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**KOIOS BEVERAGE CORP.**  
**UNAUDITED CONDENSED INTERIM**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**AUGUST 31, 2022**

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**NOTICE TO READER**

Under National Instrument 51-102, Part 4, subsection 4.3 (3) (a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim financial statements of Koios Beverage Corp. ("**Corporation**") have been prepared by and are the responsibility of the Corporation's management.

The Corporation's independent auditor has not performed a review of these unaudited condensed interim financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's independent auditor.

**KOIOS BEVERAGE CORP.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**AUGUST 31, 2022**  
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## Management's Responsibility

To the Shareholders of Koios Beverage Corp:

Management is responsible for the preparation and presentation of the accompanying consolidated financial statements, including responsibility for significant accounting judgments and estimates in accordance with International Financial Reporting Standards (“**IFRS**”) that have been incorporated into Canadian Generally Accepted Accounting Principles (“**CGAAP**”) and for ensuring that all information in the management discussion and analysis is consistent with these consolidated financial statements. This responsibility includes selecting appropriate accounting principles and methods and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the consolidated financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safe-guarded and financial records are properly maintained to provide reliable information for the preparation of consolidated financial statements.

The Board of Directors (“**Board**”) is composed primarily of directors who are neither management nor employees of Koios Beverage Corp. and the Audit Committee is comprised of independent directors. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Board fulfils these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management, and with the external auditor. The Board is also responsible for recommending the appointment of the external auditor of Koios Beverage Corp.

/s/ "Chris Miller"

Chris Miller  
Chief Executive Officer

Vancouver  
January 9, 2022

**KOIOS BEVERAGE CORP.**  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
(All Amounts are in US Dollars)

As at August 31,	2022	2021
<b><u>ASSETS</u></b>		
Cash	\$ 707,457	\$ 1,313,440
Accounts receivable (Note 4)	135,451	156,021
Inventory (Note 5)	646,363	542,804
Prepaid expenses	107,610	95,681
Loan receivable (Note 16)	<u>106,608</u>	<u>105,276</u>
	1,703,489	2,213,222
Investment in joint venture (Note 6)	98,806	86,225
Prepaid expense, non-current	31,115	115,000
Equipment, vehicle and right-of-use assets (Note 7)	<u>81,888</u>	<u>90,059</u>
	<u>\$ 1,915,298</u>	<u>\$ 2,504,506</u>
<b><u>LIABILITIES</u></b>		
Line of credit (Note 8)	\$ 41,578	\$ 79,632
Accounts payable and accrued liabilities (Note 9)	1,420,482	1,199,051
Short-term loan (Note 10)	14,517	14,786
Short-term lease liability (Note 11)	40,174	57,737
Vehicle loan (Note 12)	2,667	3,270
Due to Related Party (Note 16)	145,960	193,672
Provision for indemnity (Note 20)	<u>24,617</u>	<u>25,072</u>
	1,689,995	1,573,220
<b>NON-CURRENT LIABILITIES</b>		
Long-term lease liability, non-current (Note 11)	<u>28,224</u>	<u>16,625</u>
	<u>1,718,219</u>	<u>1,589,845</u>
<b><u>SHAREHOLDERS' EQUITY</u></b>		
Share capital (Note 14)	26,272,799	26,272,799
Obligation to issue shares (Note 14)	6,471,844	5,029,681
Contributed surplus (Note 15)	6,693,975	6,693,975
Accumulated other comprehensive income	(157,794)	(191,236)
Accumulated deficit	<u>(39,083,745)</u>	<u>(36,890,558)</u>
	<u>197,079</u>	<u>914,661</u>
	<u>\$ 1,915,298</u>	<u>\$ 2,504,506</u>
Nature of Organization (Note 1)		
Commitments and Contingencies (Note 17)		
Subsequent event (Note 23)		

Approved on behalf of the board of directors:

\_\_\_\_\_  
*/s/ "Chris Miller"*  
Chris Miller, Director

\_\_\_\_\_  
*/s/ "Erik LeVang"*  
Erik LeVang, Director

**KOIOS BEVERAGE CORP.**  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
**(All Amounts are in US Dollars)**

	Number of Common Shares	Amount of Common Shares	Obligation to issue common shares	Contributed Surplus	Accumulated Other Comprehensive Income	Accumulated Deficit	Shareholders' Equity
Balance, June 1, 2021	8,683,457	\$ 13,702,458	\$ 215,192	\$ 2,306,110	\$ (285,889)	\$ (15,730,884)	\$ 296,987
Other comprehensive loss	—	—	—	—	86,132	—	86,132
Comprehensive loss for the period	—	—	—	—	—	(377,433)	(377,433)
Balance, August 31, 2022	8,683,457	\$ 26,272,799	\$ 5,657,456	\$ 6,693,975	\$ (199,757)	\$ (16,108,317)	\$ (133,794)
Balance, June 1, 2022	66,247,942	\$ 26,272,799	\$ 5,029,681	\$ 6,693,975	\$ (191,236)	\$ (35,890,558)	\$ 914,661
Obligation to issue shares	—	—	1,442,163	—	—	—	—
Other comprehensive loss	—	—	—	—	33,442	—	33,442
Comprehensive loss for the period	—	—	—	—	—	(2,193,187)	(2,193,187)
Balance, August 31, 2022	66,247,942	\$ 26,272,799	\$ 6,471,844	\$ 5,029,681	\$ (157,794)	\$ (39,083,745)	\$ 197,079

**KOIOS BEVERAGE CORP.**  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS**  
**(All Amounts are in US Dollars)**

<b>For the Period Ended August 31,</b>	<b>2022</b>	<b>2021</b>
Product revenue	\$ 276,833	\$ 202,351
Cost of sales	<u>(308,270)</u>	<u>(199,042)</u>
	<u>(31,437)</u>	<u>3,309</u>
<b>EXPENSES</b>		
Corporate development	102,532	17,839
Freight and shipping	80,471	108,179
Consulting fees (Note 16)	221,845	141,328
Amortization (Note 7)	8,172	12,905
Filing and regulatory fees	1,907	2,194
Share of loss (income) of joint venture (Note 6)	(12,581)	2,469
Finance expense (Note 8, 10, 11, 12, 13)	76,544	6,088
Office expense	102,910	36,217
Professional fees	83,734	30,980
Insurance	26,910	14,808
Rent	9,139	8,660
Stock-based compensation (Note 15 and 16)	<u>1,460,167</u>	<u>—</u>
	<u>2,161,750</u>	<u>380,742</u>
Net Loss	(2,193,187)	(377,433)
Other comprehensive income (loss)		
Exchange differences related to presentation currency	<u>33,442</u>	<u>36,651</u>
Comprehensive Loss	<u>\$ (2,159,745)</u>	<u>\$ (340,782)</u>
Net loss per common share		
Basic and Diluted	<u>\$ (0.03)</u>	<u>\$ (0.04)</u>
Weighted average number of common shares outstanding (Note 22)		
Basic and Diluted	<u>66,247,942</u>	<u>8,683,457</u>

**KOIOS BEVERAGE CORP.**  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(All Amounts are in US Dollars)**

<b>For the Period Ended August 31,</b>	<b>2022</b>	<b>2021</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income for the period	\$ (2,193,187)	\$ (377,433)
Non-cash expenses:		
Amortization	8,172	12,905
Interest accretion	4,527	6,088
Lease termination	—	(1,260)
Share of loss (income) from joint venture	(12,581)	2,469
Share-based compensation	1,433,642	—
Net change in operating assets and liabilities		
Accounts receivables	20,570	(15,770)
Inventory	(103,559)	(14,307)
Prepaid expenses	(71,956)	(102,454)
Due to related parties	(47,712)	(5,914)
Accounts payable and accrued liabilities	<u>221,431</u>	<u>47,150</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	<u>(596,741)</u>	<u>(448,526)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Line of credit, net	(38,054)	—
Convertible debenture	—	—
Loan receivable	—	—
Vehicle oan repayments	(603)	(905)
Lease repayments	<u>(10,491)</u>	<u>(18,085)</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	<u>(49,148)</u>	<u>(18,990)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Equipment purchased	<u>—</u>	<u>(181)</u>
<b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>	<u>—</u>	<u>(181)</u>
<b>EFFECTS OF FOREIGN EXCHANGE ON CASH</b>	39,906	12,380
<b>NET DECREASE IN CASH</b>	(605,983)	(455,317)
CASH – Beginning of the year	<u>1,313,440</u>	<u>1,028,827</u>
CASH – End of the year	<u>\$ 707,456</u>	<u>\$ 1,573,510</u>

**KOIOS BEVERAGE CORP.**  
**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED AUGUST 31, 2022(Expressed in US Dollars)**

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**1. Nature and Continuance of Operations**

Koios Beverage Corp. (the “**Company**”) was incorporated on November 13, 2002, under the *Business Corporations Act* (British Columbia). On April 13, 2018, the Company completed a transaction with Koios Inc. (formerly Koios, LLC) (“**Koios**”), a company incorporated under the laws of the State of Colorado. Koios specializes in the business of producing, marketing and selling functional beverages.

The corporate registered and records offices of the Company are located at 810 - 789 West Pender Street, Vancouver, British Columbia, V6C 1H2. The Company’s common shares are listed for trading on the Canadian Securities Exchange (“CSE”) under the symbol “**FIT**” and the United States OTC stock market under the symbol “**FITSF**”.

**Statement of compliance**

These unaudited condensed interim consolidated financial statements (“**Financial Statements**”) have been prepared in accordance with IAS 34 – Interim Financial Reporting, as issued by the International Accounting Standards Board (“**IASB**”). Accordingly, certain disclosures included in annual financial statements prepared in accordance with International Financial Reporting Standards (“**IFRS**”) as issued by the IASB, have been condensed or omitted and therefore, these Financial Statements should be read in conjunction with the Company’s audited consolidated financial statements for the year ended May 31, 2022.

**Going concern**

These Financial Statements have been prepared on a going concern basis, which presumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business in the foreseeable future. During the year ended August 31, 2022, the Company incurred a comprehensive loss of \$2,193,187 (May 31, 2022 - \$21,159,674) had an accumulated deficit of \$39,083,558 as at August 31, 2022 (May 31, 2022- \$36,890,558) and had a working capital \$44,609 (May 31, 2022 - \$640,002). The Company anticipates that further losses will be incurred. The Company’s ability to continue as a going concern and meeting its corporate objectives will require additional financing through debt or equity issuances, or other available means. There is no assurance that the Company will be able to obtain adequate financing in the future or that such financing will be available on terms advantageous to the Company. These conditions indicate the existence of material uncertainties that may cast significant doubt about the Company’s ability to continue as a going concern. These Financial Statements do not include any adjustments relating to the recoverability, classification of recorded asset amounts, nor classification of liabilities that might be necessary should the Company be unable to continue its existence and these adjustments could be material.

In March 2020, the World Health Organization declared the outbreak of COVID-19 a global pandemic. Government measures to limit the spread of COVID-19 such as the closure of non-essential businesses, did not materially disrupt the Company’s operations despite the beverage industry not having been recognized as an essential service. As at August 31, 2022, the Company has not observed any material impairments of its assets or any significant changes in the fair value of assets, due to the COVID-19 pandemic.

Due to rapid developments and uncertainty surrounding COVID-19, it is not possible to predict the impact that COVID-19 will have on future business, financial position and operating results. In addition, it is possible that estimates in the Company’s financial statements will change in the near term as a result of COVID-19 and the effect of any such changes could be material, which could result in, among other things, impairment of assets. The Company is closely monitoring the impact of the pandemic on all aspects of its business.

**Basis of consolidation**

These Financial Statements include the accounts of the Company and its wholly owned subsidiaries. Control over subsidiaries exist when the Company has power, directly or indirectly, to govern the financial and operating policies of the subsidiary, so as to obtain benefits from its activities. Inter-company balances and transactions, and any unrealized income and expenses arising from inter-company transactions, are eliminated in preparing the Financial Statements



**KOIOS BEVERAGE CORP.**  
**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED AUGUST 31, 2022(Expressed in US Dollars)**

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**Basis of measurement**

These Financial Statements have been prepared on a historical cost basis except for certain financial instruments which are measured at fair value. In addition, these Financial Statements have been prepared using the accrual basis of accounting, except for cash flow information.

**Foreign currency**

The Company's functional currency is the Canadian dollar. The functional currency of its subsidiaries is as follows:

Subsidiary Name	Functional Currency
Koios Inc.	US Dollar
Cannavated Beverage Co. (BC)	Canadian dollar
Cannavated Beverage Corp. (Nevada)	US Dollar
Retox Beverage Inc.	Canadian dollar

The presentation currency of the financial statements is the US Dollar. Monetary assets and liabilities of the subsidiaries denominated in currencies other than the US dollar are translated into US dollars at the rates of exchange prevailing at the reporting date. Non-monetary assets and liabilities are translated at exchange rates prevailing at the reporting date. Revenues and expenses are translated at average rates throughout the reporting period. All differences are taken to other comprehensive loss.

**2. Summary of Significant Accounting Policies**

**Cash and Cash Equivalents**

Cash and cash equivalents include cash at banks and on hand, and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and are subject to an insignificant risk of change in value.

**Inventory**

Inventory is valued at the lower of cost and net realizable value. The cost of inventory is calculated using the weighted average method and comprises all costs of purchase necessary to bring the goods to sale. Net realizable value represents the estimated selling price for products sold in the ordinary course of business less the estimated costs necessary to make the sale. Management uses the most reliable evidence available in determining the net realizable value of inventories. Actual selling prices may differ from estimates, based on market conditions at the time of sale. Allowances are made against obsolete or damaged inventory and charged to cost of sales. The reversal of any write-down of inventory arising from increase in the net realizable value is recognized as a reduction of cost of sales in the period in which the reversal occurred.

**Provisions**

Provisions for legal claims, where applicable, are recognized in other liabilities when the Corporation has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period and are discounted to present value where the effect is material.

**KOIOS BEVERAGE CORP.**  
**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED AUGUST 31, 2022(Expressed in US Dollars)**

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**Property, and equipment**

Property, and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is computed using the percentage declined method follows:

Classification	Rate
Equipment	20%
Vehicles	30%
Right of use equipment	Lesser of term of lease and useful life
Right of use office space	Lessor of term lease and useful life

When assets are disposed of, the cost and accumulated depreciation are removed from the respective accounts and any related gain or loss is recognized within the Consolidated Statement of Operations and Comprehensive Loss. Maintenance and repairs are charged to expense as incurred. Significant expenditures, which increase productivity or extend the useful life of the asset, are capitalized.

Available for use is defined as the point at which the related property, and equipment is operational, including the possession of any requisite licenses. Depreciation commences at the point the assets are available for use.

**Share Capital**

Share capital, common shares and equity instruments are any contracts that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

The Company has adopted a residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the more easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component.

The fair value of the common shares issued in the private placements was determined to be the more easily measurable component and were valued at their fair value, as determined by the closing quoted bid price on the announcement date. The balance, if any, was allocated to the attached warrants. Warrants that are issued as payment for an agency fee or other transaction costs are accounted for as share-based payments.

**Warrants**

The Corporation measures the fair value of warrants issued using the Black-Scholes option-pricing model. The fair value of each warrant is estimated based on their respective issuance dates considering volatility, expected life, the dividend rate, and the risk-free interest rate. The fair value of warrants issued in conjunction with an offering is charged to share issue costs with an offsetting amount recorded to contributed surplus. The fair value of warrants exercised is recorded as share capital, and the fair value of any expired warrants is recorded as contributed surplus.

**Special warrants**

The fair value of stock options granted is measured at grant date using the Black-Scholes Option Pricing Model. Where options are granted to consultants for goods or services rendered, the options are measured at the fair value of the goods or services received by the Company. If the fair value of the goods and services received cannot be reliably measured, the fair value of the stock options granted is used instead. At each reporting date, prior to vesting, the cumulative expense representing the extent to which the vesting period has expired and management's best estimate of the awards that are expected to ultimately vest is computed. The movement in cumulative expense is recognized in the consolidated statement of loss and comprehensive loss with a corresponding entry within equity, against reserves. No expense is recognized for awards that do not ultimately vest. When options are exercised, the proceeds received, together with any related amount in reserves, are credited to share capital.

**KOIOS BEVERAGE CORP.**  
**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
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**Stock-based compensation**

The fair value of stock options granted is measured at grant date using the Black-Scholes Option Pricing Model. Where options are granted to consultants for goods or services rendered, the options are measured at the fair value of the goods or services received by the Company. If the fair value of the goods and services received cannot be reliably measured, the fair value of the stock options granted is used instead. At each reporting date, prior to vesting, the cumulative expense representing the extent to which the vesting period has expired and management's best estimate of the awards that are expected to ultimately vest is computed. The movement in cumulative expense is recognized in the consolidated statement of loss and comprehensive loss with a corresponding entry within equity, against reserves. No expense is recognized for awards that do not ultimately vest. When options are exercised, the proceeds received, together with any related amount in reserves, are credited to share capital.

**Loss per share**

Loss per share is computed by dividing the loss for the year by the weighted average number of common shares outstanding during the year. To compute diluted earnings per share, adjustments are made to common shares outstanding. The weighted average number of common shares outstanding is adjusted to include the number of additional common shares that would be outstanding if, at the beginning of the year or at time of issuance, if later, all options and warrants were exercised. The proceeds from exercise would be used to purchase the Company's common shares at their average market price during the year. If this computation is anti-dilutive, diluted loss per share is the same as basic loss per share.

**Income taxes**

Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded using the liability method, providing for temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting nor taxable loss; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it is probable that a future tax asset will be recovered, it does not recognize the asset.

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

**KOIOS BEVERAGE CORP.**  
**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED AUGUST 31, 2022(Expressed in US Dollars)**

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**Financial instruments**

The following is the Company's accounting policy for financial instruments under IFRS 9:

*Classification*

The Company classifies its financial instruments in the following categories: at fair value through profit and loss ("FVTPL"), at fair value through other comprehensive loss ("FVTOCI") or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or if the Company has opted to measure them at FVTPL.

The following table shows the classification of financial assets and liabilities under IFRS 9:

Financial Assets / Liabilities	Classification - IFRS 9
Cash	FVTPL
Accounts receivable	Amortized cost
Loan receivable	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Short-term loan	Amortized cost
Vehicle loan	Amortized cost
Convertible debenture	FVTPL
Due to related party	Amortized cost
Line of credit	Amortized cost

**Measurement**

*Financial assets and liabilities at amortized cost*

Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment.

*Financial assets and liabilities at FVTPL*

Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the consolidated statements of loss and comprehensive loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the consolidated statements of loss and comprehensive loss in the period in which they arise. Where management has opted to recognize a financial liability at FVTPL, any changes associated with the Company's own credit risk will be recognized in other comprehensive loss.

Financial assets through other comprehensive income ("FVTOCI")

Financial assets that meet the following conditions are measured at FVTOCI:

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Company does not currently hold any financial instruments designated as FVTOCI.

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**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
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*Equity instruments designated as FVTOCI*

On initial recognition, the Company may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination. Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognized in other OCI. The cumulative gain or loss is not reclassified to profit or loss on disposal of the equity instrument, instead, it is transferred to retained earnings. The Company does not currently hold any equity instruments designated as FVTOCI.

*Impairment of financial assets at amortized cost*

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the credit risk of the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. The Company shall recognize in the consolidated statements of comprehensive loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

**Derecognition**

*Financial assets*

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

*Financial liabilities*

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

**IFRS 15, Revenue from Contracts with Customers**

IFRS 15 deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the goods or services.

Product revenue is recognised once ownership of the products has transferred to the buyer, the amount of revenue is known and collection is reasonably assured. Consignment inventory sales are only recognised as revenue once the third party has sold the inventory and there are no obligation on the Company to take the product back.

**IFRS 16, Leases**

IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset being leased. For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to current finance lease accounting, with limited exceptions for short-term leases or leases of low value assets. Lessor accounting is not substantially changed.

**KOIOS BEVERAGE CORP.**  
**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
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The Company assesses whether a contract is or contains a lease at inception of the contract. A lease is recognized as a right-of-use asset and corresponding liability at the commencement date. Each lease payment included in the lease liability is apportioned between the repayment of the liability and a finance cost. Lease liabilities represent the net present value of fixed lease payments (including in-substance fixed payments); variable lease payments based on an index, rate, or subject to a fair market value renewal condition; amounts expected to be payable by the lessee under residual value guarantees, the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and payments of penalties for terminating the lease, if it is probable that the lessee will exercise that option.

The lease payments are discounted using the interest rate implicit in the lease or, if that rate cannot be determined, the lessee's incremental borrowing rate. The period over which the lease payments are discounted is the expected lease term, including renewal and termination options that the Company is reasonably certain to exercise.

Payments associated with short-term leases and leases of low-value assets are recognized as an expense on a straight-line basis in general and administration and sales and marketing expense in the consolidated statement of comprehensive loss. Short term leases are defined as leases with a lease term of 12 months or less.

Right-of-use assets are measured at cost, which is calculated as the amount of the initial measurement of lease liability plus any lease payments made at or before the commencement date, any initial direct costs and related restoration costs. The right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the useful life of the underlying asset. The depreciation is recognized from the commencement date of the lease.

#### **Equity Accounted Investments**

Equity accounted investments are those entities in which the Company has significant influence but does not have control over the financial and operating policies of the investees. Significant influence is presumed to exist when the Company holds between 20 percent and 50 percent of the voting power of another entity. Joint arrangement entities are those over which the Company has joint control, established by contractual agreement and requiring unanimous consent for strategic, financial, and operating decisions. Joint ventures are joint arrangements whereby the parties have joint control of the arrangement and have rights to the net assets of the arrangement.

Investments in associates and joint ventures are accounted for by the equity method, whereby the original cost of the investment is adjusted for the Company's share of earnings or losses less dividends since significant influence was acquired. When net accumulated losses from an equity accounted investment exceed its carrying amount, the investment balance is reduced to \$nil and additional losses are not provided for unless the Company is committed to provide other financial support to the investee. The Company resumes accounting for its portion of income (loss) of the investment when the entity subsequently reports net income and the Company's share of that net income exceeds the share of net losses not recognized during the period the equity method was suspended.

Profits or losses resulting from transactions between the Company and its associates are eliminated to the extent of the interest in the associate. The Company determines at each reporting date whether there is objective evidence that the investments in associates are impaired. The financial statements of associates are prepared for the same reporting period as the Company. Where necessary adjustments are made to bring the accounting policies of associates in line with those of the Company.

The Company holds a 50% interest in BevCreation LLC.

#### **Future Accounting standards issued**

Accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a significant impact on the Company's Financial Statements

### **3. Significant Accounting Policies, Judgements and Estimation Uncertainty**

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The preparation of these Financial Statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the Financial Statements and the reported amount of revenue and expenses during the reporting periods. Such estimates relate primarily to unsettled transactions and events as of the date of the Financial Statements. Actual results could differ materially from those reported.

Significant assumptions about the future and other sources of judgments and estimates that management has made at the Statement of Financial position date, that could result in material adjustments to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

- The provision of deferred tax is based on judgments in applying income tax laws and estimates on timing, likelihood and reversal of temporary differences between the accounting and tax basis of the assets and liabilities;
- The estimated value of the Company's provision of the indemnity to shareholders; and
- The valuation of the Company's securities issued to settle amounts payable;
- The valuation and measurement of stock-based compensation;
- The determination of whether the Company will continue as a going concern.
- The determination as to whether the Company has significant influence over an entity or a joint venture.
- Judgement whether an acquisition is a business combination or an asset acquisition.

**4. Accounts Receivable**

As at	August 31, 2022	May 31, 2022
Accounts receivable	\$ 99,029	\$ 126,803
Commodity tax receivable	36,422	29,218
	<b>\$ 135,451</b>	<b>\$ 156,021</b>

**5. Inventory**

As at	August 31, 2022	May 31, 2022
Raw materials	\$ 364,904	\$ 378,090
Finished Goods	281,459	164,714
	<b>\$ 646,363</b>	<b>\$ 542,804</b>

**6. Investment in Joint Venture**

On February 18, 2021, the Company together with Beauty Gourmet LLC, a woman's functional beverage Company, formed a subsidiary named BevCreation, LLC ("**BevCreation**"). BevCreation is a manufacturer of functional beverages and operates in Denver, Colorado. Pursuant to terms of the Operating Agreement ("**Operating Agreement**"), the Company owns 50% of BevCreation and has advanced cash to BevCreation. BevCreation will streamline the Company's canning processes and will improve the Company's supply chain efficiency.

Based on the terms of the Operating Agreement, management has determined that BevCreation meets the definition of a joint venture. Accordingly, the investment is accounted for using the equity method in these consolidated financial statements.

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**6. Investment in Joint Venture (Continued)**

Opening balance June 1, 2021	\$ 45,260
Share of profit from joint venture	40,965
Balance May 31, 2022	<u>86,225</u>
Share of profit from joint venture	12,581
Balance August 31, 2022	<u>\$ 98,806</u>

The following table summarizes the financial information of the Company's joint venture and reflects the amounts presented in the financial statements of BevCreation as at:

For the period from, to	June 1, 2022 Aug. 31, 2022	June 1, 2021 May 31, 2022
Cash	\$ 42,300	\$ 33,719
Current assets (Inclusive of cash)	73,122	76,954
Long-term assets	257,340	246,249
Long term-liabilities	279,075	40,702
Revenues	212,607	647,561
Expenses (excluding depreciation)	163,864	478,786
Depreciation	23,580	86,745
Net income	25,163	81,930

**7. Equipment, Vehicle and Right-of-Use**

Cost	Equipment	Vehicle	Right-of-Use Equipment	Right-of-Use Office Space	Total
Balance, June 1, 2021	27,095	18,792	105,506	68,063	219,546
Addition	—	—	—	—	—
Disposal	—	—	—	(68,083)	(68,083)
Balance, May 31, 2022 and August 31, 2022	<u>\$ 27,095</u>	<u>\$ 18,792</u>	<u>\$ 105,506</u>	<u>\$ —</u>	<u>\$ 151,393</u>

Accumulated Depreciation	Equipment	Vehicle	Right-of-Use Equipment	Right-of-Use Office Space	Total
Balance, June 1, 2021	\$ 1,635	\$ 12,982	\$ 13,425	\$ 34,118	\$ 62,160
Depreciation	4,192	1,743	27,357	33,965	67,257
Disposal	—	—	—	(68,083)	(68,083)
Balance, May 31, 2022	5,827	14,725	40,782	—	61,334
Depreciation	1,018	314	6,839	—	8,171
Balance, August 31, 2022	<u>\$ 6,845</u>	<u>\$ 15,039</u>	<u>\$ 47,621</u>	<u>\$ —</u>	<u>\$ 69,505</u>

Net Book Value	Equipment	Vehicle	Right-of-Use Equipment	Right-of-Use Office Space	Total
May 31, 2022	\$ 21,268	\$ 4,067	\$ 64,724	\$ —	\$ 90,059
August 31, 2022	20,250	3,753	57,885	—	81,888

**8. Line of Credit**

The Company entered into a credit facility of up to \$122,000, which is secured via a first priority on the assets of the Company and bears an interest rate of 3.58%. Each draw is to be repaid in equal payments over the following 12 months. During the year ended May 31, 2022, the Company had drawn down \$122,000, and as at August 31, 2022 there is a balance due of \$41,578 (May 31, 2022 - \$79,632).



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**9. Accounts payable and accrued liabilities**

As at	August 31, 2022	May 31, 2022
Accounts payable	\$ 459,901	\$ 789,587
Accrued liabilities	960,581	409,464
	\$ 1,420,482	\$ 1,199,051

**10. Short-Term Loans**

The short-term loan of \$14,517 (C\$19,000) (May 31, 2022 - \$14,786 (C\$19,000)) is non-interest-bearing, due on demand and not collateralized, and was due to a former related party.

**11. Lease Liability**

As at August 31, 2022, the Company has three equipment leases and one office lease (Collectively, the “**Leases**”). The Leases were measured at the present value of the future lease payments. These Lease payments are discounted using a discount rate of 8% per annum for the Company’s office leases, which represents the Company’s estimated incremental borrowing rate and the interest rate implicit in the lease agreement for equipment is between 21% and 32%.

The following is a continuity schedule of Lease liabilities as at August 31, 2022:

Opening balance June 1, 2021	\$ 116,322
Finance expense	21,755
Payments	(64,115)
Balance May 31, 2022	74,362
Finance expense	4,527
Payments	(10,491)
Balance August 31, 2022	68,398
Current portion	(40,174)
Long-term portion	\$ 28,224

During the year ended May 31, 2021, the Company terminated an office lease with no penalty payment. The Company entered into another office lease with a third-party vendor for lease term of fourteen months with option to renew the lease contract at the end of the lease term for fourteen months.

**12. Vehicle Loan**

The Company has a loan for the purchase of a vehicle on which is pays \$247 per month plus interest at the rate of 8.5%. As at August 31, 2022, there was a balance of \$2,667 which should be fully paid over the next 12 months.

**13. Convertible Debenture**

During the year ended May 31, 2021, the Company completed a non-brokered private placement of unsecured convertible debenture financings (“**Debenture**”) with an aggregate face value of C\$600,000 (\$463,355). The Debentures bear interest of 15% per annum and matured in November 2021. The principal and interest are convertible into common shares at a conversion price which the is the lesser of the five-day volume weighted average price (“**VWAP**”) for five-trading sessions on the CSE prior to the Closing Date and a 25% discount to the VWAP of for the 5-day trading sessions prior to conversion per Common Share.

On March 10, 2022, the original Debenture was acquired by a third party and amended to the following terms (“**Convertible Debenture Amendment**”); the Debenture will now mature on October 1, 2022 and it will be convertible into units (a “**Unit**”) of the Company with a conversion price of C\$0.13 per Unit. Each Unit will be comprised of one

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common share (a “Share”) and one Share purchase warrant (“SPW”) that is exercisable to acquire one additional Share at a price of \$0.13 for a period of 12 months from issuance.

On March 11, 2022, the Debenture was converted and the Company issued 6,598,823 common shares with a fair value of \$1,606,435. The fair value of the warrants was estimated to be \$1,199,275 using the Black-Scholes Pricing Model with the following assumptions: term of 1 year; expected volatility of 161%; risk-free rate of 1.22%; and expected dividends of zero. The combined fair value was \$2,805,710. Immediately prior to conversion, the debenture had a fair value of \$674,233 and the Company recorded a loss on conversion of convertible debenture to the Statement of Loss and Comprehensive Loss of \$2,131,477.

#### **14. Share capital**

The Corporation is authorized to issue an unlimited number of common shares.

On October 19, 2021, the Company consolidated all of its issued and outstanding share capital on the basis of 10 old common shares for 1 new common share. All share and per share amounts have been updated to reflect the share consolidation. On the same date, the Company also changed its ticker symbol from “KBEV” to “FIT”.

#### **Share issuances**

##### For the three months ended August 31, 2022

There were no share capital activates during the three months ended August 31, 2022

##### For the fiscal year ended May 31, 2022

On February 4, 2022, the Company closed a non-brokered private placement of 27,443,000 units at a price of C\$0.10 per unit for gross proceeds of \$2,159,336. Each unit consists of one common share in the capital of the Company and one transferable common share purchase warrant. Each warrant will entitle the holder thereof to acquire one additional share at a price of C\$0.25 per warrant for a period of one year from closing. In the event that the shares have a closing price on the Canadian Securities Exchange (or such other exchange on which the shares may be traded at such time) of C\$0.50 or greater per share for a period of five consecutive trading days at any time prior to the expiry date of the warrants, the company may accelerate the expiry date of the warrants by giving notice to the holders thereof (by disseminating a news release advising of the acceleration of the expiry date of the warrants) and, in such case, the warrants will expire on the 30th day after the date of such notice. The Company paid finders fees and accounting fees of \$143,461 in connection with this financing.

On March 11, 2022, the Debenture was converted and the Company issued 6,598,823 common shares with a fair value of \$1,606,435. The fair value of the warrants was estimated to be \$1,199,275 using the Black-Scholes pricing model with the following assumptions: term of 1 year; expected volatility of 161%; risk-free rate of 1.22%; and expected dividends of zero. The combined fair value was \$2,805,710. Immediately prior to conversion, the debenture had a fair value of \$674,233 and the Company recorded a loss on conversion of convertible debenture to the Statement of Loss and Comprehensive Loss of \$2,131,477.

On March 16, 2022, pursuant to the terms of a distribution agreement, the Company issued 172,662 common shares with a fair value of \$50,220.

On April 8, 2022, the Company issued 3,000,000 common shares in recognition of performance bonuses to the CEO, Vice President and consultant with fair value of \$1,167,686.

On April 22, 2022, the Company acquired 100 % of Retox Beverage Corp. and issued 15,000,000 common shares with a fair value of \$5,550,307 and issued 15,000,000 warrants with an estimated fair value of \$4,263,654 based on the Black-Scholes Option Pricing Model with the following assumptions: Stock price – 0.47; exercise price – 0.175; term of 1 year; expected volatility of 161%; risk-free rate of 2.59%; and expected dividends of zero. Each warrant gave the holder the right to purchase one additional common share at a price of CA\$0.175 prior to April 23, 2023.

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During the year, the Company issued 5,350,000 common shares upon the exercise of warrants for gross proceeds of \$647,488. The Company transferred \$1,532,230 from reserve to share capital.

**Obligation to issue shares**

During the year ended May 31, 2021, the Company agreed to issue 770,000 common shares with a fair value of \$215,192 to consultants (“Consultants”) of the Company as payment for performance bonuses, upon achieving certain milestones. During the year ended May 31, 2022, the Company recognized share-based compensation of \$136,333. On March 25, 2022, the Company amended the Consultants agreement and amended the terms of the payment for performance bonuses. During the year ended May 31, 2022, the Company transferred \$351,525 from obligation to issue shares to contributed surplus to reflect the amendment.

During the year ended May 31, 2022, the Company estimated it would be liable to issue up to 64,850,000 (2021 – 6,600,000) common shares to consultants of the Company as payment for performance bonuses, upon achieving certain milestone. As at August 31, 2022, \$6,471,844 (May 31, 2022- \$5,029,539) of the fair value of the services was recorded as an obligation to issue shares, where the fair value was determined at the time of the grant and expensed over the time it is estimated to reach the milestones.

**15. Contributed Surplus**

a) Incentive Stock options

The Company’s Incentive Stock Option Plan (“Plan”) provides for the issuance of a maximum of 10% of the issued and outstanding common shares at an exercise price equal or greater than the market price of the Company’s common shares on the date of the grant to directors, officers, employees and consultants to the Company. The option period for options granted under the Plan is for a maximum period of 5 years. Options granted may vest over certain time periods within the option period, which will limit the number of options that may be exercised. Each stock option is exercisable into one common share of the Corporation at the price specified within the terms of the option.

The number of common shares reserved for issuance under the Plan is a rolling 10% of the issued and outstanding common shares. Stock option issuances are recognized over the tranche’s vesting period by increasing contributed surplus based on the number of awards expected to vest that have not yet been forfeited. Stock compensation expense adjustments for anticipated forfeitures have been determined to be immaterial.

During the year ended May 31, 2022:

On February 14, 2022, the Company granted 150,000 stock options with an exercise price of C\$0.23 per share expiring on February 14, 2027. The options vested immediately. The fair value of the stock options was estimated to be \$24,165 (C\$30,462) using the Black-Scholes pricing model with the following assumptions: term of 5 years; expected volatility of 138%; risk-free rate of 1.71%; and expected dividends of zero.

On March 15, 2022, the Company granted 450,000 stock options with an exercise price of C\$0.37 per share expiring on March 15, 2027. The options vest upon the achievement of certain milestones. The total fair value of the stock options was estimated to be \$118,017 (C\$148,772) using the Black-Scholes Pricing Model with the following assumptions: term of 5 years; expected volatility of 142%; risk-free rate of 1.94%; and expected dividends of zero. During the year ended May 31, 2022, the Company recognized an expense of \$51,812 (C\$65,314).

The following table reconciles outstanding incentive stock options as at August 31, 2022 and 2021:

	Number	Number of options exercisable	Weighted Average Exercise Price
Balance, June 1, 2021	663,333	663,333	\$ 0.80
Granted	600,000	150,000	0.34
Balance, May 31, 2022 and August 31, 2022	1,263,333	813,333	\$ 0.58

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The following table summarizes the weighted average exercise price and the weighted average remaining contractual life of the options outstanding and exercisable as at August 31, 2022.

Exercise Price	Options Outstanding	Expiry Date	Outstanding		Weighted Average Price	Exercisable	
			Weighted Average Remaining Life	Weighted Average Price		Quantity	Weighted Average Price
\$ 0.80	603,333	July 16, 2025	2.9 years	\$ 0.80	603,333	\$ 0.80	
0.80	20,000	April 22, 2026	3.6 years	0.80	20,000	0.80	
0.75	40,000	May 12, 2026	3.7 years	0.75	40,000	0.75	
0.23	150,000	February 14, 2027	4.5 years	0.23	150,000	0.23	
0.70	450,000	March 15, 2027	4.5 years	0.37	—	—	

b) Warrants

The following table summarizes warrant activity:

	Number	Weighted Average Exercise Price
Balance, June 1, 2021	703,160	\$ 0.35
Issued	49,041,823	0.21
Exercised	(5,350,000)	0.16
Expired	(703,160)	0.70
Balance, May 31, 2022 and August 31, 2022	43,691,823	\$ 0.22

The following table summarizes the weighted average exercise price and the weighted average remaining contractual life of the options outstanding and exercisable as at August 31, 2022.

Exercise Price	Options Outstanding	Expiry Date	Outstanding		Weighted Average Price	Exercisable	
			Weighted Average Remaining Life	Weighted Average Price		Quantity	Weighted Average Price
\$ 0.250	27,443,000	February 4, 2023	0.5 years	\$ 0.250	27,443,000	\$ 0.250	
0.130	4,348,823	March 11, 2023	0.5 years	0.130	4,348,823	0.130	
0.175	11,900,000	April 23, 2023	0.6 years	0.175	11,900,000	0.175	

**Special Warrants**

As at November 30, 2022, there are 4,500,000 special warrants (“**Special Warrant**”) outstanding. Each Special Warrant is exercisable to acquire one Unit (“**Unit**”). Each Unit consists of one common share and one transferable common share purchase warrant (“**Conversion Warrant**”). Each Special Warrant will entitle the holder to acquire one Unit at a price of \$0.30 per Unit for a period of two years from the date of closing. Each Conversion Warrant will entitle the holder thereof to acquire one additional share at a price of \$0.50 per share for a two-year period.

**16. Transactions with Related Parties and payments to Key Management**

Related party transactions include transactions with parties related by common directors and transactions with other private entities owned or controlled by officers and directors. All transactions are provided in the normal course of business and are measured at exchange amounts agreed upon by the related parties. The following table summarizes the related party transactions occurring during the year.

For the period from to August 31, Expenses	June 1	
	2022	2021

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Consulting fees paid or accrued to CEO	\$ 47,000	\$ 38,500
Consulting fees paid or accrued to the vice president	23,300	25,000
Consulting fees paid or accrued to a director of the Company	18,040	—
Consulting fees paid or accrued to the former CFO	—	11,822
Accounting and corporate fees paid or accrued to a company controlled by the former CFO	—	11,822
Shares granted for consulting fees or performance bonus	—	—
Share based compensation	1,020,337	—

As at	Aug. 31, 2022	May 31, 2022
Loan receivable	106,608	105,276
Obligation to issue shares	5,803,083	4,520,042
Due to related parties	145,960	193,672

As at August 31, 2022, the Company is owed \$106,608 (May 31, 2022 – \$105,276) from the CEO of the Company via a loan receivable. The loan receivable bears interest of 5% per annum, compounded monthly.

As at August 31, 2022, the Company owes \$145,960 (May 31, 2022 – \$193,672) to related parties or companies owned by directors and officers of the Company. Accounts payable to related parties do not bear interest, are unsecured, and are repayable on demand.

As of August 31, 2022, the Company owed BevCreation \$4,243 (May 31, 2022 - \$33,610) for processing fees.

On April 8, 2022, the Company issued 1,000,000 shares each, to the CEO and Vice-President of the Company in recognition of per bonuses for a total fair value of \$778,458, and none have been issued in the during current period.

The key management personnel of the Corporation include the Chief Executive Officer, Chief Financial Officer, Corporate Secretary and the Board of Directors. During the period ended August 31, 2022 and May 31, 2022, no key management personnel were indebted to the Corporation, with the exception of that mentioned above.

### **17. Commitments and contingencies**

The Corporation, from time to time, may be involved in various claims, legal and tax proceedings and complaints arising in the ordinary course of business. The Corporation is not aware of any pending or threatened proceedings that would have a material adverse effect on the financial condition or future results of the Corporation.

### **18. Financial Instruments and Risk Management**

The Company's financial instruments consist of cash, accounts receivable, loan receivable, accounts payable, accrued liabilities, convertible debentures and short-term loans. Unless otherwise noted, it is management's opinion that the Company is not exposed to any significant interest, currency or credit risks arising from these financial instruments.

The Company classifies its fair value measurements within a fair value hierarchy, which reflects the significance of the inputs used in making the measurements as defined in IFRS 7 – Financial Instruments.

Level 1 – Observable inputs other than quoted prices include in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities that are not active; or other inputs that are observable or can be corroborated by observable market data. Cash and cash equivalents are classified as Level 1.

Level 2 – Observable inputs other than quoted prices, included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities that are not active; or other inputs that are observable or can be corroborated by observable market data.

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Level 3 – Significant unobservable inputs which are supported by little or no market activity. Convertible debentures are classified as level 3. The fair value was based on the transaction price with changes in fair value based on changes in market conditions.

*Credit risk*

Credit risk is the risk of potential loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its liquid financial assets including cash, loans receivable and accounts receivable. The Company limits its exposure to credit risk on liquid financial assets by maintaining its cash with high-credit quality financial institutions. Credit risk related to receivables is monitored by ongoing credit checks. The credit risk is considered low.

*Currency risk*

The Company and its subsidiaries do not have significant financial assets and liabilities denominated in foreign currencies other than the convertible debenture which is denominated in Canadian dollars (Note 13). Management monitors its foreign currency balances and makes adjustments based on anticipated need for currencies. The Company does not engage in any hedging activities to reduce its foreign currency risk.

*Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its obligations associated with its financial liabilities. The Company has historically relied upon equity financings to satisfy its capital requirements and will continue to depend heavily upon equity capital to finance its activities. There can be no assurance the Company will be able to obtain required financing in the future on acceptable terms. The Company anticipated it will need additional capital in the future to finance ongoing operations, such capital to be derived from the exercise of outstanding warrants and/or the completion of other equity financings. The Company has limited financial resources, no source of operating income and no assurance that additional funding will be available to fund its beverage operations, although the Company has been successful in the past in financing its activities through the sale of equity securities.

The ability of the Company to arrange additional financing in the future will depend, in part, on the prevailing capital market conditions and operational success. There can be no assurance that continual fluctuations in price will not occur. Any quoted market for the common shares may be subject to market trends generally, notwithstanding any potential success of the Company in creating revenue, cash flows or earnings.

*Interest rate risk*

The Company normally invests in short-term interest-bearing financial instruments. There is minimal risk that the Company would recognize any loss as a result of a decrease in the fair value of any guaranteed bank investment certificate included in cash as they would be held in large financial institutions.

*Fair value measurements of financial assets and liabilities*

The Company believes that the recorded values of its accounts receivable, short-term loans, line of credit, due to related parties, accounts payable and accrued liabilities, approximates their current fair values due to their nature and relatively short maturity dates or durations.

**19. Capital Management**

The Company's capital structure consists of shareholders' equity. The Company's objective when managing capital is to maintain adequate levels of funding to support the development of its business and maintain the necessary corporate and administrative functions to facilitate these activities. This is done primarily through equity financing. Future financings are dependent on market conditions and there can be no assurance the Company will be able to raise funds in the future. The Company may invest all capital that is surplus to its immediate operational needs in short-term, highly-liquid, high-grade financial instruments. The Company continues to use this approach to capital management.

The Company is not subject to externally imposed capital requirements. The Company does not currently have adequate sources of capital for the development of its business and will need to raise additional capital by obtaining

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equity financing through private placements or debt financing. The Company may raise additional debt or equity financing in the near future to meet its business objectives.

**20. Provision for Indemnity**

**Flow-Through Exploration Expenditures**

During the year ended May 31, 2013, the Company raised a total of C\$85,440 in flow-through funds, which the Company committed to use in exploration activities on its active projects. The Company allocated C\$14,240 of the proceeds to the flow through share premium liability and the remaining proceeds of C\$71,200 to share capital. As at May 31, 2014, the Company did not incur eligible exploration expenses which resulted in a penalty and accrued interest totaling approximately \$24,617 (C\$32,219) and remains outstanding.

**21. Acquisition of Retox Beverage Corp.**

On April 22, 2022, the Company entered into a Share Exchange Agreement to acquire 100% of Retox Beverage Corp. ("Retox"). Retox is in the business of formulating soft beverages, soda and seltzers. As consideration, the Company issued 15,000,000 units ("Units") of the Company. Each Unit is comprised of one common share and one common share purchase warrant which entitles the holder thereof to acquire one additional Share of the Company at a price of \$0.175 for a period of 12 months from the date of issuance.

The acquisition of Retox does not constitute a business combination because this entity does not meet the definition of a business under IFRS 3 – Business Combination. As a result, the transaction has been measured at the fair value of equity consideration issued to acquire Retox.

<b>Purchase Price:</b>	<b>\$</b>
15,000,000 common shares	5,550,307
15,000,000 warrants	4,263,654
Share-based compensation	9,813,961

The acquisition was accounted for as a share-based payment as none of the products of Retox have been market listed. Retox was in the early stage of formulation soft beverages, soda and seltzers. At the time of acquisition, the Company was conducting research and was in the processes of formulating soft beverages, soda and seltzers which did not meet the definition of intangible assets. As such, the purchase consideration of \$9,813,961 was expensed in the consolidated statements of loss and comprehensive loss during the year ended May 31, 2022.

**22. Loss Per Share**

In calculating the diluted earnings per share, issued and outstanding incentive stock options and warrants were not considered as they would have been anti-dilutive.

August 31	2022	2021
Denominator basic and diluted earnings per share		
Weighted average number of Common shares outstanding	66,247,942	8,683,457
Dilutive effect of incentive stock options	—	—
Dilutive effect of warrants	—	—
Diluted weighted average Common shares	66,247,942	8,683,457

**23. Subsequent Event**

In September 2022, the Company was obligated to issue 1,000,000 common shares to a director of the Company.

On October 3, 2022, the Company completed a private placement and issued 2,000,000 Units for gross proceeds of CA \$100,000, where each unit is comprised of one common share and one transferable warrants where each warrant provides the holder with the right to purchase 1 common shares at \$0.075 until October 3, 2027.

**KOIOS BEVERAGE CORP.**  
**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED AUGUST 31, 2022(Expressed in US Dollars)**

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On October 3, 2022, the Company issued 11,500,000 common shares to settle debt of \$575,000.

Subsequent to August 31, 2022, the Company signed a new lease ending in January 2030 with an annual lease payment of \$146,400.