

KOIOS BEVERAGE CORP.
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
MAY 31, 2021 AND 2020
(Expressed in US Dollars)



DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Koios Beverage Corp.

Opinion

We have audited the consolidated financial statements of Koios Beverage Corp. (the "Company"), which comprise the consolidated statements of financial position as at May 31, 2021 and 2020, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at May 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 to the financial statements, which indicates that the Company incurred a net loss and comprehensive loss of \$2,193,578 during the year ended May 31, 2021 and has an accumulated deficit of \$15,730,884 as at May 31, 2021. As stated in Note 1, these conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises the information included in Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.



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Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Otto Ehinger.

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DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS
Vancouver, British Columbia
October 7, 2021



An independent firm
associated with Moore
Global Network Limited

KOIOS BEVERAGE CORP.
Consolidated Statements of Financial Position
(Expressed in US dollars)

| As at, | Note | May 31, 2021 \$ | May 31, 2020 \$ |
|---------------------------------------------|------|-----------------------|-----------------------|
| ASSETS | | | |
| Cash | | 1,028,827 | 1,176,960 |
| Accounts receivable | 3 | 59,182 | 41,461 |
| Loan receivable | 12 | 100,192 | - |
| Inventory | 4 | 166,574 | 159,753 |
| | | 1,354,775 | 1,378,174 |
| NON-CURRENT ASSETS | | | |
| Investment in joint venture | 5 | 45,260 | - |
| Equipment, vehicles and right of use assets | 6 | 157,296 | 50,127 |
| Total assets | | 1,557,331 | 1,428,301 |
| LIABILITIES | | | |
| Accounts payable and accrued liabilities | 7 | 494,925 | 546,718 |
| Provision for indemnity | 14 | 26,689 | 23,369 |
| Short-term loans | 8 | 15,739 | 125,298 |
| Convertible debenture | 10 | 519,441 | - |
| Short-term lease liabilities | 9 | 55,424 | 21,820 |
| Due to related parties | 12 | 169,430 | 104,279 |
| | | 1,281,648 | 821,484 |
| NON-CURRENT LIABILITIES | | | |
| Long-term lease liability | 9 | 60,898 | - |
| Vehicle loan | | 7,798 | 11,421 |
| | | 1,350,344 | 832,905 |
| SHAREHOLDERS' EQUITY | | | |
| Share capital | 11 | 13,702,458 | 13,137,986 |
| Reserves | | 2,306,110 | 1,219,062 |
| Obligation to issue shares | | 215,192 | 61,543 |
| Accumulated other comprehensive loss | | (285,889) | (173,217) |
| Deficit | | (15,730,884) | (13,649,978) |
| TOTAL SHAREHOLDERS' EQUITY | | 206,987 | 595,396 |
| Total liabilities and shareholders' equity | | 1,557,331 | 1,428,301 |

Nature and continuance of operations – Note 1

Approved and authorized for issue by the board of directors on October 7, 2021 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 consolidated financial statements.

KOIOS BEVERAGE CORP.

Consolidated Statements of Loss and Comprehensive Loss

For the years ended May 31, 2021 and 2020

(Expressed in US dollars)

| | Note | May 31, 2021 \$ | May 31, 2020 \$ |
|-------------------------------------------------------------------|------|--------------------|--------------------|
| Product revenue | 13 | 640,963 | 871,521 |
| Cost of sales | | (793,381) | (747,214) |
| | | (152,418) | 124,307 |
| General and administration expenses | | | |
| Corporate development | | 229,958 | 1,621,895 |
| Freight and shipping | | 171,130 | 296,467 |
| Consulting fees | 12 | 646,425 | 522,986 |
| Amortization | 6 | 42,192 | 17,422 |
| Filing fees and regulatory fees | | 38,714 | 28,384 |
| Share of losses from joint venture | 5 | 4,247 | - |
| Finance expense | 9,10 | 71,391 | - |
| Office | | 114,677 | 134,728 |
| Professional fees | | 181,719 | 116,746 |
| Insurance | | 39,498 | - |
| Rent | | 39,664 | 33,006 |
| Share-based compensation | 11 | 343,861 | 395,182 |
| Travel | | - | 56,402 |
| Total general and administration expenses | | (1,923,476) | (3,223,218) |
| Other items | | | |
| Gain on extinguishment of accounts payable | | - | 7,407 |
| Lease termination loss | 9 | (263) | - |
| Foreign exchange gain (loss) | | (4,749) | 92,376 |
| Loss for the period | | (2,080,906) | (2,999,128) |
| Other comprehensive loss | | | |
| Exchange differences related to presentation currency | | (112,672) | (61,564) |
| Loss and comprehensive loss for the period | | (2,193,578) | (3,060,692) |
| Loss per share, basic and diluted | | (0.03) | (0.04) |
| Weighted average number of shares outstanding - basic and diluted | | 80,726,276 | 77,505,738 |

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

KOIOS BEVERAGE CORP.

Consolidated Statements of Changes in Shareholders' Equity

For the years ended May 31, 2021 and 2020

(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 | 11 | 1,469,430 | 100,292 | - | - | - | - | 100,292 |
| Share-based compensation | 11 | - | - | 333,639 | - | - | - | 333,639 |
| Obligation to issue shares | 11 | - | - | - | 61,543 | - | - | 61,543 |
| Other comprehensive loss | | - | - | - | - | - | (61,564) | (61,564) |
| Loss and comprehensive loss for the year | | - | - | - | - | (2,999,128) | - | (2,999,128) |
| 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 services | 11 | 1,100,000 | 61,543 | - | (61,543) | - | - | - |
| Shares to be granted for consulting fees | 11 | - | - | - | 215,192 | - | - | 215,192 |
| Warrant exercises | 11 | 7,958,075 | 502,929 | - | - | - | - | 502,929 |
| Private placement | 11 | - | - | 743,187 | - | - | - | 743,187 |
| Share based compensation | 11 | - | - | 343,861 | - | - | - | 343,861 |
| Accumulated other comprehensive loss | | - | - | - | - | - | (112,672) | (112,672) |
| Loss and comprehensive loss for the year | | - | - | - | - | (2,080,906) | - | (2,080,906) |
| Balance, May 31, 2021 | | 86,834,675 | 13,702,458 | 2,306,110 | 215,192 | (15,730,884) | (285,889) | 206,987 |

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

KOIOS BEVERAGE CORP.
Consolidated Statements of Cash Flows
For the years ended May 31, 2021 and 2020
(Unaudited - Expressed in US dollars)

| For the years ended, | May 31, 2021 | May 31, 2020 |
|----------------------------------------------------|--------------------|--------------------|
| Cash flows used in operating activities | \$ | \$ |
| Loss for the period | (2,080,906) | (2,999,128) |
| Item not affecting cash: | | |
| Amortization | 42,192 | 17,422 |
| Share of losses from joint venture | 4,247 | - |
| Shares to be granted for consulting fees | 215,192 | - |
| Share-based compensation | 343,861 | 395,182 |
| Interest expense | 71,391 | 951 |
| Gain on extinguishment of accounts payable | - | (7,407) |
| Lease termination | 263 | - |
| Changes in non-cash working capital items: | | |
| Accounts receivable | (17,721) | (4,319) |
| Prepaid expenses | - | 297,956 |
| Inventory | (6,821) | 205,630 |
| Due to related parties | 98,959 | 62,901 |
| Accounts payable and accrued liabilities | (51,793) | 211,240 |
| Net cash flows used in operating activities | (1,381,136) | (1,819,572) |
| Cash flows used in investing activities | | |
| Equity investment | (49,507) | - |
| Equipment purchase | (9,454) | (17,461) |
| Net cash flows used in investing activities | (58,961) | (17,461) |
| Cash flows from financing activities | | |
| Convertible debenture | 463,355 | - |
| Loan receivable | (100,000) | - |
| Private placement | 743,187 | - |
| Shares issued from warrant exercised | 502,929 | 100,292 |
| Loan repayment | (187,623) | (18,622) |
| Lease repayments | (57,680) | (12,793) |
| Net cash flows from financing activities | 1,364,168 | 68,877 |
| Effect of foreign exchange on cash | (72,204) | (62,278) |
| Net decrease in cash | (148,133) | (1,830,434) |
| Cash, beginning of the year | 1,176,960 | 3,007,394 |
| Cash, ending of the year | 1,028,827 | 1,176,960 |

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

KOIOS BEVERAGE CORP.
Notes to the Consolidated Financial Statements
For the years ended May 31, 2021 and 2020
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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Issues Committee (“IFRIC”). The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

b) Basis of measurement

These 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 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 consolidated financial statements is the US dollar.

c) Going concern

These consolidated 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 May 31, 2021, the Company incurred comprehensive loss of \$2,193,578 (2020 - \$3,060,692), had an accumulated deficit of \$15,730,884 (2020- \$13,649,978) and had working capital of \$73,127 (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 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 2021. The beverage industry has not been recognized as essential services. As at May 31, 2021, 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.

KOIOS BEVERAGE CORP.
Notes to the Consolidated Financial Statements
For the years ended May 31, 2021 and 2020
Expressed in US Dollars, unless otherwise stated

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 consolidated 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 consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Koios Inc. ("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 consolidated financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Significant accounting judgments and estimates

The preparation of these consolidated 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 consolidated 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 consolidated 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 consolidated 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.

KOIOS BEVERAGE CORP.
Notes to the Consolidated Financial Statements
For the years ended May 31, 2021 and 2020
Expressed in US Dollars, unless otherwise stated

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) 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 |

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.

c) 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.

d) Valuation of equity units issued in private placements

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.

e) 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.

f) Special warrants

Special warrants are convertible into common shares and share purchase warrants of the Company. The Company measures the fair value of the special warrants by its components: the fair value of the common shares are valued at the closing price of the Company's shares on the special warrant issuance date; the fair value of the share purchase warrants are determined by using the Black-Scholes Option Pricing Model on the special warrant issuance date.

KOIOS BEVERAGE CORP.
Notes to the Consolidated Financial Statements
For the years ended May 31, 2021 and 2020
Expressed in US Dollars, unless otherwise stated

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g) Loss per share

Basic earnings (loss) per share is computed by dividing the net income (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.

h) 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.

i) 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.

KOIOS BEVERAGE CORP.
Notes to the Consolidated Financial Statements
For the years ended May 31, 2021 and 2020
Expressed in US Dollars, unless otherwise stated

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j) 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 loans and vehicle loan | Amortized cost |
| Convertible debenture | FVTPL |

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.

KOIOS BEVERAGE CORP.
Notes to the Consolidated Financial Statements
For the years ended May 31, 2021 and 2020
Expressed in US Dollars, unless otherwise stated

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j) Financial instruments (Continued)

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.

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.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

k) 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.

l) 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.

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.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

m) 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.

n) Accounting standards issued but not yet effective

As at the date of authorization of these consolidated financial statements, the IASB and the IFRS Interpretations Committee had issued certain pronouncements that are mandatory for the Company's accounting periods commencing on or after June 1, 2021. Many are not applicable or do not have a significant impact to the Company, have been excluded. The Company had assessed that no material impact is expected upon the adoption of the following amendments on its consolidated financial statements:

Amendments to IAS 1

In January 2020, the IASB issued amendments to IAS 1 which clarify the requirements for classifying liabilities as either current or non-current by: (i) specifying that the conditions which exist at the end of the reporting period determine if a right to defer settlement of a liability exists; (ii) clarifying that settlement of a liability refers to the transfer to the counterparty of cash, equity instruments, other assets or services; (iii) clarifying that classification is unaffected by management's expectation about events after the balance sheet date; and (iv) clarifying the classification requirements for debt an entity may settle by converting it into equity.

The amendments clarify existing requirements, rather than make changes to the requirements, and so are not expected to have a significant impact on the Company's consolidated financial statements. However, the clarifications may result in reclassification of some liabilities from current to non-current or vice-versa, which could impact an entity's loan covenants. Because of this impact, the IASB has provided a longer effective date to allow entities to prepare for these amendments. In July 2020, the IASB issued an amendment to defer the effective date of the amendments by one year from its originally planned effective date to annual periods beginning on or after January 1, 2023 due to the impact of COVID-19. Early application is permitted.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

o) Accounting standards issued but not yet effective (continued)

Amendments to IAS 37 – Provisions, Contingent Liabilities and Contingent Assets (“IAS 37”)

In May 2020, the IASB issued amendments to update IAS 37. The amendments specify that in assessing whether a contract is onerous under IAS 37, the cost of fulfilling a contract includes both the incremental costs and an allocation of costs that relate directly to contract activities. The amendments also include examples of costs that do, and do not, relate directly to a contract. These amendments are effective for annual periods beginning on or after January 1, 2022. Earlier application is permitted.

3. ACCOUNTS RECEIVABLE

| | May 31, 2021 | May 31, 2020 |
|---------------------|---------------|---------------|
| | \$ | \$ |
| Tax receivable | 25,569 | 16,854 |
| Accounts receivable | 33,613 | 24,607 |
| | 59,182 | 41,461 |

4. INVENTORY

| | May 31, 2021 | May 31, 2020 |
|----------------|----------------|----------------|
| | \$ | \$ |
| Raw material | 60,748 | 39,215 |
| Finished goods | 105,826 | 120,538 |
| | 166,574 | 159,753 |

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

5. 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, May 31, 2020 | - |
| Cash advanced | 49,507 |
| Share of losses from joint venture | (4,247) |
| Ending balance, May 31, 2021 | 45,260 |

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5. INVESTMENT IN JOINT VENTURE (CONTINUED)

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

| | May 31, 2021 |
|-------------------|--------------|
| | \$ |
| Cash | 14,046 |
| Current assets | 40,153 |
| Long-term assets | 221,979 |
| Total liabilities | (203,618) |
| Depreciation | 35,935 |

For the year ended May 31, 2021, BevCreation reported revenues of \$111,316 and expenses of \$119,809, resulting in a net loss of \$8,493 on its financial statements.

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

| | Equipment | Right-of-use asset – Equipment | Right-of-use asset – office space | Vehicle | Total |
|----------------------------------|---------------|--------------------------------------|-----------------------------------------|---------------|----------------|
| | \$ | | \$ | \$ | \$ |
| Cost: | | | | | |
| Balance, May 31, 2019 | - | - | - | 18,792 | 18,792 |
| Additions | 17,641 | - | 33,662 | - | 51,303 |
| Balance, May 31, 2020 | 17,641 | - | 33,662 | 18,792 | 70,095 |
| Additions | 9,454 | 105,506 | 45,260 | - | 160,220 |
| Disposals | - | - | (10,859) | - | (10,859) |
| Balance, May 31, 2021 | 27,095 | 105,506 | 68,063 | 18,792 | 219,456 |
| Accumulated amortization: | | | | | |
| Balance, May 31, 2019 | - | - | - | 2,546 | 2,546 |
| Depreciation | - | - | 10,781 | 6,641 | 17,422 |
| Balance, May 31, 2020 | - | - | 10,781 | 9,187 | 19,968 |
| Depreciation | 1,635 | 13,425 | 23,337 | 3,795 | 42,192 |
| Balance, May 31, 2021 | 1,635 | 13,425 | 34,118 | 12,982 | 62,160 |
| Net book value: | | | | | |
| Balance, May 31, 2020 | 17,641 | - | 22,881 | 9,785 | 50,127 |
| Balance, May 31, 2021 | 25,460 | 92,081 | 33,945 | 5,810 | 157,296 |

The right-of-use asset – office space relates to two leased office spaces. The leases are reflected as a right-of-use asset, with an associated lease liability (Note 9). The discount rate applied to the office leases are 8% per annum. During the year ended May 31, 2021, the Company terminated one of the office leases.

The discount rate applied in the right-of-use asset – equipment is the implicit rate in its lease and is between 21% to 32%.

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7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| | May 31, 2021 | May 31, 2020 |
|---------------------|----------------|----------------|
| | \$ | \$ |
| Accounts payable | 424,185 | 492,855 |
| Accrued liabilities | 70,740 | 53,863 |
| | 494,925 | 546,718 |

8. SHORT TERM LOANS

| | May 31, 2021 | May 31, 2020 |
|-------------------------------------|---------------|----------------|
| | \$ | \$ |
| Loans owed to former related party | 15,739 | 13,781 |
| Loans owed to contracted consultant | - | 111,517 |
| | 15,739 | 125,298 |

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

9. LEASE LIABILITY

As at May 31, 2021, the Company has three equipment leases and an 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 for the year ended May 31, 2021:

| | |
|-----------------------------|----------|
| | \$ |
| 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 |
| Lease additions (Note 6) | 150,766 |
| Payments | (57,680) |
| Finance expense | 12,275 |
| Disposal | (10,859) |
| Balance, May 31, 2021 | 116,322 |
| Current portion | 55,424 |
| Long-term portion | 60,898 |

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.

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10. CONVERTIBLE DEBENTURES

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 \$463,355 (CAD \$600,000). The debentures bear interest of 15% per annum, mature in 9 months and the principal and interest are convertible into common shares at a conversion price which is the lesser of the five-day volume weighted average price (“VWAP”) for five-trading sessions on the Canadian Securities Exchange 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. The Debenture has been accounted for FVTPL.

The following table reconciles the recorded value of the convertible debentures:

| | Total \$ |
|----------------------------------------|---------------------|
| Balance, May 31, 2020 | - |
| Additions | 463,355 |
| Foreign exchange loss | 35,167 |
| Change in fair value / finance expense | 20,919 |
| Balance, May 31, 2021 | 519,441 |

11. SHARE CAPITAL

Authorized - unlimited number of common shares without par value.

Share issuances

For the year ended May 31, 2021

During the year ended May 31, 2021, the Company issued 1,100,000 common shares to officers and consultants of the Company pursuant to a consulting agreement with a fair value of \$61,543 (C\$82,500). The Company transferred \$61,543 from obligation to issue shares to share capital.

During the year ended May 31, 2021, the Company issued 7,958,075 common shares pursuant to warrant exercises for gross proceeds of \$502,929 (C\$635,808).

On March 8, 2021, the Company completed a private placement and issued 45,000,000 Special Warrants (“Warrant”) for gross proceeds of \$743,187 (C\$900,000). Each Warrant is exercisable into one Unit (“Unit”). Each Unit consists of one common share and one transferable common share purchase warrant (“Conversion Warrant”). Each Warrant will entitle the holder to acquire one Unit at a price of \$0.03 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 \$0.05 per share for a two year period.

As at May 31, 2021, nil common shares were held in escrow (May 31, 2020 – 2,250,000).

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11. SHARE CAPITAL (CONTINUED)

For the year ended May 31, 2020:

During the year ended May 31, 2020, the Company issued 1,469,430 common shares pursuant to warrant exercises for gross proceeds of \$100,292 (C\$134,443).

On March 31, 2020, the Company amended the special warrants originally issued on April 25, 2018 which consisted of 15,776,838 units ("Units") of the Company with an expiry date of April 25, 2020 to April 25, 2021.

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 year ended May 31, 2021:

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 \$337,768 (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.

On April 22, 2021, the Company granted 200,000 stock options with an exercise price of C\$0.08 per share expiring on April 22, 2026. The options vest 4 months after issuance. The fair value of the stock options was estimated to be \$3,792 (C\$4,909) using the Black-Scholes pricing model with the following assumptions: term of 5 years; expected volatility of 189%; risk-free rate of 0.93%; and expected dividends of zero.

On May 12, 2021, the Company granted 400,000 stock options with an exercise price of C\$0.075 per share expiring on May 12, 2026. The options vest 6 months after issuance. The fair value of the stock options was estimated to be \$2,301 (C\$437,207) using the Black-Scholes pricing model with the following assumptions: term of 5 years; expected volatility of 189%; risk-free rate of 0.97%; and expected dividends of zero.

During the year ended May 31, 2020:

On November 14, 2019, the Company granted 2,200,000 stock options with an exercise price of C\$0.185 per share expiring on November 14, 2021. The options vested 100% the date of grant. The fair value of the stock options was estimated to be \$207,809 (C\$278,574) using the Black-Scholes pricing model with the following assumptions: term of 2 years; expected volatility of 140%; risk-free rate of 1.56%; and expected dividends of zero. During the year ended May 31, 2020, the Company cancelled all of these options at managements discretion.

On March 4, 2020, the Company granted 350,000 stock options to a director of the Company, pursuant to its stock option plan, at an exercise price of C\$0.16 per common share. Each option granted to the optionee is exercisable for a period of four years. Of the stock options granted, 25% of the stock options vest on June 4, 2020, September 4, 2020, December 4, 2020 and March 4, 2021. The fair value of the stock options was estimated to be \$29,783 (C\$39,924) using the Black-Scholes pricing model with the following assumptions: term of 4 years; expected volatility of 202%; risk-free rate of 0.90%; and expected dividends of zero. During the year ended May 31, 2020, the Company cancelled all of these options at managements discretion.

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11. SHARE CAPITAL (CONTINUED)

On March 11, 2020, the Company granted 100,000 stock options to a consultant of the Company, pursuant to its stock option plan, at an exercise price of C\$0.15 per common share. Each option granted to the optionee is exercisable for a period of two years. Of the stock options granted, 25% of the stock options vest on June 11, 2020, September 11, 2020, December 11, 2020 and March 11, 2021. The fair value of the stock options was estimated to be \$4,953 (C\$6,640) using the Black-Scholes pricing model with the following assumptions: term of 2 years; expected volatility of 153%; risk-free rate of 0.50%; and expected dividends of zero. During the year ended May 31, 2020, the Company cancelled all of these options at managements discretion.

During the year ended May 31, 2020, the Company cancelled 5,333,333 stock options with a weighted average exercise price of \$0.24 and term of 1.04 years, resulting in stock-based compensation of \$333,639 (C\$447,251) being recognized.

The following table summarizes stock option activity:

| | Number of options, issued and exercisable | Weighted average price C\$ |
|-------------------------|----------------------------------------------|----------------------------------|
| Balance at May 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 | 6,633,333 | 0.08 |
| Balance at May 31, 2021 | 6,633,333 | 0.08 |

Information regarding options outstanding at May 31, 2021 is as follows:

| Number of options outstanding | Number of options exercisable | Exercise price C\$ | Expiry date | Weighted Average Remaining Life (years) |
|----------------------------------|----------------------------------|-----------------------|----------------|-----------------------------------------------|
| 6,033,333 | 6,033,333 | 0.08 | July 16, 2025 | 4.13 |
| 200,000 | - | 0.08 | April 22, 2026 | 4.90 |
| 400,000 | - | 0.075 | May 12, 2026 | 4.95 |
| 6,633,333 | 6,033,333 | | | |

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 | 21,214,678 | 0.17 |
| Exercised | (7,958,075) | (0.08) |
| Expired | (6,225,000) | (0.08) |
| Balance at May 31, 2021 | 7,031,603 | 0.35 |

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11. SHARE CAPITAL (CONTINUED)

Information regarding share purchase warrants outstanding at May 31, 2021 is as follows:

| Number of warrants outstanding and exercisable | Exercise price C\$ | Expiry date | Weighted Average Remaining Life (years) |
|---------------------------------------------------|-----------------------|------------------|-----------------------------------------------|
| 7,031,603 | 0.35 | October 11, 2021 | 0.36 |

Special Warrants

As at May 31, 2021, there are 45,000,000 special warrants (“Special Warrant”) outstanding. Each Special Warrant is exercisable into one Unit (“Unit”). Each Unit consists of one common share and one transferable common share purchase warrant (“Conversion Warrant”). Each Warrant will entitle the holder to acquire one Unit at a price of \$0.03 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 \$0.05 per share for a two year period.

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 year ended May 31, 2021.

During the year ended May 31, 2021, the Company estimated it would be liable to issue 6,600,000 common shares with a fair value of \$412,500 to consultants of the Company as payments for performance bonuses upon achieving certain milestones of which \$215,192 was expensed as consulting fees and an obligation to issue shares for the year ended May 31, 2021. As at May 31, 2021, \$215,192 (2020 - \$Nil) of the fair value of the services was recorded as an obligation to issue shares.

12. RELATED PARTY TRANSACTIONS

The Company entered into the following transactions with related parties during the year ended May 31, 2021:

| | May 31, 2021 \$ | May 31, 2020 \$ |
|----------------------------------------------------------------------------------|-----------------------|-----------------------|
| Consulting fees paid or accrued to the CEO | 120,000 | 115,500 |
| Consulting fees paid or accrued to the CFO | 46,355 | 44,759 |
| Accounting and corporate fees paid or accrued to a company controlled by the CFO | 51,298 | 44,759 |
| Shares to be granted for consulting fees (Note 11) | 71,133 | - |
| Share based compensation paid to directors and officers | 160,306 | 158,803 |
| | 449,092 | 363,821 |

As at May 31, 2021, \$147,810 (March 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.

As at May 31, 2021, \$100,192 (March 31, 2020 – \$nil) is a loan receivable from the CEO of the Company. The loan receivable bears interest of 5% per annum, compounded monthly and matures on May 31, 2022.

As at May 31, 2021, the Company owed BevCreation \$18,533 for processing fees (2020: \$Nil)

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13. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, accounts receivable, loan receivable, accounts payable, accrued liabilities, convertible debenture 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.

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, loan receivable 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. Credit risk related to receivables is monitored by performing on going credit checks. The credit risk is considered low. One customer represents 22% of the total product revenues recognized during the year ended May 31, 2021 (2020: 2 customers represent 59% of the product revenues).

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 10). 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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13. FINANCIAL INSTRUMENTS (CONTINUED)

Fair value measurements of financial assets and liabilities

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

14. 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 \$26,689 (C\$32,219). As at May 31, 2021, the balance is still owing.

15. 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 year ended May 31, 2020. 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.

16. INCOME TAXES

The differences between tax recovery for the 2021 and 2020 years ended, and the expected income tax recovery based on statutory rates arise as follows:

| | May 31, 2021 | May 31, 2020 |
|-----------------------------------------------------------------------|----------------|----------------|
| Loss before income tax | \$ (2,080,906) | \$ (2,999,128) |
| Expected tax recovery based on statutory rate of 23.6% (2020 - 23.6%) | (484,716) | (706,808) |
| Non-deductible expenditures | - | - |
| Permanent and other differences | 142,943 | 107,235 |
| Other | - | (37,262) |
| Change in deferred tax assets | 341,773 | 636,835 |
| Total income tax recovery | \$ - | \$ - |

As at May 31, 2020, the Company has accumulated Canadian non-capital losses of \$10,333,179 for income tax purposes which may be deducted in the calculation of taxable income in future years expiring in 2041. The potential benefit of these non-capital loss carry-forwards has not been recognized in these financial statements as it is not considered probable that sufficient future taxable profit will allow the deferred assets to be recovered. Tax attributes are subject to review, and potential adjustment, by tax authorities.