

KOIOS BEVERAGE CORP.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**FOR THE THREE MONTHS PERIOD ENDED
AUGUST 31, 2020 AND 2019
(UNAUDITED)**

(Expressed in US Dollars)

NOTICE OF NO AUDITORS' REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these condensed interim consolidated financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

KOIOS BEVERAGE CORP.

Condensed Interim Consolidated Statements of Financial Position (Unaudited) (Expressed in US dollars)

AS AT,	Note	August 31, 2020	May 31, 2020
		\$	\$
ASSETS			
Cash		844,629	1,176,960
Accounts receivable	3	39,869	41,461
Inventory	4	87,734	159,753
		972,232	1,378,174
NON-CURRENT ASSETS			
Equipment, vehicle and right-of-use asset	5	41,965	50,127
Total assets		1,014,197	1,428,301
LIABILITIES			
Provision for indemnity	12	24,704	23,369
Accounts payable and accrued liabilities	6,10	290,542	546,718
Short-term loans	7	115,085	125,298
Lease liability	8	15,089	21,820
Due to related parties	10	176,208	104,279
		621,628	821,484
NON-CURRENT LIABILITIES			
Vehicle loan		10,515	11,421
		632,143	832,905
SHAREHOLDERS' EQUITY			
Share capital	9	13,199,529	13,137,986
Reserves		1,544,609	1,219,062
Obligation to issue shares		-	61,543
Accumulated other comprehensive loss		(127,176)	(173,217)
Deficit		(14,234,908)	(13,649,978)
TOTAL SHAREHOLDERS' EQUITY		382,054	595,396
Total liabilities and shareholders' equity		1,014,197	1,428,301

Approved and authorized for issue by the board of directors on October 30, 2020 and signed on its behalf by:

/s/ Chris Miller

Chris Miller, Director

/s/ Erik LeVang

Erik LeVang, Director

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

KOIOS BEVERAGE CORP.

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss (Unaudited)

For the three months ended August 31, 2020 and 2019

(Expressed in US dollars)

		Three month period ended	
		August 31,	
	Note	2020	2019
		\$	\$
Product revenue		214,232	178,520
Cost of sales		(161,973)	(136,257)
		52,259	42,263
General and administration expenses			
Corporate development		-	452,937
Marketing		48,703	-
Shipping		17,417	54,352
Consulting fees	10	44,054	109,996
Amortization	5	8,162	949
Filing fees and regulatory fees		5,394	2,059
Office		48,013	72,600
Professional fees		61,957	35,126
Insurance		8,178	-
Rent		5,031	8,453
Share-based compensation	9	325,547	57,708
Travel		-	14,035
Total general and administration expenses		(572,456)	(808,215)
Other items			
Gain on extinguishment of accounts payable		-	292,106
Foreign exchange loss		(64,733)	(68,877)
		(64,733)	223,229
Loss for the period		(584,930)	(542,723)
Other comprehensive loss			
Exchange differences related to presentation currency		46,041	79,252
Loss and comprehensive loss for the period		(538,889)	(467,471)
Loss per share, basic and diluted		(0.01)	(0.01)
Weighted average number of shares outstanding - basic and diluted		78,338,822	76,771,614

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

KOIOS BEVERAGE CORP.

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity

For the three month period ended August 31, 2020 and 2019

(Expressed in US dollars)

	Note	Number of Shares	Share Capital	Reserves	Obligation to issue shares	Deficit	Accumulated Other Comprehensive Loss	Total
			\$	\$	\$	\$	\$	\$
Balance, May 31, 2019		76,307,170	13,037,694	885,423	-	(10,650,850)	(111,653)	3,160,614
Shares issued for warrants exercised	9	650,000	39,716	-	-	-	-	39,716
Share-based compensation	9	-	-	57,708	-	-	-	57,708
Accumulated other comprehensive income		-	-	-	-	-	79,252	79,252
Loss and comprehensive loss for the year		-	-	-	-	(542,723)	-	(542,723)
Balance, August 31, 2019		76,957,170	13,077,410	943,131	-	(11,193,573)	(32,401)	2,794,567
Balance, May 31, 2020		77,776,600	13,137,986	1,219,062	61,543	(13,649,978)	(173,217)	595,396
Shares issued for consulting performance	9	1,100,000	61,543	-	(61,543)	-	-	-
Share-based compensation	9	-	-	325,547	-	-	-	325,547
Other comprehensive loss		-	-	-	-	-	46,041	46,041
Loss and comprehensive loss for the period		-	-	-	-	(584,930)	-	(584,930)
Balance, August 31, 2020		78,876,600	13,199,529	1,544,609	-	(14,234,908)	(127,176)	382,054

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

KOIOS BEVERAGE CORP.

Condensed Interim Consolidated Statements of Cash Flows For the three month period ended August 31, 2020 and 2019 (Unaudited - Expressed in US dollars)

For the period ended,	August 31, 2020	August 31, 2019
Cash flows used in operating activities	\$	\$
Loss for the period	(584,930)	(542,723)
Item not affecting cash:		
Amortization	8,162	949
Share-based compensation	325,547	57,708
Interest expense	392	-
Gain on extinguishment of accounts payable	-	(292,106)
Foreign exchange	(10,213)	
Changes in non-cash working capital items:		
Accounts receivable	1,592	(745)
Prepaid expenses	-	112,500
Inventory	72,019	39,886
Short-term loan	-	605
Due to related parties	71,929	-
Accounts payable and accrued liabilities	(254,841)	56,218
Net cash flows used in operating activities	(370,343)	(567,708)
Cash flows from financing activities		
Shares issued from warrant exercised	-	39,716
Loan repayment	(906)	(1,266)
Lease repayments	(7,123)	-
Due to related parties	-	-
Net cash flows from financing activities	(8,029)	38,450
Effect of foreign exchange on cash	46,041	79,252
Net decrease in cash	(332,331)	(450,006)
Cash, beginning of the year	1,176,960	3,007,394
Cash, ending of the period	844,629	2,557,388

OTHER SUPPLEMENTAL INFORMATION

For the period ended,	August 31, 2020	August 31, 2019
Shares issued for consulting performance	61,543	-
Taxes paid	-	-
Interest paid	-	-

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

KOIOS BEVERAGE CORP.
Notes to the Condensed Interim Consolidated Financial Statements
For the three month period ended August 31, 2020 and 2019
Expressed in US Dollars, unless otherwise stated

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, which is 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 2V6. The Company’s common shares are listed for trading on the Canadian Securities Exchange (“CSE”) under the symbol “KBEV” and the United States OTC stock market’, under the symbol “KBEVF”.

a) Statement of compliance

These unaudited condensed interim consolidated 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 unaudited condensed interim consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements for the year ended May 31, 2020.

b) Basis of measurement

These condensed interim consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments which are measured at fair value. In addition, these condensed interim consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information. The functional currency of the Company is the Canadian dollar. The presentation currency of these condensed interim consolidated financial statements is the US dollar. Certain comparative figures have been reclassified to conform to the current year’s presentation.

c) 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 August 31, 2020, the Company incurred comprehensive loss of \$538,889 (2019 - \$542,723), had an accumulated deficit of \$14,234,908 (May 31, 2020 - \$13,649,978) and had working capital of \$350,604 (May 31, 2020 –\$556,690). The Company anticipates that further losses will be incurred. The Company’s ability to continue as a going concern and meet 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 condensed interim consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue its existence.

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, including the closure of non-essential businesses, did not materially disrupt the Company’s operations during the fourth quarter of 2020. The beverage industry has not been recognized as essential services. As at August 31, 2020, the Company has not observed any material impairments of its assets or a significant change in the fair value of assets, due to the COVID-19 pandemic.

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1. NATURE AND CONTINUANCE OF OPERATIONS (CONTINUED)

c) Going concern (continued)

Due to the rapid developments and uncertainty surrounding COVID-19, it is not possible to predict the impact that COVID-19 will have on the business, financial position and operating results in the future. 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.

d) Basis of consolidation

These condensed interim consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Koios, Cannavated Beverage Co. (BC) ("Cannavated BC") and Cannavated Beverage Corp. (Nevada) ("Cannavated Nevada"). Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity 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 condensed interim consolidated financial statements.

2. 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 consolidated financial statements for the year ended May 31, 2020.

The preparation of condensed interim consolidated financial statements requires that the Company's management make judgments and estimates of effects of uncertain future events on the carrying amounts of the Company's assets and liabilities at the end of the reporting period. Actual future outcomes could differ from present estimates and judgments, potentially having material future effects on the Company's condensed interim financial statements. Estimates are reviewed on an ongoing basis and are based on historical experience and other facts and circumstances. Revisions to estimates and the resulting effects on the carrying amounts of the Company's assets and liabilities are accounted for prospectively.

Certain new accounting standards and interpretations have been published that are not mandatory for the August 31, 2020 reporting period. Management does not expect these standards will have a significant impact on the measurement or presentation of balances or transactions as reported in these condensed interim consolidated financial statements.

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 consolidated financial statements.

3. ACCOUNTS RECEIVABLE

	August 31, 2020	May 31, 2020
	\$	\$
GST receivable	19,969	16,854
Accounts receivable - trade	19,900	24,607
	39,869	41,461

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4. INVENTORY

	August 31, 2020	May 31, 2020
	\$	\$
Raw material	4,977	39,215
Finished goods	82,757	120,538
	87,734	159,753

Included in finished goods is inventory of \$44,503 (May 31, 2020 - \$67,243), on consignment with a retailer.

5. EQUIPMENT, VEHICLE AND RIGHT-OF-USE ASSET

	Equipment	Right-of- use Asset	Vehicle	Total
	\$	\$	\$	\$
Cost:				
Balance, May 31, 2019	-	-	18,972	18,792
Additions	17,461	33,662	-	51,123
Balance, May 31, 2020	17,641	33,662	18,972	70,095
Additions	-	-	-	-
Balance, August 31, 2020	17,461	33,662	18,972	70,095
Accumulated amortization:				
Balance, May 31, 2019	-	-	2,546	2,546
Additions	-	10,781	6,641	17,422
Balance, May 31, 2020	-	10,781	9,187	19,968
Charge for the period	-	7,213	949	8,162
Balance, August 31, 2020	-	17,994	10,136	28,130
Net book value:				
Balance, May 31, 2020	17,461	22,881	9,786	50,127
Balance, August 31, 2020	17,461	22,881	8,836	41,965

As at August 31, 2020, the equipment is not yet ready for its intended use. Therefore, the Company has not recorded amortization.

The right-of-use asset relates to leased office space. The lease is reflected as a right-of-use asset, with an associated lease liability (Note 8). The discount rate applied to the lease is 8% per annum.

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	August 31, 2020	May 31, 2020
	\$	\$
Accounts payable	155,134	492,855
Accrued liabilities	135,408	53,863
	290,542	546,718

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7. SHORT TERM LOANS

	August 31, 2020	May 31, 2020
	\$	\$
Loans owed to former related party	14,568	13,781
Loans owed to contracted consultant	100,517	111,517
	115,085	125,298

The loans are non-interest-bearing, due on demand and not collateralized.

8. LEASE LIABILITY

At the commencement date of the lease, being January 16, 2020, the lease liability was measured as the present value of the future lease payments that were not paid at that date. These lease payments are discounted using a discount rate of 8% per annum, which represents the Company's estimated incremental borrowing rate.

The following is a continuity schedule of lease liabilities for the period ended August 31, 2020:

	\$
Balance, June 1, 2019	-
Lease additions (Note 6)	33,662
Lease payments	(12,793)
Interest on lease liability	951
Balance, May 31, 2020	21,820
Payments	(7,123)
Interest	392
Current portion as at August 31, 2020	15,089

9. SHARE CAPITAL

Authorized - unlimited number of common shares without par value.

Share issuances

For the period ended August 31, 2020:

During the three month period ended August 31, 2020, the Company issued 1,100,000 common shares to officers and consultants of the Company pursuant to consulting performance for a deemed value of \$61,543 (C\$82,500).

As at August 31, 2020, 2,250,000 common shares were held in escrow (May 31, 2020 – 2,250,000).

For the period ended August 31, 2019:

During the period ended August 31, 2019, the Company issued 650,000 common shares pursuant to warrant exercises for gross proceeds of \$39,716 (C\$52,500).

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9. SHARE CAPITAL (CONTINUED)

Stock options

The Company grants stock options to employees, directors, officers, and consultants of the Company as compensation for services pursuant to its Stock Option Plan (the "Plan"). Options have a maximum expiry period of up to five years from the grant date and are subject to minimum vesting requirements, as determined by the Board of Directors. The number of options that may be issued under the Plan may not exceed 10% of the number of issued and outstanding common shares of the Company at the time of granting of options.

During the period ended August 31, 2020:

On July 16, 2020, the Company granted 6,033,333 stock options with an exercise price of C\$0.08 per share expiring on July 16, 2025. The options vest immediately. The fair value of the stock options was estimated to be \$325,547 (C\$437,207) using the Black-Scholes pricing model with the following assumptions: term of 5 years; expected volatility of 191%; risk-free rate of 0.33%; and expected dividends of zero. During the period ended August 31, 2020, the Company recognized share-based compensation of \$325,547 (C \$437,207).

During the period ended August 31, 2019:

On February 20, 2019, the Company granted 1,000,000 stock options with an exercise price of C\$0.30 per share expiring on February 20, 2021. The options vest 100% on June 20, 2019. The fair value of the stock options was estimated to be \$114,720 (C\$151,703) using the Black-Scholes pricing model with the following assumptions: term of 2 years; expected volatility of 138%; risk-free rate of 1.77%; and expected dividends of zero. During the year ended May 31, 2020, the Company recognized share-based compensation of \$22,619 (C \$30,321). During the year ended May 31, 2020, the Company cancelled all these options at managements discretion.

On February 22, 2019, the Company granted 1,500,000 stock options with an exercise price of C\$0.28 per share expiring on February 21, 2021. The options vest 33% immediately and 33% thereafter every 6 months from the date of grant. The fair value of the stock options was estimated to be \$121,166 (C\$160,227) using the Black-Scholes pricing model with the following assumptions: term of 2 years; expected volatility of 138%; risk-free rate of 1.78%; and expected dividends of zero. During the year ended May 31, 2020, the Company recognized share-based compensation of \$68,475 (C \$91,792). As at May 31, 2019, the number of exercisable options was 333,332. During the year ended May 31, 2020, the Company cancelled all these options at managements discretion.

The following table summarizes stock option activity:

	Number of options	Weighted average price C\$
Balance at May 31, 2019 and August 31, 2019	3,783,333	0.27
Granted	2,650,000	0.18
Expired	1,100,000	0.20
Cancelled	(5,333,333)	(0.24)
Balance at May 31, 2020	-	-
Granted	6,033,333	0.08
Balance at August 31, 2020	6,033,333	0.08

As at August 31, 2020, the remaining life of the Company's stock options was 4.88 years.

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9. SHARE CAPITAL (CONTINUED)

Share purchase warrants

The following table summarizes warrant activity:

	Number of warrants	Weighted average price C\$
Balance at May 31, 2019	31,642,280	0.26
Exercised	(1,469,430)	(0.09)
Expired	(8,958,172)	(0.50)
Balance at May 31, 2020 and August 31, 2020	21,214,678	0.17

Information regarding share purchase warrants outstanding at August 31, 2020 is as follows:

Number of warrants outstanding and exercisable	Exercise price C\$	Expiry date	Weighted Average Remaining Life (years)
12,625,000	0.075	April 25, 2021	0.65
1,558,075	0.10	April 25, 2021	0.65
7,031,603	0.35	October 11, 2021	1.11
21,214,678			0.84

During the period ended August 31, 2020, the Company did not issue any share purchase warrants.

During the period ended August 31, 2019, the Company issued 650,000 common shares pursuant to warrant exercises for gross proceeds of \$39,716 (C\$52,500).

Obligation to issue shares

During the year ended May 31, 2020, the Company entered into three separate agreements where the Company agreed to issue 1,100,000 common shares upon achievement of certain operational milestones to one of the Company's key executives and two consultants of the Company. The estimated fair value of the 1,100,000 common shares is \$61,543 (C\$82,500). The shares were issued during the period ended August 31, 2020.

10. RELATED PARTY TRANSACTIONS

The Company entered into the following transactions with related parties during the year ended August 31, 2020:

	August 31, 2020 \$	August 31, 2019 \$
Consulting fees paid or accrued to the CEO	15,000	27,000
Consulting fees paid or accrued to the CFO	11,169	11,347
Accounting and corporate fees paid or accrued to a company controlled by the CFO	11,169	11,347
Share based compensation paid to directors and officers	126,801	11,469
	164,139	61,163

As at August 31, 2020, \$119,509 (May 31, 2020 – \$104,279) is owed to 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.

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11. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, accounts receivable, accounts payable, accrued liabilities, and short term loans. Unless otherwise noted, it is management's opinion that the Company is not exposed to 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 – Disclosures.

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.

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 and accounts receivable. The Company limits its exposure to credit risk on liquid financial assets through maintaining its cash with high-credit quality financial institutions. Receivables consist of Goods and Services Tax ("GST") receivable from the Canadian government and receivables from trade customers. 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. 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, has no source of operating income and has 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 a 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.

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11. FINANCIAL INSTRUMENTS (CONTINUED)

Fair value measurements of financial assets and liabilities

The Company believes that the recorded values of its accounts receivable, short term loans and accounts payable and accrued liabilities, approximate their current fair values because of their nature and relatively short maturity dates or durations.

12. 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 \$23,369 (C\$32,219). As at August 31, 2020, the balance is still owing.

13. 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 invests all capital that is surplus to its immediate operational needs in short-term, highly-liquid, high-grade financial instruments. There were no changes to the Company's approach to capital management since the period ended August 31, 2020 and 2019. 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 current obligations.