there continue to be some residual aftereffects impacting logistics, consumer behavior, shipping and transportation, labor availability, micro and macro risk tolerance, and rising inflation and corresponding rising interest rates.

Such public health crises can result in volatility and disruptions in the supply and demand for various products and services, global supply chains and financial markets, as well as declining trade and market sentiment and reduced mobility of people, all of which could affect interest rates, credit ratings, credit risk, inflation and, as a result, demand for our end customers’ products and our operating results. The risks to the Company of such public health crises also include risks to employee health and safety and a slowdown or temporary suspension of operations in geographic locations impacted by an outbreak.

The risks to the Company of such public health crises also include risks to employee health and safety and a slowdown of operations in the Company’s stores. Should an employee or visitor in any of the Company’s stores or workplaces become infected with a serious illness that has the potential to spread rapidly, this could place the Company’s workforce at risk. The Company takes every precaution to strictly follow industrial hygiene and occupational health guidelines and applicable health authority recommendations.

Inflation and Interest Rates

In May 2020, the inflation rate bottomed out at 0.1%, then escalated over the next two years, peaking at 9.1% in June 2022 (with 2022 having an average inflation rate of 8%). As of March 2023, the inflation rate is at 5%. This drastic increase in inflation (including key inflation rates of 8.5% in the food category and 8.2% for shelter) has impacted and can continue to impact consumer spending behavior, which can have an adverse impact to the volume of sales of the Company. In response to inflation, the Federal Reserve has raised interest rates to currently 5% (as of April 2023), compared to 0.5% in April 2022; this is the highest the interest rates have been in over 10 years. High interest rates mean a higher cost of borrowing, both for residential and commercial borrowers, which impacts consumer spending and behavior, as well as lender behavior. Interest rates and inflation impacts all businesses in the supply chain, and typically in an adverse manner. Extended periods of inflation and high interest rates could result in a material adverse effect to the financial or operating condition of the Company.

Data breaches and privacy law

The Company may be subject to breaches of security at its facilities, or in respect of electronic documents and data storage, and may face risks related to breaches of applicable privacy laws. The Company has previously provided medical cannabis to patients and maintains patient records. Due to the sensitive nature of this information, the Company could be found liable if a breach of security at its facility resulted in the theft, loss, or mishandling of electronic data. If such a breach did occur, the Company could be liable for fines, penalties and for any third-party liability which could result in a material adverse effects to the financial or operating condition of the Company.

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Information technology systems and cyber attacks

The Company's operations depend in part on how well it protects networks, equipment, and information technology systems and software against damage from a number of threats, including but not limited to cable cuts, damage to physical plants, natural disasters, intentional damage and destruction, fire, power loss, hacking, computer viruses, vandalism and theft. The Company's operations also depend on the timely maintenance, upgrade and replacement of networks, equipment, IT systems and software, as well as preemptive expenses to mitigate the risks of failures. Any of these and other events could result in information system failures, delays and/or increase in capital expenses. The failure of information systems or a component thereof could, depending on the nature of such failure, adversely impact the Company's reputation, results of operations, and financial condition. The Company's risk and exposure to these matters cannot be fully mitigated because of, among other factors, the evolving nature of these threats. As a result, cyber security and the continued development and enhancement of controls, processes and practices designed to protect systems, computers, software, data and networks from attack, damage or unauthorized access is a priority. As cyber threats continue to evolve, the Company may be required to expend additional resources to continue to modify or enhance protective measures or to investigate and remediate any security vulnerabilities.

Ability to obtain and retain licenses and permits

The Company may not be able to obtain and/or retain all necessary California state licenses and permits, which could, among other things, delay or prevent the Company from becoming profitable. The Company's lines of business are reliant on the issuance of required licenses. Failure to acquire or retain necessary licenses required to operate could have a material adverse effect on its financial or operating condition. Due to the nature of licensing, which is at the discretion of state and local governments, it is outside of the Company's control, and therefore it is not possible to assure that the Company will receive the licenses it seeks or requires.

Difficult to forecast demand

The Company must rely largely on its own market research to forecast sales as detailed forecasts are not generally obtainable from other sources at this early stage of the cannabis industry in Canada and the US. A failure in the demand for its products to materialize as a result of competition, technological change, market acceptance or other factors could have a material adverse effect on the business, results of operations and financial condition of the Company.

Disruption of business

Conditions or events including, but not limited to, those listed below could materially disrupt the Company's and other industry participant's, supply chains, interrupt operations, increase operating expenses, and thereby result in loss of sales, delayed performance of contractual obligations or require additional expenditures to be incurred: (i) extraordinary weather conditions or natural disasters such as hurricanes, tornadoes, floods, fires, drought, tsunamis, extreme heat, earthquakes, etc.; (ii) a local, regional, national or international outbreak of a contagious disease, including COVID-19, Middle East Respiratory Syndrome, Severe Acute Respiratory Syndrome, H1N1 influenza virus, avian flu, or any other similar illness; (iii) political instability, social and labor unrest, riot, insurrection, war or terrorism; or (iv) interruptions in the availability of basic commercial and social services and infrastructure including power and water shortages, and shipping and freight forwarding services including via air, sea, rail and road. The extent to which other contagious disease impacts the Company's results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of this or any other outbreak and the actions to contain those outbreaks or treat its impact, among others.

10. Cautionary Note Regarding Forward-Looking Statements

This MD&A includes "forward-looking statements", within the meaning of applicable securities legislation, which are based on the opinions and estimates of Management and are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "budget", "plan", "continue", "estimate", "expect", "forecast", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar words suggesting future outcomes or statements regarding an outlook. Such risks and uncertainties include, but are not limited to the described under the heading "Risk Factors" in this MD&A and described in public disclosure documents filed by the Company. Due to

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the risks, uncertainties, and assumptions inherent in forward-looking statements, prospective investors in securities of the Company should not place undue reliance on these forward-looking statements. Statements in relation to “reserves” are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the reserves described can be profitably produced in the future. Readers are cautioned that the foregoing lists of risks, uncertainties and other factors are not exhaustive. The forward-looking statements contained in this press release are made as of the date hereof and the Company undertakes no obligation to update publicly or revise any forward-looking statements or in any other documents filed with Canadian securities regulatory authorities, whether as a result of new information, future events or otherwise, except in accordance with applicable securities laws. The forward-looking statements are expressly qualified by this cautionary statement.

Disclosure of Internal Controls over Financial Reporting

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

11. Management’s Responsibility for Financial Information

Management is responsible for all information contained in this report. The 2022 Financial Statements have been prepared in accordance with IFRS and include amounts based on management’s informed judgments and estimates. The financial and operating information included in this report is consistent with that contained in the 2022 Financial Statements in all material aspects.

The Audit Committee has reviewed the Company’s 2022 Financial Statements and this MD&A with management. The Board of the Company has approved the 2022 Financial Statements and this MD&A on the recommendation of the Audit Committee.

May 10, 2023

(signed) “Theodore Zittell”

Theodore Zittell
Director and CEO