
KOIOS BEVERAGE CORP.
UNAUDITED CONDENSED INTERIM
CONSOLIDATED FINANCIAL STATEMENTS
February 28, 2023

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
FEBRUARY 28, 2023
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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
April 28, 2023

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

February 28, 2023

May 31, 2022

ASSETS

Cash	\$ 450,461	\$ 1,313,440
Accounts receivable (Note 4)	164,619	156,021
Inventory (Note 5)	397,371	542,804
Prepaid expenses	20,368	179,566
Loan receivable (Note 16)	<u>100,276</u>	<u>105,276</u>
	1,133,095	2,297,107
Investment in joint venture (Note 6)	80,181	86,225
Prepaid expense, non-current	18,734	31,115
Equipment, vehicle and right-of-use assets (Note 7)	<u>907,934</u>	<u>90,059</u>
	<u>\$ 2,139,944</u>	<u>\$ 2,504,506</u>

LIABILITIES

Line of credit (Note 8)	\$ 283,232	\$ 79,632
Accounts payable and accrued liabilities (Note 9)	1,079,271	1,199,051
Short-term loan (Note 10)	13,961	14,786
Short-term lease liability (Note 11)	122,168	57,737
Vehicle loan (Note 12)	554	3,270
Due to Related Party (Note 16)	176,827	193,672
Provision for indemnity (Note 20)	<u>23,675</u>	<u>25,072</u>
	1,699,688	1,573,220
Long-term lease liability, non-current (Note 11)	<u>826,093</u>	<u>16,625</u>
	<u>2,525,781</u>	<u>1,589,845</u>

SHAREHOLDERS' EQUITY (DEFICIENCY)

Share capital (Note 14)	30,543,331	26,272,799
Obligation to issue shares (Note 14)	6,379,433	5,029,681
Contributed surplus (Note 15)	6,959,413	6,693,975
Accumulated other comprehensive income	(137,273)	(191,236)
Accumulated deficit	<u>(44,130,741)</u>	<u>(36,890,558)</u>
	<u>(385,837)</u>	<u>914,661</u>
	<u>\$ 2,139,944</u>	<u>\$ 2,504,506</u>

Nature of Organization (Note 1)
 Commitments and Contingencies (Note 17)

Approved on behalf of the board of directors:

/s/ "Chris Miller"
 Chris Miller, Director

/s/ "Erik LeVang"
 Erik LeVang, Director

KOIOS BEVERAGE CORP.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIENCY)
(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
Shares issued for cash	27,443,000	1,101,501	—	685,842	—	—	1,787,343
Other comprehensive loss	—	—	—	—	(6,865)	—	(6,865)
Comprehensive loss for the period	—	—	—	—	—	(827,565)	(827,565)
Balance, February 28, 2022	36,126,467	\$ 14,803,959	\$ (215,192)	\$ 2,991,952	\$ (292,754)	\$ (16,558,449)	\$ 1,159,900
Balance, June 1, 2022	66,247,942	\$ 26,272,799	\$ 5,029,681	\$ 6,693,975	\$ (191,236)	\$ (35,890,558)	\$ 914,661
Private placement	11,500,000	73,196	-	-	-	-	73,196
Debt settlement	20,629,665	656,297	-	-	-	-	656,297
Obligation to issue shares	12,325,000	3,541,039	1,349,752	-	-	-	4,890,791
Share based compensation	-	-	-	265,438	-	-	265,438
Other comprehensive loss	-	-	-	-	53,963	-	53,963
Comprehensive loss for the period	-	-	-	-	-	(7,240,183)	(7,240,183)
Balance, February 28, 2023	110,702,607	30,543,331	6,379,433	6,959,413	(137,273)	(44,130,741)	(385,837)

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

For the period ended February 28, 2023

	For the three months ended,		For the nine months ended,	
	February 28, 2023	February 28, 2022	February 28, 2023	February 28, 2022
	\$	\$	\$	\$
Product revenue	388,553	746,264	905,142	1,208,173
Cost of sales	(385,178)	(333,435)	(893,684)	(755,671)
	3,375	412,829	11,458	452,502
Expenses				
Corporate development	72,533	24,763	357,612	63,491
Freight and shipping	105,503	34,751	279,093	186,276
Consulting fees (Note 16)	444,815	167,667	1,254,695	443,562
Amortization (Note 7)	38,660	16,692	65,226	48,241
Filing and regulatory fees	13,352	4,770	17,676	8,248
Share of loss (income) of joint venture (Note 6)	14,145	(22,902)	6,044	(47,348)
Finance expense (Note 8, 11, 12)	72,304	41,949	99,202	273,482
Office expense	75,194	15,913	310,575	74,234
Professional fees	72,877	89,891	249,086	145,877
Insurance	27,456	18,228	57,441	54,208
Rent	-	10,399	-	29,756
Gain on debt settlement	(103,111)	-	(103,111)	-
Stock based compensation (Note 15)	1,709,922	-	4,658,102	-
Net loss	(2,540,275)	(138,208)	(7,240,183)	(827,565)
Other comprehensive income				
Exchange differences related to presentation currency	49,327	(58,387)	53,963	(6,865)
Comprehensive loss	(2,490,948)	(196,593)	(7,186,220)	(834,430)
Net loss per common share				
Basic and diluted	(0.03)	(0.01)	(0.10)	(0.08)
Weighted average number of common shares outstanding	79,986,327	16,083,827	73,460,280	10,661,341

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

For the period ended February 28, 2023	2023	2022
CASH FLOWS USED IN OPERATING ACTIVITIES		
Net loss for the period	\$ (7,240,183)	\$ (827,565)
Non-cash expenses:		
Amortization	65,225	48,241
Interest accretion	90,441	220,321
Share of income from joint venture	6,044	(47,348)
Interest income	—	(3,801)
Gain on debt settlement	(103,111)	—
Share-based compensation	4,656,039	—
Net change in operating assets and liabilities		
Accounts receivables	(3,598)	(345)
Inventory	145,433	(136,679)
Prepaid expenses	159,374	(653,421)
Due to related parties	(16,845)	(160,707)
Accounts payable and accrued liabilities	<u>637,407</u>	<u>792,667</u>
CASH FLOWS USED IN OPERATING ACTIVITIES	<u>(1,603,774)</u>	<u>(768,637)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Line of credit, net	147,634	96,067
Private placement	73,196	—
Warrants exercised	—	2,150,680
Share issuance cost	—	(363,317)
Vehicle loan repayments	(2,716)	(3,622)
Obligation to issue shares	500,190	—
Lease repayments	<u>(31,472)</u>	<u>(53,603)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	<u>686,832</u>	<u>1,826,185</u>
EFFECTS OF FOREIGN EXCHANGE ON CASH	53,963	(47,537)
NET DECREASE IN CASH	(862,979)	1,010,011
CASH – Beginning of the year	<u>1,313,440</u>	<u>1,028,827</u>
CASH – End of the period	<u>\$ 450,461</u>	<u>\$ 2,038,838</u>

KOIOS BEVERAGE CORP.
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in US Dollars)

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 period ended February 28, 2023, the Company incurred a comprehensive loss of \$4,695,272 (2022 - \$827,565) had an accumulated deficit of \$44,130,741 as at February 28, 2023 (May 31, 2022- \$36,890,558) and had a working capital deficiency of \$566,593 (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.

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

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.

KOIOS BEVERAGE CORP.
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in US Dollars)

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

In preparing these condensed interim consolidated financial statements, the significant accounting policies and the significant judgments made by management in applying the Company's significant accounting policies and key sources of estimation uncertainty were the same as those that applied to the Company's audited condensed interim consolidated financial statements for the year ended May 31, 2022.

3. Significant Accounting Policies, Judgements and Estimation Uncertainty

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.

KOIOS BEVERAGE CORP.
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in US Dollars)

4. Accounts Receivable

As at	February 28, 2023	May 31, 2022
Accounts receivable	\$ 127,385	\$ 126,803
Commodity tax receivable	37,234	29,218
	<u>\$ 164,619</u>	<u>\$ 156,021</u>

5. Inventory

As at	February 28, 2023	May 31, 2022
Raw materials	\$ 304,781	\$ 378,090
Finished Goods	92,590	164,714
	<u>\$ 397,371</u>	<u>\$ 542,804</u>

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.

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 (loss) from joint venture	<u>(6,044)</u>
Balance February 28, 2023	<u>\$ 80,181</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 Feb 28, 2023	June 1, 2021 May 31, 2022
Cash	\$ 19,289	\$ 33,719
Current assets (Inclusive of cash)	35,886	76,954
Long-term assets	205,128	246,249
Long term-liabilities	259,580	40,702
Revenues	536,885	647,561
Expenses (excluding depreciation)	(474,257)	(478,786)
Depreciation	(74,715)	(86,745)
Net income (loss)	(12,087)	81,930

KOIOS BEVERAGE CORP.
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in US Dollars)

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	\$ 27,095	\$ 18,792	\$ 105,506	\$ —	\$ 151,393
Addition	—	—	—	833,101	833,101
Balance, February 28, 2023	\$ 27,095	\$ 18,792	\$ 105,506	\$ 833,101	\$ 1,034,494

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	3,189	918	20,517	40,602	65,226
Balance, February 28, 2023	\$ 9,016	\$ 15,643	\$ 61,299	\$ 40,602	\$ 126,560

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
February 28, 2023	\$ 18,079	\$ 3,149	\$ 44,207	\$ 842,499	\$ 907,934

8. Line of Credit

The Company entered into two credit facilities, which bears an interest rate between 3.58% and 15%. Each draw is to be repaid in equal payments over the following 12 months.

The following is a continuity schedule of Line of Credit as at February 28, 2023:

Balance May 31, 2022	77,879
Additions	403,822
Finance expense	57,720
Payments	(256,189)
Balance February 28, 2023	283,232

9. Accounts payable and accrued liabilities

As at	February 28, 2023	May 31, 2022
Accounts payable	\$ 765,093	\$ 789,587
Accrued liabilities	314,178	409,464
	<u>\$ 1,079,271</u>	<u>\$ 1,199,051</u>

10. Short-Term Loans

The short-term loan of \$13,961 (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.

KOIOS BEVERAGE CORP.
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in US Dollars)

11. Lease Liability

As at February 28, 2023, 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 February 28, 2023:

Opening balance June 1, 2021	\$ 116,322
Finance expense	21,755
Payments	(64,115)
Balance May 31, 2022	74,362
Additions	883,101
Finance expense	34,475
Payments	(43,677)
Balance February 28, 2023	948,261
Current portion	(122,168)
Long-term portion	\$ 826,093

The undiscounted lease liabilities are as follows:

Years ended, May 31,	\$
2023	36,615
2024	149,023
2025	153,494
2026	158,098
Thereafter	621,226
Total	1,118,456

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 February 28, 2023, there was a balance of \$554 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 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.

KOIOS BEVERAGE CORP.
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in US Dollars)

13. Convertible Debenture

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 period ended February 28, 2023

On October 3, 2022, the Company completed a private placement and issued 2,000,000 Units shares for gross proceeds of \$100,000. Each Unit consists of one common share and one share purchase warrant. Each warrant will entitle the holder thereof to acquire one additional share at a price of C\$0.075 per warrant for a period of five year from closing.

On October 3, 2022, the Company issued 11,500,000 common share pursuant and settled \$420,875 (C \$575,000)

On February 28, 2023, the Company issued 9,129,665 common shares with a fair value of \$235,422 and settled debt of \$342,679 (C \$456,483). The Company recorded a gain on settlement of debt of \$107,257.

On February 28, 2023, the Company issued 12,325,000 common shares with a fair value of \$3,541,039, pursuant to the satisfaction of certain management and employment milestones. The Company transferred \$3,447,103 from obligation to issue shares to share capital.

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.

KOIOS BEVERAGE CORP.
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in US Dollars)

14. Share capital (Continued)

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.

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 period ended February 28, 2023, the Company estimated, the Company estimated it would be liable to issue up to 66,210,000 (2022 – 64,850,000) common shares to consultants of the Company as payment for performance bonuses, upon achieving certain milestone. As at February 28, 2023, \$5,887,763 (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. During the period ended February 28, 2023, the Company recorded share-based compensation of \$4,296,665.

Subsequent to the period ended February 28, 2023, the Company announced a non-brokered private placement of up to 33,451,619 Units for gross proceeds of up to C \$1,672,581. Each Unit consists of one common share and one share purchase warrant. Each share purchase warrant entitles the holder to purchase one additional common share at a price of \$0.05 for a period of 24 months from the date of issuance. As at February 28, 2023, the Company received \$500,190 (C \$680,709) pursuant to this financing.

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 period ended February 28, 2023:

On February 27, 2023, the Company granted 6,300,000 stock options with an exercise price of C\$0.05 per share expiring on February 27, 2028. The options vested immediately. The fair value of the stock options was estimated to be \$152,753 (C \$202,877) using the Black-Scholes pricing model with the following assumptions: term of 5 years; expected volatility of 160%; risk-free rate of 3.66%; and expected dividends of zero.

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15. Contributed Surplus (Continued)

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). During the period ended February 28, 2023, the Company recognized an expense of \$59,979 (C \$79,660).

The following table reconciles outstanding incentive stock options as at February 28, 2023:

	Number	Weighted Average Exercise Price
Balance, June 1, 2021	663,333	\$ 0.80
Granted	600,000	0.34
Balance, May 31, 2022	1,263,333	\$ 0.58
Granted	6,300,000	0.05
Balance, February 28, 2023	7,563,333	\$ 0.14

The following table summarizes the weighted average exercise price and the weighted average remaining contractual life of the options outstanding and exercisable as at February 28, 2023.

Exercise Price	Options Outstanding	Expiry Date	Outstanding		Exercisable		
			Weighted Average Remaining Life	Weighted Average Price	Quantity	Weighted Average Price	
\$ 0.80	603,333	July 16, 2025	2.38 years	\$ 0.80	603,333	\$ 0.80	
0.80	20,000	April 22, 2026	3.15 years	0.80	20,000	0.80	
0.75	40,000	May 12, 2026	3.20 years	0.75	40,000	0.75	
0.23	150,000	February 14, 2027	3.96 years	0.23	150,000	0.23	
0.70	450,000	March 15, 2027	4.04 years	0.37	150,000	0.70	
0.05	6,300,000	March 15, 2027	5.00 years	0.05	6,300,000	0.05	

b) Restricted Share Units

The Company has adopted a Restricted Stock Unit ("RSU") plan ("RSU Plan"). The purpose of the RSU Plan is to secure for the Company and its shareholders the benefits of incentive inherent in share ownership by certain directors, officers, other key employees and consultants of the Company ("Participants") who, in the judgment of the Board, will be responsible for its future growth and success. RSUs granted pursuant to this RSU Plan will be used to compensate Eligible Persons who have forgone salary to assist the Company in cash management in exchange for the grant of RSUs and incentive stock options under the Company's stock option plan.

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Under the terms of the plan, RSUs are granted to Participants and the RSUs expire the earlier of 5 years from the date of vesting of the RSU and 10 years from the grant date. Each RSU gives the Participant the right to receive one common share of the Company. The aggregate number of common shares that may be reserved for issuance, at any time, under this Plan and under any other share compensation arrangement adopted by the Company, including the Company's incentive stock option plan, shall not exceed up to a maximum of 20% of the issued and outstanding Shares at the time of grant pursuant to awards granted under all share compensation plans.

On February 27, 2023, the Company granted an aggregate of 2,000,000 RSUs to consultants of the Company. The RSUs vested immediately and grants the holder to acquire common share in the capital of the Company underlying each such RSU upon such holder delivering a notice of acquisition to the Company in accordance with the RSU plan for a period of five years from issuance ("Term"). Any unvested RSUs after expiry of the Term will be deemed automatically cancelled without further act or notice by the Company. The RSUs had a fair value of \$70,000, based on the closing price of the Company's common shares on the date of grant.

c) 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	43,691,823	\$ 0.22
Issued	2,000,000	0.08
Expired	(27,443,000)	(0.25)
Balance, February 28, 2023	18,248,823	0.15

The following table summarizes the weighted average exercise price and the weighted average remaining contractual life of the options outstanding and exercisable as at February 28, 2023.

Exercise Price	Options Outstanding	Expiry Date	Outstanding		Exercisable	
			Weighted Average Remaining Life	Weighted Average Price	Weighted Average Price	Quantity
0.130	4,348,823	March 11, 2023	0.19 years	0.130	4,348,823	0.130
0.175	11,900,000	April 23, 2023	0.39 years	0.175	11,900,000	0.175
0.075	2,000,000	October 3, 2027	4.84 years	0.075	2,000,000	0.075

Special Warrants

As at February 28, 2023, 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.

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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 June 1 to February 28, 2023	2023	2021
Expenses		
Consulting fees paid or accrued to CEO	\$ 270,000	\$ 63,500
Consulting fees paid or accrued to the vice president	180,000	—
Consulting fees paid or accrued to a director of the Company	360,000	—
Consulting fees paid or accrued to the former CFO	—	22,338
Accounting and corporate fees paid or accrued to a company controlled by the former CFO	—	22,338
Share based compensation	2,987,858	—
As at		
	February 28, 2023	May 31, 2022
Loan receivable	100,276	105,276
Obligation to issue shares	2,987,858	4,520,042
Due to related parties	176,827	193,672

As at February 28, 2023, the Company is owed \$100,276 (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 February 28, 2023, the Company owes \$176,827 (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 February 28, 2023, the Company owed BevCreation \$6,323 (May 31, 2022 - \$33,610) for processing fees.

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 February 28, 2023 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.

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18. Financial Instruments and Risk Management (Continued)

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.

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.

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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 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 \$23,675 (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.

Purchase Price:	\$
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.