

KOIOS BEVERAGE CORP.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

**FOR THE THREE MONTHS ENDED
AUGUST 31, 2021 AND 2020**

(Expressed in US Dollars)

NOTICE OF NO AUDITOR REVIEW

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

The accompanying unaudited condensed interim consolidated financial statements of Koios Beverage Corp. have been prepared by and are the responsibility of management.

These unaudited condensed interim consolidated financial statements for the three months ended August 31, 2021 have not been reviewed or audited by the Company's independent auditors in accordance with standards established by the Chartered Professional Accountants of Canada.

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

As at,	Note	August 31, 2021 \$	May 31, 2021 \$
ASSETS			
Cash		573,510	1,028,827
Accounts receivable	3	74,952	59,182
Loan receivable	12	101,452	100,192
Prepaid expenses		102,454	-
Inventory	4	180,881	166,574
		1,033,249	1,354,775
NON-CURRENT ASSETS			
Investment in joint venture	5	42,792	45,260
Property and equipment	6	144,391	157,296
Total assets		1,220,432	1,557,331
LIABILITIES			
Accounts payable and accrued liabilities	7	541,894	494,925
Provision for indemnity	14	25,536	26,689
Short-term loans	8	15,059	15,739
Convertible debenture	10	497,003	519,441
Short-term lease liabilities	9	75,642	55,424
Due to related parties	12	163,516	169,430
		1,318,650	1,281,648
NON-CURRENT LIABILITIES			
Long-term lease liability	9	28,683	60,898
Vehicle loan		6,893	7,798
Total liabilities		1,354,226	1,350,344
SHAREHOLDERS' EQUITY (DEFICIENCY)			
Share capital	11	13,702,458	13,702,458
Reserves		2,306,110	2,306,110
Obligation to issue shares	11	215,193	215,192
Accumulated other comprehensive loss		(249,238)	(285,889)
Deficit		(16,108,317)	(15,730,884)
TOTAL SHAREHOLDERS' EQUITY (DEFICIENCY)		(133,794)	206,987
Total liabilities and shareholders' equity (deficiency)		1,220,432	1,557,331

Nature and continuance of operations – Note 1

Approved and authorized for issue by the board of directors on November 1, 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 condensed interim consolidated financial statements.

KOIOS BEVERAGE CORP.

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

For the three months ended August 31, 2021 and 2020

(Expressed in US dollars)

	Note	August 31, 2021 \$	August 31, 2020 \$
Product revenue		202,351	214,232
Cost of sales		(199,042)	(161,973)
		3,309	52,259
General and administration expenses			
Corporate development		17,839	48,703
Freight and shipping		108,179	17,417
Consulting fees	12	141,328	44,054
Amortization	6	12,905	8,162
Filing fees and regulatory fees		2,194	5,394
Share of losses from joint venture	5	2,469	-
Finance expense	9,10	6,088	-
Office		36,217	48,013
Professional fees		30,054	61,957
Insurance		14,808	8,178
Rent		8,660	5,031
Share-based compensation	11	-	325,547
Total general and administration expenses		(380,741)	(572,456)
Other items			
Foreign exchange loss		-	(64,733)
Loss for the period		(377,432)	(584,930)
Other comprehensive loss			
Exchange differences related to presentation currency		36,651	46,041
Loss and comprehensive loss for the period		(340,781)	(538,889)
Loss per share, basic and diluted		(0.00)	(0.01)
Weighted average number of shares outstanding - basic and diluted		86,834,675	78,338,822

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

KOIOS BEVERAGE CORP.

Condensed Consolidated Interim Statements of Changes in Shareholders' Equity (Deficiency)

For the three months ended August 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, 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)	-	-	-
Share-based compensation	11	-	-	325,547	-	-	-	325,547
Other comprehensive loss		-	-	-	-	-	46,041	46,041
Loss and comprehensive loss for the year		-	-	-	-	(584,930)	-	(584,930)
Balance, August 31, 2020		78,876,600	13,199,529	1,544,609	-	(14,234,908)	(127,176)	382,054
Balance, May 31, 2021		86,834,675	13,702,458	2,306,110	215,193	(15,730,885)	(285,889)	206,987
Accumulated other comprehensive loss		-	-	-	-	-	(36,651)	(36,651)
Loss and comprehensive loss for the period		-	-	-	-	(377,432)	-	(377,432)
Balance, August 31, 2021		86,834,675	13,702,458	2,306,110	259,780	(16,108,317)	(249,238)	(133,794)

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 months ended August 31, 2021 and 2020
(Unaudited - Expressed in US dollars)

For the period ended,	August 31, 2021	August 31, 2020
Cash flows used in operating activities	\$	\$
Loss for the period	(377,432)	(584,930)
Item not affecting cash:		
Amortization	12,905	8,162
Share of losses from joint venture	2,468	-
Share-based compensation	-	325,547
Finance expense	6,088	392
Interest income	(1,260)	-
Foreign exchange	12,380	(10,213)
Changes in non-cash working capital items:		
Accounts receivable	(15,770)	1,592
Prepaid expenses	(102,454)	-
Inventory	(14,307)	72,019
Due to related parties	(5,914)	71,929
Accounts payable and accrued liabilities	46,969	(254,841)
Net cash flows used in operating activities	(436,327)	(370,343)
Cash flows from financing activities		
Loan repayment	(905)	(906)
Lease repayments	(18,085)	(7,123)
Net cash flows from financing activities	(18,990)	(8,029)
Effect of foreign exchange on cash	-	46,041
Net decrease in cash	(455,317)	(332,331)
Cash, beginning of the year	1,028,827	1,176,960
Cash, ending of the period	573,510	844,629

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

KOIOS BEVERAGE CORP.
Notes to the Condensed Interim Consolidated Interim Financial Statements
For the three months ended August 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 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, 2021.

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 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 three months ended August 31, 2021, the Company incurred comprehensive loss of \$340,781 (August 31, 2020 - \$584,930), had an accumulated deficit of \$16,108,317 (May 31, 2021- \$15,730,884) and had working capital deficiency of \$285,401 (May 31, 2021–\$73,127). 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 Condensed Interim Consolidated Interim Financial Statements
For the three months ended August 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

In preparing these condensed consolidated interim 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, 2021.

The preparation of the condensed consolidated interim 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.

Recent Accounting Pronouncements

As at the date of authorization of these 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 January 1, 2021. Many are not applicable or do not have a significant impact to the Company, have been excluded.

3. ACCOUNTS RECEIVABLE

	August 31, 2021	May 31, 2021
	\$	\$
Tax receivable	25,401	25,569
Accounts receivable	49,551	33,613
	74,952	59,182

KOIOS BEVERAGE CORP.**Notes to the Condensed Interim Consolidated Interim Financial Statements****For the three months ended August 31, 2021 and 2020****Expressed in US Dollars, unless otherwise stated****4. INVENTORY**

	August 31, 2021	May 31, 2021
	\$	\$
Raw material	118,676	60,748
Finished goods	62,205	105,826
	180,881	166,574

5. INVESTMENT IN JOINT VENTURE

On February 18, 2021, the Company together with Beauty Gourmet LLC, a woman’s functional beverage Company and 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
Share of losses from joint venture	(2,469)
Ending balance, August 31, 2021	42,792

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

	August 31, 2021
	\$
Cash	24,951
Current assets	39,496
Long-term assets	203,046
Total liabilities	(188,667)
Depreciation	17,968

For the period ended August 31, 2021, BevCreation reported revenues of \$117,242 and expenses of \$122,179, resulting in a net loss of \$4,937 on its financial statements.

KOIOS BEVERAGE CORP.**Notes to the Condensed Interim Consolidated Interim Financial Statements****For the three months ended August 31, 2021 and 2020****Expressed in US Dollars, unless otherwise stated****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, 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
Additions	-	-	-	-	-
Balance, August 31, 2021	27,095	105,506	68,063	18,792	219,456
Accumulated amortization:					
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
Depreciation	1,342	6,839	3,775	949	12,905
Balance, August 31, 2021	2,977	20,264	37,893	13,931	75,065
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
Balance, August 31, 2021	24,119	85,242	30,170	4,861	144,392

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.

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

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	August 31, 2021	May 31, 2021
	\$	\$
Accounts payable	383,377	424,185
Accrued liabilities	158,516	70,740
	541,893	494,925

8. SHORT TERM LOANS

	August 31, 2021	May 31, 2021
	\$	\$
Loans owed to former related party	15,059	15,739
	15,059	15,739

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

KOIOS BEVERAGE CORP.**Notes to the Condensed Interim Consolidated Interim Financial Statements****For the three months ended August 31, 2021 and 2020****Expressed in US Dollars, unless otherwise stated****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 three months ended August 31, 2021:

	\$
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
Payments	(18,085)
Finance expense	6,088
Balance, August 31, 2021	104,325
Current portion	75,642
Long-term portion	28,683

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	20,919
Balance, May 31, 2021	519,441
foreign exchange	(12,380)
Balance, August 31, 2021	497,003

KOIOS BEVERAGE CORP.
Notes to the Condensed Interim Consolidated Interim Financial Statements
For the three months ended August 31, 2021 and 2020
Expressed in US Dollars, unless otherwise stated

11. SHARE CAPITAL

Authorized - unlimited number of common shares without par value.

Share issuances

For the three months ended August 31, 2021

No share capital activates during the three months ended August 31, 2021.

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 May 26, 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).

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.

Obligation to issue shares

During the year ended May 31, 2021, the Company agreed to issue 7,700,000 common shares with a fair value of \$215,193 to consultants of the Company as payments for performance bonuses upon achieving certain milestones. As at August 31, 2021, \$215,193 (May 31, 2021 - \$215,192) of the fair value of the services was recorded as an obligation to issue shares.

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.

No stock options were issued during the three month period ended August 31, 2021.

KOIOS BEVERAGE CORP.**Notes to the Condensed Interim Consolidated Interim Financial Statements****For the three months ended August 31, 2021 and 2020****Expressed in US Dollars, unless otherwise stated****11. SHARE CAPITAL (CONTINUED)****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 immediately. 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 immediately. The fair value of the stock options was estimated to be \$2,301 (C\$2,962) 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.

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 and August 31, 2021	6,633,333	0.08

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

Number of options outstanding and exercisable	Exercise price C\$	Expiry date	Weighted Average Remaining Life (years)
6,033,333	0.08	July 16, 2025	3.88
200,000	0.08	April 22, 2026	4.64
400,000	0.075	May 12, 2026	4.70
6,633,333			

KOIOS BEVERAGE CORP.
Notes to the Condensed Interim Consolidated Interim Financial Statements
For the three months ended August 31, 2021 and 2020
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11. 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	21,214,678	0.17
Exercised	(7,958,075)	(0.08)
Expired	(6,225,000)	(0.08)
Balance at May 31, 2021 and August 31, 2021	7,031,603	0.07

Information regarding share purchase warrants outstanding at August 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	0.11

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.

12. RELATED PARTY TRANSACTIONS

The Company entered into the following transactions with related parties during the three months ended August 31, 2021:

	August 31, 2021 \$	August 31, 2020 \$
Consulting fees paid or accrued to the CEO	38,500	15,000
Consulting fees paid or accrued to the CFO	11,822	11,169
Accounting and corporate fees paid or accrued to a company controlled by the CFO	11,822	11,169
Share based compensation paid to directors and officers	-	126,801
	62,144	164,139

As at August 31, 2021, \$150,776 (May 31, 2021 – \$144,254) 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 August 31, 2021, \$101,452 (May 31, 2021 – \$100,192) 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.

KOIOS BEVERAGE CORP.

Notes to the Condensed Interim Consolidated Interim Financial Statements

For the three months ended August 31, 2021 and 2020

Expressed in US Dollars, unless otherwise stated

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.

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 9). 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.

KOIOS BEVERAGE CORP.

Notes to the Condensed Interim Consolidated Interim Financial Statements

For the three months ended August 31, 2021 and 2020

Expressed in US Dollars, unless otherwise stated

13. FINANCIAL INSTRUMENTS (CONTINUED)

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.

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.

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 August 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.