

KOIOS BEVERAGE CORP.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**FOR THE SIX MONTHS PERIOD ENDED
NOVEMBER 30, 2021 AND 2020
(UNAUDITED)**

(Expressed in US Dollars)

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

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

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

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

KOIOS BEVERAGE CORP.

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

AS AT,	Note	November 30, 2021	May 31, 2021
		\$	\$
ASSETS			
Cash		300,304	1,028,827
Accounts receivable	3	114,460	59,182
Loan receivable	12	102,691	100,192
Inventory	4	185,297	166,574
Prepaid		12,594	—
		735,949	1,354,775
NON-CURRENT ASSETS			
Investment in joint-venture	5	65,593	45,260
Equipment, vehicle and right-of-use asset	6	125,747	157,296
Total assets		927,389	1,557,331
LIABILITIES			
Accounts payable and accrued liabilities	7	789,590	541,713
Provision for indemnity	14	25,154	26,669
Short-term loans	8	14,834	15,739
Convertible debentures	10	526,267	519,441
Short-term Lease liability	9	60,726	55,424
Due to related parties	12	161,144	169,430
		1,577,715	1,281,648
NON-CURRENT LIABILITIES			
Long-term lease liability	9	24,537	60,898
Vehicle loan		5,987	7,798
		1,608,239	1,350,344
SHAREHOLDERS' EQUITY			
Share capital	11	13,702,458	13,702,458
Reserves		2,306,110	2,306,110
Obligation to issue shares	11	215,192	215,192
Accumulated other comprehensive loss		(234,822)	(285,889)
Deficit		(16,670,243)	(15,730,884)
TOTAL SHAREHOLDERS' EQUITY		(680,850)	206,987
Total liabilities and shareholders' equity		927,389	1,557,331

Approved and authorized for issue by the board of directors on January 28, 2022 and signed on its behalf by:

/s/ Chris Miller

Chris Miller, Director

/s/ Erik LeVang

Erik LeVang, Director

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

KOIOS BEVERAGE CORP.

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

For the six-months ended November 30, 2021 and 2020

(Expressed in US dollars)

		Three-month period ended November 30,		Six-month period ended November 30,	
	Note	2021	2020	2021	2020
		\$	\$	\$	\$
Product revenue		259,588	138,378	461,909	352,610
Cost of sales		(473,194)	(86,460)	(672,236)	(248,433)
		(213,636)	51,918	(210,327)	104,177
General and administration expenses					
Corporate development		20,889	9,724	38,728	58,427
Freight and shipping		43,346	40,454	151,525	57,871
Consulting fees	12	134,597	94,071	275,925	138,125
Amortization	6	18,644	15,656	31,549	23,818
Filing fees and regulatory fees		1,294	3,008	3,488	8,402
Share of loss (gain) in joint-venture	5	(22,902)	—	(20,433)	—
Finance charges	9,10	41,949	—	46,770	—
Office		52,663	323	90,147	48,336
Professional fees		25,942	34,158	55,996	96,115
Insurance		21,172	7,827	35,980	16,005
Rent		10,697	17,345	19,357	122,376
Share-based compensation	11	—	3,012	—	328,559
Total general and administration expenses		348,291	225,578	729,032	798,034
Other items					
Gain on extinguishment of accounts payable		—	—	—	—
Foreign exchange loss		—	(24,492)	—	(89,225)
		—	(24,492)	—	(89,225)
Loss for the period		(561,927)	(198,152)	(939,359)	(783,082)
Other comprehensive loss					
Exchange differences related to presentation currency		14,418	(28,164)	51,522	17,877
Loss and comprehensive loss for the period		(528,847)	(226,316)	(887,837)	(765,205)
Loss per share, basic and diluted		(0.006)	(0.000)	(0.011)	(0.010)
Weighted average number of shares outstanding - basic and diluted		86,834,675	78,876,600	86,834,675	78,189,477

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

KOIOS BEVERAGE CORP.

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity

For the six-month period ended November 30, 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		7,777,660	13,137,986	1,219,062	61,543	(13,649,978)	(173,217)	595,396
Shares issued for consulting performance	11	110,000	61,543	—	(61,543)	—	—	—
Share-based compensation	11	—	—	328,559	—	—	—	328,559
Other comprehensive loss		—	—	—	—	—	63,918	63,918
Loss and comprehensive loss for the period		—	—	—	—	(783,082)	—	(783,082)
Balance, November 30, 2020		7,887,660	13,199,529	1,547,621	—	(14,433,060)	(109,299)	204,791
Balance, May 31, 2021		8,683,457	13,702,458	2,306,110	(215,192)	(15,730,884)	(285,889)	206,987
Other comprehensive loss		—	—	—	—	—	51,522	51,522
Loss and comprehensive loss for the period		—	—	—	—	(939,359)	—	(939,359)
Balance, November 30, 2021		8,683,457	13,702,458	2,306,110	(215,192)	(16,670,243)	(234,367)	(680,850)

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 six-month period ended November 30, 2021 and 2020
(Unaudited - Expressed in US dollars)

For the period ended,	November 30, 2021	November 30, 2020
Cash flows used in operating activities	\$	\$
Loss for the period	(939,359)	(783,082)
Item not affecting cash:		
Amortization	31,549	23,818
Share of (gain) loss of joint venture	(20,433)	—
Share-based compensation	—	328,559
Interest expense	46,770	1,564
Interest income	(2,525)	—
Foreign exchange	—	(10,126)
Changes in non-cash working capital items:		
Accounts receivable	(55,278)	7,985
Prepaid expenses	(102,392)	(12,594)
Inventory	50,472	(25,544)
Due to related parties	(8,286)	65,262
Accounts payable and accrued liabilities	295,951	(208,317)
Net cash flows used in operating activities	(7003,531)	(612,475)
Cash flows used in investing activities		
Equipment purchase	—	(3,060)
Net cash flows used in investing activities	—	(3,060)
Cash flows from financing activities		
Loan repayment	(1,811)	(1,812)
Lease repayments	(43,132)	(19,182)
Net cash flows from financing activities	(44,943)	(20,994)
Effect of foreign exchange on cash	19,951	63,918
Net decrease in cash	(728,523)	(572,611)
Cash, beginning of the year	1,028,827	1,176,960
Cash, ending of the period	300,304	604,349

OTHER SUPPLEMENTAL INFORMATION

For the period ended,	November 30, 2021	November 30, 2020
Shares issued for consulting performance	—	61,543
Taxes paid	—	—
Interest paid	—	—

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

KOIOS BEVERAGE CORP.
Notes to the Condensed Interim Consolidated Financial Statements
For the six-month period ended November 30, 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. Koios specializes in the business of producing, marketing and selling functional beverages.

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

a) Statement of compliance

These unaudited condensed interim consolidated financial statements (“**Financial Statements**”) have been prepared in accordance with IAS 34 – Interim Financial Reporting, as issued by the International Accounting Standards Board (“**IASB**”). Accordingly, certain disclosures included in annual financial statements prepared in accordance with International Financial Reporting Standards (“**IFRS**”) as issued by the IASB, have been condensed or omitted and therefore, these Financial Statements should be read in conjunction with the Company’s audited consolidated financial statements for the year ended May 31, 2021.

b) Basis of measurement

These Financial Statements have been prepared based on historical costs except for certain financial instruments which are measured at fair value. In addition, these Financial Statements have been prepared using the accrual basis of accounting, except for cash flow information. The functional currency of the Company is represented in the Canadian dollar. The presentation currency of these Financial Statements is in the US dollar.

c) Going concern

These Financial Statements have been prepared on a going concern basis, which presumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business in the foreseeable future. During the six months ended November 30, 2021, the Company incurred a comprehensive loss of \$939,359 (November 30, 2020 - \$765,205), an accumulated deficit of \$16,670,243 (May 31, 2021- \$15,730,884) and had a working capital deficiency of \$841,766 (May 31, 2021 had a work capital of \$73,127). The Company anticipates that further losses will be incurred. The Company’s ability to continue as a going concern and meeting its corporate objectives will require additional financing through debt or equity issuances, or other available means. There is no assurance that the Company will be able to obtain adequate financing in the future or that such financing will be available on terms advantageous to the Company. These conditions indicate the existence of material uncertainties that may cast significant doubt about the Company’s ability to continue as a going concern. These Financial Statements do not include any adjustments relating to the recoverability, classification of recorded asset amounts, nor classification of liabilities that might be necessary should the Company be unable to continue its existence.

In March 2020, the World Health Organization declared the outbreak of COVID-19 a global pandemic. Government measures to limit the spread of COVID-19 such as the closure of non-essential businesses, did not materially disrupt the Company’s operations despite the beverage industry not having been recognized as an essential service. As at November 30, 2021, the Company has not observed any material impairments of its assets or any significant changes in the fair value of assets, due to the COVID-19 pandemic.

KOIOS BEVERAGE CORP.
Notes to the Condensed Interim Consolidated Financial Statements
For the six-month period ended November 30, 2021 and 2020
Expressed in US Dollars, unless otherwise stated

1. NATURE AND CONTINUANCE OF OPERATIONS (CONTINUED)

d) Going concern (continued)

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

e) Basis of consolidation

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

2. SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies and judgments made by management while preparing these Financial Statements were made with the same as those that applied to the Company's audited consolidated financial statements for the year ended May 31, 2021.

The preparation of these Financial Statements requires the Company's management to make judgments and estimates of any 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, and could potentially have future material effects on the Company's financial position. Estimates are reviewed on an ongoing basis and are based on historical experience among 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, and therefore have been excluded.

3. ACCOUNTS RECEIVABLE

	November 30, 2021	May 31, 2021
	\$	\$
Tax receivable	25,020	25,569
Accounts receivable	89,440	33,613
	114,460	59,182

KOIOS BEVERAGE CORP.
Notes to the Condensed Interim Consolidated Financial Statements
For the six-month period ended November 30, 2021 and 2020
Expressed in US Dollars, unless otherwise stated

4. INVENTORY

	November 30, 2021	May 31, 2021
	\$	\$
Raw material	91,487	60,748
Finished goods	24,615	105,826
	116,102	166,574

5. INVESTMENT IN JOINT VENTURE

On February 18, 2021, the Company, together with Beauty Gourmet LLC, a woman’s functional beverage company formed a joint-venture named BevCreation, LLC (“**BevCreation**”). BevCreation is a manufacturer of functional beverages and operates out of 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 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	20,433
Ending balance, November 30, 2021	65,693

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

	November 30, 2021
	\$
Cash	28,790
Current assets	65,864
Long-term assets	198,215
Total liabilities	169,234
Depreciation	35,935

For the six-month period ended November 30, 2021, BevCreation reported revenues of \$280,328 and expenses of \$239,463, resulting in a net income of \$40,865 on its financial statements.

KOIOS BEVERAGE CORP.
Notes to the Condensed Interim Consolidated Financial Statements
For the six-month period ended November 30, 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, June 1, 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, November 30, 2021	27,095	105,506	68,063	18,792	219,456
Accumulated amortization:					
Balance, June 1, 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	1,057	13,680	14,916	1,896	31,549
Balance, November 30, 2021	2,692	27,105	49,034	14,878	93,709
Net book value:					
Balance, May 31, 2021	25,460	92,081	33,945	5,810	157,296
Balance, November 30, 2021	24,403	78,401	19,029	3,914	125,747

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

	November 30, 2021	May 31, 2021
	\$	\$
Accounts payable	660,938	424,185
Accrued liabilities	128,652	70,740
	789,590	494,925

8. SHORT TERM LOANS

	November 30, 2021	May 31, 2021
	\$	\$
Loans owed to former related party	14,834	15,739
	14,834	15,739

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

KOIOS BEVERAGE CORP.
Notes to the Condensed Interim Consolidated Financial Statements
For the six-month period ended November 30, 2021 and 2020
Expressed in US Dollars, unless otherwise stated

9. LEASE LIABILITY

As at November 30, 2021, the Company has three equipment leases and one office lease (Collectively, the “Leases”). The Leases were measured at the present value of the future lease payments. These Lease payments are discounted using a discount rate of 8% per annum for the Company’s office leases, which represents the Company’s estimated incremental borrowing rate and the interest rate implicit in the lease agreement for equipment is between 21% and 32%.

The following is a continuity schedule of Lease liabilities as at November 30, 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	(43,132)
Finance expense	11,673
Balance, November 30, 2021	85,263
Current portion	60,726
Long-term portion	24,537

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 C\$600,000 (\$463,355). The Debentures bear interest of 15% per annum and matures in 9 months. 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 CSE prior to the Closing Date and a 25% discount to the VWAP of for the 5-day trading sessions prior to conversion per Common Share. The Debenture has been accounted for FVTPL and has a current fair value of C\$675,081 (\$527,048), which is comprised of the face value of C\$600,000 (\$468,432) and accrued interest of C\$75,081 (\$58,616).

KOIOS BEVERAGE CORP.
Notes to the Condensed Interim Consolidated Financial Statements
For the six-month period ended November 30, 2021 and 2020
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11. SHARE CAPITAL

Authorized - unlimited number of common shares without par value.

On October 19, 2021, the Company consolidated all of its issued and outstanding share capital on the basis of 10:1. On the same date, the Company also changed its ticker symbol from “KBEV” to “FIT”.

Share issuances

For the year ended May 31, 2021

During the year ended May 31, 2021, the Company issued 110,000 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 795,807 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 4,500,000 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 (each a “**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 common 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 – 225,000).

For the year ended May 31, 2020:

During the year ended May 31, 2020, the Company issued 146,943 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 1,577,684 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 770,000 common shares with a fair value of \$215,192 to consultants of the Company as payment for performance bonuses, upon achieving certain milestones. As at November 30, 2021, \$215,192 (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 six-month period ended November 30, 2021.

KOIOS BEVERAGE CORP.
Notes to the Condensed Interim Consolidated Financial Statements
For the six-month period ended November 30, 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 603,333 stock options with an exercise price of C\$0.80 per share expiring on July 16, 2025. The options vested 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 20,000 stock options with an exercise price of C\$0.80 per share expiring on April 22, 2026. The options vested 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 40,000 stock options with an exercise price of C\$0.75 per share expiring on May 12, 2026. The options vested 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	378,333	2.80
Granted	265,000	1.80
Expired	110,000	2.00
Cancelled	(533,333)	(2.40)
Balance at May 31, 2020	—	—
Granted	663,333	0.80
Balance at May 31, 2021 and November 30, 2021	663,333	0.80

Information regarding options outstanding at November 30, 2021 is as follows:

Number of options outstanding and exercisable	Exercise price C\$	Expiry date	Weighted Average Remaining Life (years)
603,333	0.80	July 16, 2025	3.58
20,000	0.80	April 22, 2026	4.34
40,000	0.75	May 12, 2026	4.40
663,333			

KOIOS BEVERAGE CORP.
Notes to the Condensed Interim Consolidated Financial Statements
For the six-month period ended November 30, 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	3,164,228	2.60
Exercised	(146,943)	(0.90)
Expired	(895,817)	(5.00)
Balance at May 31, 2020	2,121,468	1.70
Exercised	(795,808)	(0.80)
Expired	(622,500)	(0.80)
Balance at May 31, 2021 and November 30, 2021	703,160	0.70

Information regarding share purchase warrants outstanding at November 30, 2021 is as follows:

Number of warrants outstanding and exercisable	Exercise price C\$	Expiry date	Weighted Average Remaining Life (years)
703,160	3.50	October 11, 2021	0.11

Warrants

As at November 30, 2021, there are 4,500,000 Warrants outstanding. Each Warrant is exercisable to acquire one Unit. Each Unit consists of one common share and one Conversion Warrant. Each Warrant will entitle the holder to acquire one Unit at a price of \$0.30 per Unit for a period of two years from the date of closing. Each Conversion Warrant will entitle the holder thereof to acquire one additional share at a price of \$0.50 per share for a two-year period.

12. RELATED PARTY TRANSACTIONS

The Company entered into the following transactions with related parties during the three months ended November 30, 2021:

	November 30, 2021 \$	November 30, 2020 \$
Consulting fees paid or accrued to the CEO	63,500	15,500
Consulting fees paid or accrued to the former CFO	22,338	22,338
Accounting and corporate fees paid or accrued to a company controlled by the former CFO	22,338	22,338
Share based compensation paid to directors and officers	—	126,801
	85,838	201,477

As at November 30, 2021, \$156,144 (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 November 30, 2021, \$102,691 (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 Financial Statements
For the six-month period ended November 30, 2021 and 2020
Expressed in US Dollars, unless otherwise stated

13. FINANCIAL INSTRUMENTS

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

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

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

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

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

Credit risk

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

Currency risk

The Company and its subsidiaries do not have significant financial assets and liabilities denominated in foreign currencies other than the convertible debenture which is denominated in Canadian dollars (Note 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, no source of operating income and no assurance that additional funding will be available to fund its beverage operations, although the Company has been successful in the past in financing its activities through the sale of equity securities.

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

KOIOS BEVERAGE CORP.
Notes to the Condensed Interim Consolidated Financial Statements
For the six-month period ended November 30, 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 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, accounts payable and accrued liabilities, approximates their current fair values due to 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 any eligible exploration expenses, which resulted in a penalty and accrued interest totaling approximately \$26,689 (C\$32,219). As at November 30, 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 surplus capital to its immediate operational needs in forms of short-term, highly-liquid, high-grade financial instruments. There were no changes to the Company's approach to capital management since the year ended May 31, 2021. 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.