



# THE TINLEY BEVERAGE COMPANY INC.

## Management's Discussion and Analysis

For the Three Months ended March 31, 2019

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*The following Management's Discussion and Analysis ("MD&A") is current to May 30, 2019 and is management's assessment of the financial position and results of operation together with future prospects of The Tinley Beverage Company Inc. This MD&A should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements and related notes for the three months ended March 31, 2019 and 2018, as well as the audited consolidated financial statements for the years ended December 31, 2018, prepared in accordance with International Financial Reporting Standards ("IFRS").*

*All figures are in Canadian dollars (" \$" or "CAD") unless stated otherwise.*

*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. The Company has adopted National Instrument 51-102F1 as the guideline in presenting the MD&A. Additional information relevant to Tinley's activities, including Tinley's press releases can be found on SEDAR at [www.sedar.com](http://www.sedar.com).*

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## **1. Description of Business**

The Tinley Beverage Company Inc. ("Tinley" or the "Company") was incorporated under the laws of the Province of Ontario, Canada by Articles of Incorporation dated October 26, 2007. On October 6, 2015, the Company completed a change of business to a pure-play cannabis beverage company (as hereinafter defined), and pursuant to the Articles of Amendment dated October 6, 2015, the Company changed its name to "The Tinley Beverage Company Inc.". The address of the Company's registered office is 77 King Street West, Suite 2905, Toronto, Ontario, M5K 1H1, Canada.

The Company's common shares are currently listed on the Canadian Securities Exchange under the trading symbol "TNY" and on the OTCQX® under the trading symbol "TNYBF".

The Company manufactures a line of liquor-inspired, non-alcoholic, cannabis-infused beverages for use in California, United States ("US"). The Company also manufactures the "Hemplify®" line of products, which are available in retail locations in California and online throughout the US.

As at May 30, 2019, the directors and officers of the Company were:

Jeffrey Maser	Chief Executive Officer and Director
David Berman	Chief Financial Officer
Richard Gillis	President, Western US
Theodore Zittel	Director
David Ellison	Director
Curt Marvis	Director
Douglas Fulton	Director

## **2. Business Overview**

### **Financing Developments**

On February 22, 2019 the Company announce that its new President, Western US, Richard Gillis (the "President – Western US"), made a personal investment of \$276,000 in the Company. As a result, the Company issued 600,000 common shares to Mr. Gillis at an issue price of \$0.46 per share for gross proceeds of \$276,000.

Subsequent to the end of the quarter, on April 30, 2019, the Company closed the first tranche ("Tranche 1") of a non-brokered private placement through the issuance of 9,028,699 Units at a price of \$0.60 per Unit, for gross proceeds of \$5,417,219. Each Unit consists of one (1) common share and one half (1/2) warrant. Each whole warrant entitles the holder to purchase one (1) common share at a price of \$0.90 per common share, for a period of 24 months from closing. The President – Western US also invested \$240,000 on this placement as well.

On May 10, 2019, the Company completed the second tranche ("Tranche 2") of the non-brokered private placement through issuance of 5,788,408 Units and a price of \$0.60 per Unit, for total gross proceeds of \$3,473,044. Each Unit was comprised of one (1) common share of and one half (1/2) warrant. Each whole warrant entitles the holder to purchase one (1) common share at a price of \$0.90 per common share, for a period of 24 months from closing. In total, the Company issued 14,817,107 Units for gross proceeds of \$8,890,263.

### **Business Developments**

On March 21, 2019, the Company announced that it has completed its planned expansion of its Phase 2 Facility. The Phase 2 Facility can produce up to 3 million bottles per year, and the Company projects an average wholesale price of US Dollars ("USD") \$3 to \$4 per bottle for its single-serve beverages and USD \$15 to \$17 per bottle for its multi-serve beverages. This expanded facility is designed to produce the next-generation versions of Tinley's cocktail-inspired, non-alcoholic cannabis beverages.

The Company also announced that it remains on schedule to complete the build-out and installation of the Long Beach facility (the "Phase 3 Facility") by the end of the second quarter of 2019. The Phase 3 Facility will have bottling

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capacity of approximately 12 million bottles per year, with a space plan for up to two (2) additional bottling lines to accommodate additional beverage formats and capacity as required. The Phase 3 Facility will also be home to Tinley's purpose-built beverage distribution facility, which will allow the Company to execute a controlled DSD distribution model and capture additional economics from this downstream phase of the value chain. Upon licensing of the Phase 3 Facility, Tinley intends to move the bottling line in the Phase 2 Facility to one of its priority expansion jurisdictions elsewhere in North America.

On April 17, 2019, the Company announced that its licensed manufacturer based in Coachella Valley had shipped an inaugural batch of the Company's next-generation, single-serve, cocktail-inspired products. The Company also announced that its licensed manufacturer has begun production of the Company's multi-serve Tinley™ '27 liquor-inspired products.

On April 23, 2019, the Company announced that its licensed manufacturer in the Coachella Valley, California has shipped inaugural batches of the Company's liquor-inspired Tinley™ '27 cannabis beverages. This release was approximately one (1) month ahead of schedule, reflecting the capabilities of the Company's recently-commissioned Phase 2 Facility.

On May 1, 2019, the Company reported that all of its inaugural batches of ready-to-drink, single-serve tonics and its multi-serve Tinley™ '27 tonics have passed state testing and are being shipped to retail.

### **Retail Growth Strategy**

#### **CBD Beverages**

Throughout Fiscal 2018, the Company has been repositioning resources from its Hemplify® hemp CBD beverage division in favor of its THC-infused Tinley Cocktails and Tinley™ '27 beverage product division. The Company has found consumer response to these THC-infused beverages to be stronger than for Hemplify®, and that few operating synergies existed between the sales and supply chains of its licensed THC products and those of its FDA-regulated, hemp CBD products. The Company also witnessed stronger consumer engagement with Hemplify® and the overall CBD drink category in dispensaries than in mainstream stores. In at least one (1) major, premium grocery chain in Southern California, Hemplify® remained the only hemp CBD drink listed on shelves, with the retailer citing poor sales of competing brands relative to Hemplify®. Nonetheless, given limited consumer engagement with Hemplify® relative to the Company's THC-infused beverages, as well as a continued lack of regulatory clarity regarding hemp CBD, the Company informed this retail chain and its other retailers that its support for Hemplify® in its current form would remain limited.

Subsequent to the passage of the Farm Bill in late 2018, the Food and Drug Administration (the "FDA") and the California Department of Public Health (the "CDPH") increased enforcement against hemp CBD products. Further, the Bureau of Cannabis Control (the "BCC") stipulated that hemp-derived CBD products are no longer eligible for sale in California dispensaries unless the hemp is grown and distributed under the State's track and trace system. Given its existing THC-infused beverage infrastructure and distribution, Tinley believes that it is uniquely positioned to distribute CBD beverages through the dispensary channel throughout California, by deriving from CBD-rich cannabis strains available from the same licensed suppliers that the Company uses for its THC-infused beverages. This would further enable operational and marketing synergies with the Company's THC beverages. The Company remains confident that the regulatory environment for hemp CBD will improve in the next 12 to 24 months.

However, the Company's minimal reliance on sales from Hemplify® in the past, coupled with the strong demand for CBD drinks that the Company is witnessing in the dispensary channel, demonstrates the value of focusing the Company's resources primarily on THC and cannabis-derived (i.e. non-hemp) CBD beverages for dispensaries.

#### **Development of THC-Infused Tinley Cocktails and Tinley™ '27 Beverages**

In 2016, the Company began working with a Southern California-based liquor formulator on an initial lineup of cannabis-infused beverages. The initial products were inspired by coconut rum, cinnamon whisky, Italian amaretto and margarita cocktails. All products are non-alcoholic however made with the same extracts, essences and flavors as

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their alcoholic counterparts, and are also infused with high purity THC distillate. This new line of cannabis-infused beverages is designed for use in jurisdictions where such products are permitted.

The Company had elected to delay production of its cannabis beverages to incorporate various new technologies that have since emerged. This includes terpene and nano-emulsification technology that has now been successfully implemented in the Company's product lineup. These technologies allow the products to have a rapid onset effect, a full-flower effect, visual clarity, 12-month shelf life, homogenous dispersion of active ingredients and a relatively faster offset of effect. As a result, Tinley's consumers can enjoy an experience that more closely resembles the social experience of alcoholic beverages, however with a cannabis effect. This more directly supports the consumer value proposition of the Tinley Cocktails and Tinley™ '27 alcohol-inspired product lines.

Further, in response to the evolving regulations in California, the Company completed a search for a facility in the State to house its Phase 1 and 2 bottling lines. The tight real estate market in areas that are zoned for commercial cannabis activity, coupled with the unique facility requirements of bottling facilities, led to a challenging, lengthy process. The process ultimately resulted in an Intellectual Property licensing agreement (the "IP Agreement") with the former manufacturer (as hereunder defined) for its "Phase 1" operations, and a subsequent arrangement with a new licensed operator and manufacturer its "Phase 2" operations. It also resulted in the aforementioned lease for the facility in Long Beach for the Company's "Phase 3" operations. While this lengthy search process resulted in a delay in producing the Company's products, the Company successfully negotiated lease rates in a highly desirable location – which is critical for beverage distribution – at competitive rates.

As with the former manufacturer, and the new interim licensed operator and manufacturer in the Coachella Valley, the Company relies upon its third-party distributors' internal compliance mechanisms, reinforced by various normal course state inspections, to ensure they comply with applicable state and local regulations. The Company has frequent interactions with personnel at the current interim licensed manufacturer and their distributors, allowing the Company to monitor their activities, however, this is in a limited capacity.

Tinley is not a party to the agreements that the interim licensed operator and manufacturer has with distributors. Tinley is informed on interactions between the current licensed Manufacturer and their distributors and believes the contracts between these parties include reasonable provisions to ensure they each operate in compliance with applicable local and state laws and regulations.

#### Long-Term Bottling Facility

On March 1, 2018, the Company entered into two (2) new lease agreements for the new 19,760 square feet Long Beach facility, a bottling facility for cannabis beverage production which is situated on approximately 45,000 square feet of land approximately 16 miles from downtown Los Angeles. At this time, no commercial operations are currently being conducted at the Long Beach facility, as it is intended to be used as the Company's future bottling facility and principal place of business in California. However, the build-out of this facility has begun with a view to production later in 2019, upon obtaining all required licensing and regulatory approvals.

The Company is retrofitting the existing structure to install batching and bottling equipment that is uniquely designed for the needs of cannabis drinks. This equipment will accommodate the solubilization technology and processes that Tinley uses for its cannabis and terpene-infused, liquor-style beverages. The bottling line will also be designed for a variety of bottle, label and closure styles to accommodate future products as well as enable co-packing services for third-party brands that wish to build cannabis-infused versions of their products. The equipment will enable both carbonated and non-carbonated beverages, as well as those that contain perishable ingredients and that require clean-label claims.

Due to the central location of the Long Beach facility, Tinley also intends to use a portion of the building to build a licensed cannabis distributor which will be equipped to cater to the unique needs of beverage products, including refrigeration and large-format packaging. The Company intends to operate this distributor in cooperation with existing local distributors and operators. The facility will also house a beverage R&D and internal testing center to enable continuous product innovation and quality assurance. The Company believes that this lineup of services will enable it

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to maintain control over all aspects of its supply chain, provide investors with exposure to a broader portfolio of beverage products and offer an end-to-end beverage development solution for third-party brands.

The Company has entered into a contract with a national engineering firm for retrofitting the facility. The project is estimated to be complete for initial operations in the summer of 2019.

The Company will continue producing at the interim licensed manufacturing Partner's "Phase 2" Facility in Coachella Valley, until the Long Beach facility is retrofitted and permitted for operations in accordance with California state regulations.

#### Territorial Expansion

The Company is pleased with the Canadian Government's decision to allow edibles and drinks within one year of the launch of adult-use ("recreational") cannabis products, which occurred in October 2018. As previously announced, the Company has been engaged in discussions with Canadian licensed producers and intends to finalize such agreements such that they can be modelled upon the Company's California operations and experience. The Company remains committed to prioritizing its California operations due to the State's market size and regulatory structure. The Company also views Nevada as a priority expansion opportunity due to the State's large tourism industry, year-round warm climate, innovative plans for licensing consumption, and proximity to the California operations.

### **3. Canadian Companies with U.S. Marijuana-Related Assets**

On February 8, 2018, the Canadian Securities Administrators published Staff Notice 51-352 (Revised) *Issuers with U.S. Marijuana-Related Activities* (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 marijuana industry; (ii) disclosure that marijuana is illegal under US federal law and that enforcement of relevant laws is a significant risk; (iii) related risks including, among others, the risk that third-party service providers could suspend or withdraw services and the risk that regulatory bodies could impose certain restrictions on the issuer's ability to operate in the US; and (iv) a discussion of the reporting issuer's ability to access public and private capital, including which financing options are and are not available to support continuing operations. Additional disclosures are required to the extent a reporting issuer is deemed to be directly or indirectly engaged in the US marijuana 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 U.S. Marijuana-Related Activities**

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

At this time, the Company's involvement in the US commercial cannabis activity is ancillary. The Company does not currently have any local or state commercial cannabis licenses, permits or authorizations. 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 the regulations promulgated thereunder (the "MAUCRSA Regulations") (hereinafter MAUCRSA and the MAUCRSA Regulations shall be referred to as "California Cannabis Law"), a license is required to conduct commercial cannabis activity. Previously, the Company had entered into an intellectual property license agreement licensing its proprietary intellectual property to a licensed operator, (specifically the Riverside facility licensed operator or, hereinafter, "Former Manufacturer"), who, utilizing its cannabis licenses, manufactured the Company's Tinley-branded products and paid the Company a royalty fee. The Company has ended its relationship

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with the Former Manufacturer and entered into a new intellectual property license agreement with a new licensed operator (the "Manufacturing Partner") whereby the Manufacturing Partner is licensing the Tinley branded intellectual property and producing the Tinley branded products and paying the Company a royalty fee (the "New IP License"). The Manufacturing Partner has obtained the required licenses to produce the Tinley branded products and operates from its licensed premises in Riverside County. As at March 31, 2019, production had not yet started under the New IP License.

On January 16, 2019, the BCC adopted its final regulations (the "Final BCC Regulations") and the CDPH Manufactured Cannabis Safety Branch ("CDPHMCSB") adopted its "final" regulations (the "Final CDPH Regulations"). The Final BCC Regulations and the Final CDPH Regulations permit the New IP License, but require certain regulatory disclosures be made in connection with the New IP License. The Manufacturing Partner has agreed to make the necessary disclosures to establish the New IP License and begin the production of the Tinley branded products. The Company will continue to evaluate structuring of the New IP License to mitigate regulatory risks and ensure ongoing compliance with evolving laws and regulations.

The Company will rely on the Manufacturing Partner to operate in accordance with all state, local and other relevant laws and regulations. As a licensed operator, the Manufacturing Partner has been and will continue to be subject to periodic, normal course inspections by various state and local agencies, including but not limited to, local fire department, the local health department, and the CDPHMCSB. The Company will lease an employee to the Manufacturing Partner to oversee the quality of production, however, the Manufacturing Partner provides the ultimate direction and control. Therefore, ongoing compliance resides with the Manufacturing Partner. The Company has no involvement in relation to the Manufacturing Partner's production of products other than the Tinley-branded products.

The Company and the Manufacturing Partner have agreed to move forward in good faith to preserve the economics of the business arrangement.

The Company may also seek to add additional manufacturing partners to augment capacity, until its Long Beach facility is fully operational.

*B. Marijuana Illegality*

In the US, cannabis is largely regulated at the state level. To the Company's knowledge, there are to date a total of 33 states, plus the District of Columbia, Puerto Rico and Guam, which allow their residents to use medical marijuana. Notwithstanding the permissive regulatory environment of medical cannabis at the state level, the Federal Controlled Substances Act (the "FCSA") makes it illegal under federal law to manufacture, distribute or dispense marijuana. 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 marijuana 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 (the "Cole Memorandum") addressed to all US district attorneys acknowledging that, notwithstanding the designation of cannabis as a controlled substance at the federal level in the US, several US states have enacted laws relating to cannabis for medical purposes, as may be supplemented or amended indicating that federal enforcement of the applicable federal laws against cannabis-related conduct should be focused on eight priorities, which are to prevent:

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- (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 (the "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 marijuana enforcement in 2009, 2011, 2013, 2014 and 2018 in response to state laws that legalize medical and adult-use marijuana. In each instance, the DOJ has stated that it is committed to the enforcement of federal laws and regulations related to marijuana. 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 marijuana 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 marijuana businesses even if they are not engaged in marijuana-related conduct enumerated by the Cole Memorandum, the memorandum dated August 29, 2013, as being an enforcement priority.

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

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

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

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cannabis, there can be no assurance that the federal government will not seek to prosecute cases involving cannabis businesses that are otherwise compliant with state law.

Such potential proceedings could involve significant restrictions being imposed upon the Company or third-parties, and also divert the attention of key executives. Such proceedings could have a material adverse effect on the Company's business, revenues, operating results and financial condition as well as the Company's reputation, even if such proceedings were concluded successfully in favor of the Company.

As the Sessions Memorandum demonstrates, the US approach to enforcement of cannabis violations of the FCSA can change at any time. While there is some uncertainty at the federal level, on March 23, 2018, the omnibus spending bill signed into law by 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, President Trump made a verbal commitment to Republican Senator, Cory Gardner, to not interfere with the Colorado cannabis industry. Further, Senator Gardner stated, "President Trump has assured me that he will support a federalism-based legislative solution to fix this states' rights issue once and for all." At this time, such bipartisan legislation has not yet been finalized, but Senate Gardner went on to say, "[m]y colleagues and I are continuing to work diligently on a bipartisan legislative solution that can pass Congress and head to the President's desk to deliver on his campaign position." The Company is pleased to see reports that President Trump has promised top Senate Republicans that he will support congressional efforts to protect states that have legalized marijuana. The Company is cautiously optimistic that it represents a clear and positive sign that the industry is shifting towards a climate where cannabis users and business can participate in the industry without fear of interference from the federal government.

While cannabis remains illegal at the federal level, there have been recent developments relevant to the federal government taking a position that respects states' rights to legalize and regulate commercial cannabis and refrain from prosecuting commercial cannabis businesses. Senator Gardner and Senator Elizabeth Warren 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 June 8, 2018, President Trump was asked about the bill in an interview and replied, "we're looking at it. But I probably will end up supporting that, yes." Such a bill would effectively prevent the federal government from taking any action that interferes with legal commercial cannabis businesses in California.

On November 7, 2018, Attorney General Sessions resigned after the US Mid-Term Elections, both of which would potentially impact the US cannabis industry. From the Mid-Term Elections, US voters delivered a split verdict for Congress, as the Democrats secured a majority in the House of Representatives (the "House") while the Republicans expanded their majority in the Senate. With the Democrats taking back control of the House, it may prove to be a catalyst for the sector to reinforce the notion that cannabis in the US has the tipping point on its way to eventual full legal status. While pro-cannabis legislation would still require passing the Senate and the Executive Branch, the path to legalization seems to have opened up with Mr. Sessions's departure. With divided congressional power, there will be opportunity for bi-partisanship on a number of issues including the Strengthening the Tenth Amendment Through Entrusting 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 bi-partisan efforts initiated by Senator Gardner together with Senator Warren. Senator Warren won re-election which ensures she will push the change to federal law regarding cannabis. In addition, constituents of Michigan voted to legalize recreational marijuana, making Michigan the first state in the Midwest to do so and the 10th in the US overall demonstrating growing sentiment amongst Americans towards legalization. Voters in Missouri and Utah approved ballot measures legalizing cannabis for medical use, making their states the 31st and 32nd to do so.



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On December 20, 2018, the 2018 Farm Bill was signed by President Trump, and it permanently removed hemp and hemp derivatives such as CBD from the purview of the FCSA. Prior to its enactment, the 2014 Farm Bill allowed Industrial Hemp to be cultivated under agricultural pilot programs conducted by state departments of agriculture and institutions of higher education. The Statement of Principles published by the USDA, the DEA and the FDA in 2016 confirmed that state departments of agriculture, and persons licensed, registered, or otherwise authorized by them to conduct research under an agricultural pilot program in accordance with the 2014 Farm Bill, or persons employed by or under a production contract or lease with them to conduct such research, may grow or cultivate Industrial Hemp as part of the agricultural pilot program.

Although Jeff Sessions has been replaced by President Trump with William Barr, there is still very little clarity as to how President Trump, or Attorney General Barr, will enforce federal law or how they will deal with states that have legalized medical or recreational marijuana. There is no guarantee that the current presidential administration will not change its stated policy regarding the low-priority enforcement of US federal laws that conflict with State laws. Additionally, any new US federal government administration that follows could change this policy and decide to enforce the US federal law vigorously. **Any such change 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 businesses.** See "Risk Factors".

*D. US Enforcement Proceedings*

The US Congress has passed appropriations bills each of the last three (3) 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 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). As it stands, the Joyce Amendment will provide the medical marijuana industry with protection against federal prosecution until September 30, 2019.

American courts have construed these appropriations bills to prevent the federal government from prosecuting individuals when those individuals comply with state law. However, because this conduct continues to violate federal law, American 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 state law – could be prosecuted for violations of federal law. If Congress restores funding, the US States 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.

*E. Related Risks*

The MAUCRSA establishes a highly regulated system for all commercial cannabis activities in the state of California. This system requires all commercial cannabis activity to be conducted by licensees who are subject to the laws and regulations of the system. The Company's Tinley-branded products will be produced by the Manufacturing Partner, which holds various licenses, including a Type 6 Manufacturing License. Because the Manufacturing Partner has a Type 6 Manufacturing License and has agreed to make the necessary regulatory disclosures, the Manufacturing Partner will be permitted to manufacture the Company's products in compliance with the Final CDPH Regulations. The Manufacturing Partner relies on a variety of third-party licensees to obtain ingredients and get the Company's products to authorized consumers. Each and every third-party licensee contracting with the Manufacturing Partner is subject to the stringent laws and regulations governing cannabis activities in California. In addition to fines, the penalties for non-compliance range from 5-day license suspension to complete revocation of the license. This creates additional risk for the production and sale of the Company's products.

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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. The Company expects new regulations to be adopted and implemented on or around January 1, 2019.
2. **Banking** – Due to federal laws against marijuana, most banks are unwilling to take deposits, issue credit cards, open bank accounts, or assist with payroll services for cannabis businesses. While efforts are underway to address the banking issue, cannabis businesses deal primarily with cash. This presents numerous risks related to security, managing cash flow and the inability to invest funds. The California Board of Equalization allows for cash payments of tax bills at county branches located throughout the state. Nevertheless, cash-related issues continue to present risks for investors. The Company presently maintains accounts at multiple major banks for redundancy.
3. **Taxes** – Under Internal Revenue Code Section 280E, cannabis businesses are prohibited from deducting their ordinary and necessary business expenses, except for some “costs of goods sold” by cultivators. 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 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.
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 licenses 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. **License Issuance and Renewals** – At this time, the Manufacturing Partner has only obtained a temporary state license. There is no guarantee that the Manufacturing Partner will obtain an annual license. Even if the Manufacturing Partner obtains an annual license, it must be renewed annually and there is no guarantee that such license will be renewed each year.

*F. Ability to Access Public and Private Capital*

Tinley has historically, and continues to have, access to both public and private capital in Canada in order to support its continuing operations. In addition, Tinley has established a banking relationship with Canaccord Genuity Group, Inc. (“Canaccord”). Canaccord has completed brokered financings for the Company in the past, and Tinley’s CEO has over ten (10) years of capital markets experience. Although Tinley has accessed private financing in the past and will be accessing the Canadian public market, there is neither a broad nor deep pool of institutional capital that is available to cannabis license applicants. There can be no assurance that additional financing, if raised privately, will be available to Tinley when needed or on terms which are acceptable. The Company has never needed to access public equity capital in the US.

*G. Operating Exposure*

The Company currently has no operations in Canada. All of the Company’s cannabis-based operations are located within the State of California. In addition to the Company’s cannabis-based operations discussed herein, the Company manufactures and sells a CBD-based beverage. This CBD-based beverage is manufactured and sold within the parameters set forth by the FDA. The Company estimates that approximately five percent (5%) of its business will be based on the production and sale of non-cannabis products.

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

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

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

**II. Involvement with Cultivation and Distribution**

*A. U.S. Marijuana Issuers with Direct Involvement in Cultivation or Distribution*

At this time, the Company's involvement in the California cannabis industry is limited to entering into a contractual arrangement with the Manufacturing Partner for the production of Tinley-branded products. The Company anticipates only contracting with the Manufacturing Partner for manufacturing activities. Further, the Manufacturing Partner typically uses cannabis purchased from third-party licensees in extracted forms, rather than cannabis cultivated under its own licenses, to manufacture the Company's products. The Manufacturing Partner will also contract directly with several licensed cannabis distributors for delivery of the Company's products. As at the time of writing, the Manufacturing Partner also has a distribution license and may begin delivery of the Company's products. Therefore, the Company does not believe it is currently subject to the disclosure requirements for "U.S. Marijuana Issuers with Direct Involvement in Cultivation or Distribution" set forth in the Staff Notice. If the Company's operations change in the future, it will provide the appropriate amended version of this disclosure. In the event the Company is subject to these disclosure requirements, the Company reserves the right to update this document accordingly.

*B. U.S. Marijuana Issuers with Indirect Involvement in Cultivation or Distribution*

As stated above, the Company does not yet have a commercial cannabis license and has no direct involvement in the cultivation or distribution of cannabis or cannabis products. The Company is only indirectly involved in commercial cannabis manufacturing through the Manufacturing Partner's manufacturing of the Company's products. Therefore, the Company believes that it is not subject to the disclosure requirements for "U.S. Marijuana Issuers with Indirect Involvement in Cultivation or Distribution" set forth in the Staff Notice. The Company reserves the right to amend these disclosures in the event that it determines that it is subject to these disclosures.

**III. U.S. Marijuana Issuers with Material Ancillary Involvement**

The DPHMCSB lists the Manufacturing Partner as a temporary state license holder. On this basis, the Company is informed and believes that the Manufacturing Partner "is in compliance with applicable licensing requirements and the regulatory framework enacted by [California]."

Note: The Company has obtained legal advice regarding compliance with applicable state regulatory frameworks and exposure and implication arising from US federal laws in the states where it conducts operations. As of May 30, 2019, the Company has not received any notices of violation, denial or non-compliance from any US authorities.

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#### **IV. State-Level Overview**

The following sections present an overview of regulatory conditions for the marijuana industry in US States in which the Company has an operating presence.

##### *California*

At this time, Tinley is only operating within the state of California. On November 8, 2016, California voted to approve the "Adult Use of Marijuana Act" ("AUMA") to tax and regulate for all adults 21 years of age and older. In 1996, California was the first US state to pass a medical marijuana law allowing for a not-for-profit patient/caregiver system, but there was no State licensing authority to oversee businesses that emerged. 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 marijuana businesses in California. The system has multiple license 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 license and local approval to operate.

On June 27, 2017, California State Legislature passed MAUCRSA, which amalgamates the MCRSA and AUMA frameworks to provide a set of regulations to govern medical and adult use licensing regime for cannabis businesses in the State of California. On November 16, 2017, the State Government introduced the emergency regulations, which shall be governed by the BCC, the CDPHMCBSB Department of Food and Agriculture (the "CDFA"), which provide further clarity on the regulatory framework that will govern cannabis businesses. The regulations build on the regulations provided by MCRSA and AUMA and also specify that the businesses will need to comply with the local law in order to also comply with the State regulations. On January 1, 2018, the new emergency State regulations took effect as California moved to full adult-use state legalization for cannabis products.

On January 16, 2019, the Final BCC Regulations, Final CDHP Regulations and the "final" text of regulations for licensed cultivators (the "Final CDFA Regulations") were adopted. These final regulations made significant changes to the emergency State regulations. While these regulations are entitled the "final" regulations, California legislators are considering approximately sixty cannabis related bills that would result in modifications to California Cannabis Law. Thus, the California Cannabis Law will continue to evolve in 2019 and beyond.

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

In California, two (2) state leaders had issued statements signaling intent to defend the State's voter-approved law legalizing recreational marijuana, in response to the Sessions Memorandum. California Attorney General Xavier Becerra has stated publicly, "In California, we decided it was best to regulate, not criminalize, cannabis," "We intend to vigorously enforce our state's laws and protect our state's interests." The BCC's Chief Executive Lori Ajax also stated, "We'll continue to move forward with the state's regulatory processes covering both medicinal and adult-use cannabis consistent with the will of California's voters, while defending our state's laws to the fullest extent."

On May 29, 2018, federal and state authorities announced a joint effort to target illegal cannabis grows, with \$2.5 million in federal money backing the effort. McGregor Scott, US Attorney for the Eastern District of California, said he will prioritize illegal weed rather than going after the legal recreational marijuana market even though US federal law bans marijuana. He stated, "The reality of the situation is there is so much black-market marijuana in California that we could use all of our resources going after just the black market and never get there," "So for right now, our priorities are to focus on what have been historically our federal law enforcement priorities: interstate trafficking, organized crime, and the federal public lands."

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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 marijuana industry is struggling to compete with the black market and is facing challenges that include banking access and high taxes.

In May 2019, 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 marijuana 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.

As set forth above, the Manufacturing Partner has represented to Tinley that its business is and has been being conducted in compliance with the regulatory framework enacted by the State of California. California has implemented a robust regulatory system designed to ensure, monitor, and enforce compliance with all aspects of a cannabis operator's licensed operations. Compliance with local law is a prerequisite to obtaining and maintaining state licensure, and all three state regulatory agencies require confirmation from the locality that the operator is operating in compliance with local requirements and was granted authorization to continue or commence commercial cannabis operations within the locality's jurisdiction.

Below is an overview of some (cultivation licenses excluded) of the principal license types (each license type can be an "A" for adult-use only, an "M" medical only, or an "AM" for both adult-use and medical"):

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

*A. Zoning and Land Use Requirements*

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

*B. Record-Keeping and Continuous Reporting Requirements*

California's state license application process additionally requires comprehensive criminal history, regulatory history, financial and personal disclosures, coupled with stringent monitoring and continuous reporting requirements designed

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to ensure only good actors are granted licenses and that licensees continue to operate in compliance with the State regulatory program.

*C. Operating Procedure Requirements*

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

*D. Site-Visits & Inspections*

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

The following represents the portion of certain assets on Tinley's consolidated statements of financial position that pertain to US cannabis activity as of March 31, 2019:

<b>Balance Sheet Line Item</b>	<b>Percentage (%) which Related to Holdings with US marijuana-related activities</b>
Cash	3%
Accounts receivable	30%
Inventories	100%
Prepaid expenses	33%
Property and equipment	100%
Right-of-use assets	100%
Long-term security deposits	100%

Tinley has looked at all 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 Annual Financial Statements, has not been audited in its presentation format and accordingly is not in compliance with IFRS based on consolidation principles.

#### **4. Overall Performance**

##### **Selected Annual Information**

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

	<b>2018</b>	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Sales	36,597	31,095	12,573
Operating loss	(3,701,121)	(2,221,354)	(2,328,587)
Net loss	(3,660,906)	(2,204,607)	(2,328,587)

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Loss per share – basic and diluted	(0.042)	(0.030)	(0.049)
Total assets	6,812,613	4,874,773	4,237,901
Total liabilities	299,499	254,617	189,787
Total shareholders' equity	6,513,114	4,620,156	4,048,114

**Selected Quarterly Financial Results**

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

	<b>Q1 2019</b>	<b>Q4 2018</b>	<b>Q3 2018</b>	<b>Q2 2018</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Sales	232	(33,063)	52,921	12,712
Operating loss	(1,726,878)	(826,889)	(1,105,852)	(909,837)
Net loss	(1,724,490)	(815,339)	(1,092,546)	(901,913)
Loss per share – basic and diluted	(0.019)	(0.010)	(0.012)	(0.010)
Working capital	2,733,407	4,378,460	7,110,818	8,273,079

	<b>Q1 2018</b>	<b>Q4 2017</b>	<b>Q4 2017</b>	<b>Q3 2017</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Sales	4,027	(35,456)	(35,456)	16,271
Operating loss	(858,543)	(913,821)	(913,821)	(469,518)
Net loss	(851,108)	(911,416)	(911,416)	(468,140)
Loss per share – basic and diluted	(0.010)	(0.012)	(0.012)	(0.006)
Working capital	4,540,718	4,579,524	4,579,524	3,369,217

**Three Months ended March 31, 2019**

*Results of Operations*

During the three months ended March 31, 2019, the Company generated sales of \$232, as compared to sales of \$4,027 for the three months ended March 31, 2018 ("Q1 2018"). These sales booked solely represent the small amounts of Hemplify® product that were online, given sales via retail were completed using inventory that had shipped to distributors prior to the start of the quarter. This reflects the Company's commitment to shift resources to its THC-infused products, for reasons outlined under "Retail Growth Strategy". As also noted in that section, the Company is working to leverage its unique competitive advantage in cannabis-derived CBD beverages (i.e. not hemp-derived CBD) to reposition its CBD beverages for sale in California dispensaries in 2019.

During Q1 2019, the Company incurred total operating expenses of \$1,726,131, as compared to \$856,226 in Q1 2018. The significant increase in operating expenses in the current period is primarily due to the increase in share-based payments, a non-cash item, (\$463,745 in Q1 2019 compared to \$278,100 in Q1 2018), G&A costs from an expanded scope of operations (\$869,983 in Q1 2019 compared to \$367,464 in Q1 2018), Sales & Marketing (\$166,527 in Q1 2019 compared to \$163,492 in Q1 2018) and realized foreign exchange losses (\$176,338 loss in Q1 2019 compared to \$71,212 gain in Q1 2018). Specifically, the majority of the increase in G&A costs relates several items including Corporate costs and administration, Amortization for the right-of-use assets, a non-cash item, Professional Fees as the Company accelerates its legal activity related to licensing and production and Rent. There was no rent in Q1 2018 by comparison. This overall increase was partially offset by a decrease in product development costs.

During Q1 2019, the Company incurred G&A expenses of \$869,983 (Q1 2018 – \$367,464), comprised primarily of:

- General office expenses of \$220,377 (Q1 2018 – \$178,394);
- Amortization on property and equipment and right-of-use asset of \$156,647 (Q1 2018 – \$1,343);
- Professional fees of \$139,035 (Q1 2018 – \$73,403);
- Payroll and salaries of \$122,825 (Q1 2018 – \$nil);
- Consulting and management fees of \$98,176 (Q1 2018 – \$102,026);

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- Rents of \$80,699 (Q1 2018 – \$nil);
- Travel and promotional expenses of \$52,224 (Q1 2018 – \$12,298).

Reflecting the Company's continued status as primarily a development-stage organization, Net Loss for the three months ended March 31, 2019 was \$1,724,490 (\$0.019 per share on a basic and diluted basis), as compared to a Net Loss of \$851,108 (\$0.01 per share on a basic and diluted basis) for Q1 2018.

#### *Cash Flows*

Net cash used in operating activities for Q1 2019 was \$1,046,266, as compared to net cash flows used in operations of \$969,869 in Q1 2018. The slightly higher net cash used in operations is due primarily an increases Net Loss from operations, offset primarily by increases in non-cash items including Share-based payments, Amortization and Amortization of right-of-use assets, Interest on lease obligations and Unrealized foreign exchange loss. As noted above the Net loss from operations was primarily the result of increased G&A costs, including rents paid out on the Long Beach lease, engineering costs related to the Phase 3 facility buildout in Long Beach, and sales and growth initiatives consistent with the Company's strategy to launch and move forward with its Tinley product line of cannabis-infused drinks.

Net cash from investing activities for Q1 2019 was \$205,306 (Q1 2018 – cash used of \$23,635), primarily from proceeds from redemptions of some of the Company's fixed-income securities for \$498,115, which was offset by additional equipment purchased, which are required in the operations and the retrofitting of the Long Beach facility.

During Q1 2019, the Company raised funds of \$276,000 from a private placement, which was offset by lease payments made on the Long Beach facility. In Q1 2018, the Company raised \$535,373 through cash proceeds of \$505,373 and \$30,000 received from various warrants and options exercised during the comparable quarter.

#### **Working Capital and Liquidity Outlook**

As at March 31, 2019, the Company had working capital of \$2,733,407, as compared to working capital of \$4,378,460 as at December 31, 2018.

As at March 31, 2019, the Company had total accessible cash and liquid investment assets of \$3,009,350 (December 31, 2018 – \$4,338,208) available for working capital and other operational purposes, comprised of cash of \$2,806,959 (December 31, 2018 – \$3,633,275) and investments in short-term GICs valued at \$202,391 (December 31, 2018 – GIC of \$100,988 and fixed-income securities of \$603,945). The Company had redeemed some of its fixed-income securities during the three months ended March 31, 2019.

As at March 31, 2019, the Company had cash of \$2,806,959 (December 31, 2018 – \$3,633,275) to settle current liabilities of \$721,419 (December 31, 2018 – \$185,873). All of the Company's financial liabilities have contractual maturities of less than 365 days and are subject to normal trade terms. Management believes there is sufficient capital in order to meet short-term business obligations, after taking into account cash flows requirements from operations and the Company's cash position as at year-end.

Subsequent to the end of the quarter, on April 30, 2019, the Company closed the first tranche ("Tranche 1") of a non-brokered private placement through the issuance of 9,028,699 Units at a price of \$0.60 per Unit, for gross proceeds of \$5,417,219. Each Unit consists of one (1) common share and one half (1/2) warrant. Each whole warrant entitles the holder to purchase one (1) common share at a price of \$0.90 per common share, for a period of 24 months from closing. The President – Western US, Richard Gillis, invested \$240,000 on this placement.

On May 10, 2019, the Company completed the second tranche ("Tranche 2") of the non-brokered private placement through issuance of 5,788,408 Units and a price of \$0.60 per Unit, for total gross proceeds of \$3,473,044. Each Unit was comprised of one (1) common share of and one half (1/2) warrant. Each whole warrant entitles the holder to purchase one (1) common share at a price of \$0.90 per common share, for a period of 24 months from closing.

In total, the Company issued 14,817,107 Units for gross proceeds of \$8,890,263.



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

*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 during the three months ended March 31, 2019 and 2018 were as follows:

	Three months ended March 31, 2019	Three months ended March 31, 2018
	\$	\$
Short-term employee benefits, including salaries and consulting fees	<b>98,000</b>	117,044
Share-based compensation	<b>324,511</b>	47,550
	<b>422,511</b>	164,594

- (i) During the three months ended March 31, 2019, Jeffrey Maser, the Chief Executive Officer ("CEO") of the Company, was paid consulting fees of \$39,000 (2018 – \$39,000) for services rendered. As at March 31, 2019, no balance (December 31, 2018 – \$nil) was owed to the CEO for compensation on services rendered.
- (ii) During the three months ended March 31, 2019, David Berman, the Chief Financial Officer ("CFO") of the Company, was paid consulting fees of \$20,000 (2018 – \$16,800) for services rendered. As at March 31, 2019, no balance (December 31, 2018 – \$nil) was owed to the CEO for compensation on services rendered.
- (iii) During the three months ended March 31, 2019, directors considered to be part of key management were paid fees of \$39,000 (2018 – \$61,244) for services rendered. As at March 31, 2019, an amount of \$37,083 (December 31, 2018 – \$27,287) owing to these directors was included in accounts payable and accrued liabilities.

**6. Financial Risk Management**

*Fair value*

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

*Credit risk*

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. Cash is held with reputable Canadian and US chartered banks and in various liquid guaranteed interest-bearing instruments which are closely monitored by management. Management believes that the credit risk concentration with respect to financial instruments is minimal. The maximum exposure to credit risk at year-end is limited to the accounts receivable balance.

*Liquidity risk*

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. The Company's liquidity and operating results may be adversely affected if the Company's access to the capital market is hindered, whether as a result of a downturn in stock market conditions generally or related to matters specific to the Company. The Company generates cash flow primarily from its financing activities. As at March 31, 2019, the Company had a cash balance of \$2,806,959 (December 31, 2018 – \$3,633,275) to settle current liabilities of \$721,420 (December 31, 2018 – \$185,873).

All of the Company's financial liabilities have contractual maturities of less than 365 days and are subject to normal trade terms. Management believes there is sufficient capital in order to meet short-term business obligations, after taking into consideration the cash flows requirements from operations and the Company's cash position as at the reporting date.

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*Foreign currency risk*

The Company operates in Canada and the US and is exposed to foreign exchange risk with respect to USD. The Company raises funds in Canadian dollars for its operations in the US. Foreign exchange risk arises on cash and trade payables from operations in the US. The Company believes that its results of operations and cash flows would be affected by a sudden change in foreign exchange rates. The Company mitigates this risk by maintaining sufficient USD-denominated cash to meet its USD-denominated obligations. As at March 31, 2019, the Company had cash of USD \$1,707,778 (December 31, 2018 – USD \$2,045,482) and trade account receivables of USD \$10,578 (December 31, 2018 – USD \$13,385) available to use against trade and other payables of USD \$64,489 (December 31, 2018 – USD \$71,606).

*Sensitivity analysis*

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are "reasonably possible" over a 12-month period:

The Company is exposed to foreign currency risk on fluctuations of financial instruments related to cash, accounts receivable and accounts payable that are denominated in USD. As at March 31, 2019, had the Canadian dollar weakened/strengthened by 10% against the USD with all other variables held constant, the impact on the Company's net loss and other comprehensive loss for the three months ended March 31, 2019 would have been approximately \$95,126 as a result of foreign exchange gains (losses) on translation of USD-denominated financial instruments.

## **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 March 31, 2019, the Company considers its capital to be share capital, reserve for share-based payments, reserve for warrants, and accumulated other comprehensive loss, totaling \$5,397,606 (December 31, 2018 – \$6,513,114).

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 during the three months ended March 31, 2019 the year ended December 31, 2018.

## **8. Summary of Significant Accounting Policies**

The accounting policies applied in the unaudited condensed interim consolidated financial statements of the Company are the same as those applied by the Company in its audited consolidated financial statements as at and for the year ended December 31, 2018. For a summary of significant accounting policies adopted by the Company, please refer to Note 3 of Aura's audited financial statements for the year ended December 31, 2018.

*Adoption of New Accounting Standards*

The Company adopted the following amendments and new standards effective January 1, 2019:

IFRS 16 'Leases' ("IFRS 16") was issued in January 2016 and replaces IAS 17 'Leases' ("IAS 17") as well as some lease related interpretations. With certain exceptions for leases under twelve months in length or for assets of low value, IFRS 16 states that upon lease commencement a lessee recognizes a right-of-use asset and a lease liability. The right-of-use asset is initially measured at the amount of the liability plus any initial direct costs. After lease commencement, the lessee shall measure the right-of-use asset at cost less accumulated amortization and accumulated

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impairment. A lessee shall either apply IFRS 16 with full retrospective effect or alternatively not restate comparative information but recognize the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application. IFRS 16 requires that lessors classify each lease as an operating lease or a finance lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise it is an operating lease.

The Company has applied IFRS 16 with an initial application date of January 1, 2019, in accordance with the transitional provisions specified in IFRS 16. The Company applied the simplified transition approach and did not restate comparative amounts to the year prior to adoption. In respect of these lease commitments, the Company recognized right-of-use assets of approximately \$2,801,000, current lease liabilities of \$518,000 and non-current lease liabilities of \$2,493,000 as at January 1, 2019. Pursuant to the application of the simplified transition approach, the Company recognized the cumulative effect of initially applying IFRS 16 as an adjustment recorded a one-time adjustment to increase the opening accumulated deficit as at January 1, 2019 of \$210,073.

The Company has recognized lease liabilities and right-of-use assets at the date of initial application for leases previously classified as operating leases in accordance with IAS 17. The Company has elected to measure the right-of-use assets at the carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the Company's incremental borrowing rate at the date of initial application. For the lease previously classified as a finance lease under IAS 17, the carrying amount of the right-of-use asset and the lease liability at the date of initial application is equal to the carrying amount of the leased asset and lease liability immediately before the date of initial application.

The adjustments are due to the recognition of right-of-use assets and lease obligations for lease contracts previously classified as operating leases under IAS 17 prior to the date of initial application. The weighted average incremental borrowing rate applied to the lease liabilities recognized at the date of initial application is 12%.

IFRIC 23 '*Uncertainty over income tax treatments*' ("IFRIC 23") clarifies the application of recognition and measurement requirements in IAS 12 '*Income Taxes*', when there is uncertainty over income tax treatments. It specifically addresses whether an entity considers each tax treatment independently or collectively, the assumptions an entity makes about the examination of tax treatments by taxation authorities, how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, and how an entity considers changes in facts and circumstances. IFRIC 23 was effective for the Company's fiscal year beginning on January 1, 2019, and the Company adopted this interpretation as of its effective date. The Company has not assessed any significant impact as a result of the adoption of this standard.

#### *Recent Accounting Pronouncements*

At the date of authorization of these unaudited condensed interim consolidated financial statements, the IASB and IFRS Interpretations Committee have issued the following new and revised Standards and Interpretations which are effective for annual periods beginning on or after January 1, 2020:

IAS 1 '*Presentation of Financial Statements*' and IAS 8 – '*Accounting Policies, Changes in Accounting Estimates and Errors*' were amended in October 2018 to refine the definition of materiality and clarify its characteristics. The revised definition focuses on the idea that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements. The amendments are effective for annual reporting periods beginning on or after January 1, 2020. Earlier adoption is permitted.

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**Disclosure of Outstanding Share Data on May 30, 2019**

	<b>Authorized</b>	<b>Outstanding</b>
Voting or equity securities issued and outstanding	Unlimited Common Shares	103,244,141 Common Shares
Securities convertible or exercisable into voting or equity shares		Stock Options to acquire up to 8,160,500 Common Shares of the Company; Warrants to acquire up to 13,987,344 Common Shares of the Company.

**Off-Balance Sheet Arrangements**

As at March 31, 2019 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.

**Subsequent Events and News**

On April 30, 2019, the Company closed Tranche 1 of a non-brokered private placement through the issuance of 9,028,699 Units at a price of \$0.60 per Unit, for gross proceeds of \$5,417,219. Each Unit consists of one (1) common share and one half (1/2) warrant. Each whole warrant entitles the holder to purchase one (1) common share at a price of \$0.90 per common share, for a period of 24 months from closing.

On May 10, 2019, the Company completed Tranche 2 of the non-brokered private placement through issuance of 5,788,408 Units and a price of \$0.60 per Unit, for total gross proceeds of \$3,473,044. Each Unit was comprised of one (1) common share and one half (1/2) warrant. Each whole warrant entitles the holder to purchase one (1) common share at a price of \$0.90 per common share, for a period of 24 months from closing.

**Commitments**

On March 1, 2018, the Company entered into two lease agreements for the Long Beach facility in California, for beverage production and bottling facilities. The leases commenced on March 1, 2018, with a term of five (5) years and three (3) months, ending May 31, 2023, with an option to renew for two (2) additional 36-month periods.

As at March 31, 2019, the Company is committed to minimum annual lease payments for its Long Beach facility as follows:

	<b>Total</b>	<b>Within 1 year</b>	<b>1 to 3 years</b>	<b>3 to 5 years</b>
	\$	\$	\$	\$
Lease obligations	3,623,158	625,388	1,723,720	1,274,050

The Company has entered into a contract to complete the build-out and installation of the Long Beach facility by June 30, 2019. As at March 31, 2019, \$2,114,621 was paid and included in construction in progress, and the Company is further committed to progress payments of approximately \$3,299,368 on completion of this project. The contract is denominated in USD for a total of USD \$4,039,612.

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**9. Risk Factors**

There are numerous and varied risks, known and unknown, that may prevent the Company from achieving its goals. If any of these risks occur, the Company's business, financial condition or results of operation may be materially adversely affected. In such case, the trading price of the Company's common shares could decline, and investors could lose all or part of their investment. The following is a summary of risks that could be 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 is 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 sooner 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, 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.

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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.

*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.

The Company has advanced, and may continue to advance, significant funds to potential sellers in the form of promissory notes, which the Company may not be able to collect if the sellers fails to profitably operate its business. There is no assurance that any or all of the amounts loaned will be recovered by the Company.

*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 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

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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 manufacturer 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.

As of the date of this MD&A, 33 States, the District of Columbia and Guam allow their residents to use medical marijuana. Voters in the States of Colorado, Washington, Oregon, Alaska, California, Nevada, Massachusetts, and Maine 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. The Obama administration has made numerous statements indicating 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. However, there is no guarantee that the Trump administration will not change the government's stated policy regarding the low-priority enforcement of federal laws and decide to enforce the federal laws to the fullest extent possible. Any such change in the federal government's enforcement of current federal 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. 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.

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

Most US States that permit marijuana for adult use or medical use provide local municipalities with the authority to prevent the establishment of medical or adult use marijuana businesses in their jurisdictions. If local municipalities where the Company or its Licensed Operators have established facilities decide to prohibit marijuana 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 (the "Leahy Amendment") each of the last four years to prevent the federal government from using congressionally appropriated funds to enforce federal marijuana laws against regulated medical marijuana actors operating compliance with state and local laws. The 2018 Consolidated Appropriations Act was passed by Congress on March 23, 2018 and included the re-authorization of the Leahy Amendment, and were subsequently extended through December 7, 2018 as part of a short-term continuation of appropriations. Following the much-publicized shutdown of 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). As it stands, the Joyce Amendment will provide the medical marijuana industry with protection against federal prosecution until September 30, 2019.

American courts have construed these appropriation bills to prevent the federal government from prosecuting individuals when those individuals comply with state medical cannabis laws. However, because this conduct continues to violate federal law, American 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 state law—could be prosecuted for violations of federal law. If Congress restores funding, for example by declining to include the Leahy Amendment in the 2019 budget resolution, or by failing to pass necessary budget legislation and causing another government shutdown, the government will have the authority to prosecute individuals for violations of the law before it lacked funding under the five-year statute of limitations applicable to non-capital Controlled Substances Act violations. Additionally, it is important to note that the appropriations protections only apply to medical cannabis operations and provide no protection against businesses operating in compliance with a state's recreational cannabis laws.

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

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.

If the industry was 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.

*Taxes*

US federal prohibitions on the sale of marijuana 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



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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 FCSA). 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 dealer could pose threats*

Currently, there are many drug dealers and cartels that cultivate, buy, sell and trade marijuana 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 marijuana 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 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 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.

*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 marijuana sector.

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

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*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.

While cannabinoids, commonly found in hemp oil, can also be commonly found in certain strains of marijuana, which faces significant restrictions on use and distribution under the FCSA, the Company was not sourcing any derivatives from marijuana as at year end for its hemp products.

While oil derived from industrial hemp stalk that has naturally occurring THC content equal to or less than 0.3% is excluded from the definition of marijuana under the FCSA, there is no certainty that this exclusion could not be altered by court or governmental action or re-interpretation. There is no certainty that the FDA will not regulate the use of hemp oil or components of hemp oil as a drug and prohibit use as a dietary ingredient. There is no certainty that hemp oil will be considered a grandfathered dietary ingredient under the Dietary Supplement Health and Education Act of (1994) ("DSHEA") or would otherwise be permitted for use under the DSHEA. The FDA has stated that cannabidiol, a component of hemp oil, is precluded from the definition of a dietary ingredient as it is the subject of an Investigational New Drug application.

On April 19, 2018, the FDA advisory committee unanimously recommended supporting the approval of the new drug application for Epidiolex, a CBD product for the treatment of seizures associated with Lennox-Gastaut syndrome and Dravet syndrome in patients two years of age and older. Upon the approval of Epidiolex, it is possible that FDA may begin taking enforcement action against companies selling CBD products, although it is unknown what actions and when will be taken.

With respect to the Company's sales of hemp-derived CBD products in California, the Company understands that the Food and Drug Branch of the California Department of Public Health has also begun taking enforcement action against companies selling CBD products in certain instances. On July 6, 2018, the Food and Drug Branch of the California Department of Public Health published a Frequently Asked Questions document (the "FAQ"), which expressed California's concern about the safety of human and animal consumption of hemp-derived CBD food products. The

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FAQ provides that, until the FDA affirmatively rules that hemp-derived CBD is approved to be used as a food product ingredient, or California makes its own affirmative safety determination relative to consumption of such hemp derived CBD food products, California would take a similar position as the FDA and designate hemp-derived CBD as an unapproved food additive.

The Company relies on the supply of hemp stalk oil extracts, which is imported into the US from other countries. The United States Drug Enforcement Administration ("DEA") and the US Customs and Border Protection Agency will not permit the entry of hemp extract into the US if it contains any amount of THC which is a marijuana derivative and, therefore, a Schedule I drug. Currently, the definition of "marijuana" in the US FCSA does not include the plant's "mature stalks", which are used to create hemp (which only contains trace amounts of THC and has no psychoactive effect). Hemp stalk oil is not scheduled under the US FCSA and therefore, is also not under the enforcement authority of the DEA. Currently, the DEA does not take jurisdiction over hemp stalk oil products, but controls hemp cultivation, and companies that wish to cultivate hemp in the US must apply for a permit with the DEA. If in the future DEA takes jurisdiction to regulate hemp stalk oil products, the Company may become subject to additional licensing requirements, which may require additional capital. There is no assurance that the Company will be able to obtain any such licenses, or be eligible to apply for such licenses, which would adversely affect the Company's business.

Products containing cannabis and hemp CBD may currently not be manufactured, distributed or sold in Canada unless such activity is undertaken in accordance with the Access to Cannabis for Medical Purposes Regulations or other appropriate regulatory exemptions. The Company is monitoring changes to Canada's regulations with respect to both medical and recreational cannabis and may seek to pursue opportunities to distribute its products in Canada as such regulatory changes permit.

*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 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 and client support. 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.

*Risks inherent in an agricultural business*

A part of the Company's business revolves around purchasing hemp extract, an agricultural product, although the Company will not itself grow or sell hemp. As such, the business is subject to the risks inherent in the agricultural business, such as insects, plant diseases and similar agricultural risks. Although the Company intends to manufacture its products indoors under climate-controlled conditions, carefully monitors the growing conditions with trained personnel, there can be no assurance that natural elements will not have a material adverse effect on the production of its products.

*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

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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.

*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 labor*

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.

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*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*

The medical and retail marijuana 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.

*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 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 Shares or Warrants to sell their securities at an advantageous price. Market price fluctuations in the 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 Shares and Warrants.

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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 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 marijuana industry may be significantly influenced by the public's perception of marijuana. Both the medical and recreational use of marijuana are controversial topics, and there is no guarantee that future scientific research, publicity, regulations, medical opinion and public opinion relating to marijuana will be favorable. The marijuana industry is an early-stage business that is constantly evolving with no guarantee of viability. The market for medical and recreational marijuana 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 marijuana, 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 regards 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.

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**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, risks associated with the cannabis industry, the risk of commodity price and foreign exchange rate fluctuations, the ability of the Company to fund the capital and operating expenses necessary to achieve the business objectives of the Company, the uncertainty associated with commercial negotiations and negotiating with foreign governments and risks associated with international business activities, as well as those risks described in public disclosure documents filed by the Company. Due to the risks, uncertainties and assumptions inherent in forward-looking statements, prospective investors in securities of the Company should not place undue reliance on these forward-looking statements. Statements in relation to “reserves” are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the reserves described can be profitably produced in the future.

Readers are cautioned that the foregoing lists of risks, uncertainties and other factors are not exhaustive. The forward-looking statements contained in this press release are made as of the date hereof and the Company undertakes no obligation to update publicly or revise any forward-looking statements or in any other documents filed with Canadian securities regulatory authorities, whether as a result of new information, future events or otherwise, except in accordance with applicable securities laws. The forward-looking statements are expressly qualified by this cautionary statement.

**Disclosure of Internal Controls over Financial Reporting**

Management has established processes to provide them sufficient knowledge to support representations that they have exercised reasonable diligence that (i) the unaudited condensed interim 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 unaudited condensed interim 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 unaudited condensed interim consolidated 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 unaudited condensed interim consolidated financial statements in all material aspects.

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The Audit Committee has reviewed the consolidated financial statements and this MD&A with management. The Board has approved the unaudited condensed interim consolidated financial statements and this MD&A on the recommendation of the Audit Committee.

May 30, 2019

Jeffrey Maser  
Chief Executive Officer