

KOIOS BEVERAGE CORP.

MANAGEMENT DISCUSSION AND ANALYSIS

**FOR THE YEARS ENDED
MAY 31, 2022 AND 2021**

(Expressed in US Dollars)

KOIOS BEVERAGE CORP.
Management's Discussion and Analysis
For the year ended May 31, 2022, and 2021
Expressed in US Dollars, unless otherwise stated

BACKGROUND

This management's discussion and analysis of the financial position and results of operations ("MD&A") for Koios Beverage Corp. (the "Company") is prepared as at January 11, 2023. The information herein should be read in conjunction with the consolidated financial statements for the year ended May 31, 2022, and the related notes contained therein, which have been prepared under International Financial Reporting Standards ("IFRS").

The information contained herein is not a substitute for detailed investigation or analysis on any particular issue. The information provided in this document is not intended to be a comprehensive review of all matters and developments concerning the Company.

All financial information in this MD&A has been prepared in accordance with IFRS and all dollar amounts are quoted in US dollars, the reporting currency of the Company, unless specifically noted.

The reader is encouraged to review the Company's statutory filings and additional information on SEDAR at www.sedar.com.

FORWARD-LOOKING STATEMENTS

Information set forth in this MD&A may involve forward-looking statements within the meaning of Canadian securities laws. These statements relate to future events or future performance and reflect management's expectations regarding the Company's growth, results of operations, performance and business prospects and opportunities. Such forward-looking statements reflect management's current beliefs and are based on information currently available to management. In some cases, forward-looking statements can be identified by terminology such as "may", "will", "should", "expect", "plan", "anticipate", "believe", "estimate", "predict", "potential", "continue", "target" or the negative of these terms or other comparable terminology. Forward-looking statements in this MD&A include but are not limited to: volatility of stock price and market conditions, regulatory risks, difficulty in forecasting, key personnel, limited operating history, competition, investment capital and market share, market uncertainty, additional capital requirements, management of growth, pricing policies, litigation, no dividend history. The risk factors described in this MD&A are not necessarily all the important factors that could cause actual results to differ materially from those expressed in the Company's forward-looking statements. In addition, any forward-looking statements represent the Company's estimates only as of the date of this MD&A and should not be relied upon as representing the Company's estimates as of any subsequent date. The material factors and assumptions that were applied in making the forward-looking statements in MD&A include: (a) execution of the Company's existing plan to become a global leader and distributor of its products and related product lines. (b) ability to secure distribution partners (c) demand for the Company's products. Forward looking statements are based on a number of assumptions that may prove to be incorrect including but not limited to assumptions about: the impact of competition; the ability to obtain new financing on acceptable terms; the ability to retain skilled management and staff; currency, exchange and interest rates; the availability of financing opportunities, risks associated with economic conditions, dependence on management and conflicts of interest. The preceding list is not exhaustive of all possible factors. All factors should be considered carefully when making decisions with respect to the Company. Readers should not place undue reliance on the Company's forward-looking statements, as the Company's actual results, performance or achievements may differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements if known or unknown risks, uncertainties or other factors affect the Company's business, or if the Company's estimates or assumptions prove inaccurate. Therefore, the Company cannot provide any assurance that such forward-looking statements will materialize. Unless required by applicable securities laws the Issuer disclaims any obligation to update any forward-looking statements, whether as a result of new information, future events or results or otherwise. For a description of material factors that could cause the Company's actual results to differ materially from the forward-looking statements in this MD&A, see "Risk Factors".

While the Company considers these assumptions may be reasonable based on information currently available to it, these assumptions may prove to be incorrect. Actual results may vary from such forward-looking information for a variety of reasons, including but not limited to risks and uncertainties disclosed in the section titled "Risk Factors".

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COMPANY OVERVIEW

The Company was incorporated on November 13, 2002, under the *Business Corporations Act (British Columbia)*. The corporate and 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 “FIT” and the United States OTC stock market’, under the symbol “FITSF.” The Company had a symbol change from KBEV to FIT in fiscal year 2022 to allow for a more cohesive branding strategy.

Koios, a wholly owned subsidiary of the Company, is an emerging functional beverage company which has an available distribution network of retail locations across the United States in which to sell its products. Koios has relationships with some of the largest and most reputable distributors in the United States, including Europa Sports, Muscle Foods USA, KeHE, and Wishing-U-Well. Together these distributors represent thousands of brick-and-mortar locations across the United States from sports nutrition stores to large natural grocery chains including Whole Foods and Sunflower markets. Through its arrangement with Wishing-U-Well, Koios also enjoys a large presence online, including being an Amazon choice product.

OUR PRODUCTS:

Koios uses a proprietary blend of nootropics and natural organic compounds to enhance human productivity without using harmful chemicals or stimulants. Koios products can enhance focus, concentration, mental capacity, memory retention, cognitive function, alertness, brain capacity and create all day mental clarity. Its ingredients are specifically designed to target brain function by increasing blood flow, oxygen levels and neural connections in the brain.

Koios is one of the only drinks in the world to infuse its products with MCT oil. MCT oil is derived from coconuts and has been shown to help the body burn fat more effectively, create lasting energy from a natural food source, produce ketones in the brain, allowing for greater brain function and clarity, support healthy hormone production and improve immunity.

The Company has three main product offerings, including beverages, coffee, and supplements.

In April 2019, the Company launched “Fit Soda”™ and has released four flavours. Fit Soda™ has zero sugar, natural electrolytes and is infused with branched-chain amino acids.

In May 2020, the Company launched its coffee product offering, which has been infused with Lion’s Mane and Changa Mushroom and Bone Broth Collagen. Each of their products have unique health benefits.

The Company’s website is <http://koiosbeveragecorp.com> which features an interactive investor relations section and new shopping platform.

HIGHLIGHTS

On June 3rd, 2021, the Company announced that its Fit Soda line would now be available in over 100 southwester Speedway locations. Speedway was acquired by 7-11 in 2022. 7-11 operates 11,000 retail locations across the United States.

On August 24th, 2021, the Company announced its Partnership with Blackbeard Beverage, a Distribution Company owned by Pepsi Co. This distribution deal allowed the Company to place its products in several major retailers on the east coast and allowed the Company access to Pepsi bottling facilities. Blackbeard, who is a beverage distributor for Pepsi Bottler Carolina Cannery, placed a large purchase order for all four varieties of Fit Soda to distribute to accounts on the east Coast to include placement in more than 1200 Food Lion locations.

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HIGHLIGHTS (CONTINUED)

On February 18, 2021, the Company together with Beauty Gourmet LLC, a women’s functional beverage company, created BevCreation, LLC. (“BevCreation”). BevCreation operates a commercial-scale beverage canning facility in the Denver, Colorado area. In addition to packaging the Company’s KOIOS™ nootropic beverages and Fit Soda™ functional beverages, the BevCreation canning facility also presently undertakes contract production work for other functional beverage brands. Through BevCreation, the Company will find cost efficiencies and production improvements compared to its current method of production.

On March 24th, 2022, the Company announced that it had hired Ryon Shack as its President of Sales. Ryon Shack has almost two decades of experience in CPG sales and was brought on to bolster the Company’s sales along with creating additional internal infrastructure. Ryon previously oversaw and managed one of the top sales teams at Europa Sports, one of the largest supplement distributors in the US, for more than ten years.

On April 21st, 2022, the Company announced that it had hired Sherron Lewis as its President of Operations. Sherron’s experience in leading strategic and operational transformations of private and public companies was crucial to the Company in offering Mr. Lewis a C-Suite role. For the Company to achieve its long-term growth trajectory the Company needed to expand its management team with experienced and proven professionals. Adding Sherron was a large step in that direction.

On April 25th, 2022, the Company completed its Acquisition of Retox. Through the Company’s joint venture with Bev Creation LLC and the addition of Retox, the Company is aiming to be uniquely positioned to make and can its own alcohol line extensions. This will give the Company a formidable advantage over smaller to mid-size beverage companies trying to break into the space. With the Company’s existing distribution, in-house production, and experienced team, KOIOS believes it will be uniquely positioned to compete in the alcohol space.

HIGHLIGHTS – DISTRIBUTION

During fiscal 2021 and 2022, the Company had significant success in building a vast distribution network across the United States. Of significance, the Company secured distribution with Walmart in March 2019. To date, the Company has successfully secured several new distributors, including Blackbeard Beverage Company, a distributor for Carolina Canners Inc., an independent bottler for Pepsi beverages on the east coast of the United States, gas stations across Southwestern United States and in 1,100 Food Lion Supermarkets in the Mid-Atlantic and Southeastern Regions of the United States.

On March 25th, 2022, the Company announced that it had expanded its retail footprint by an additional 230 locations by partnering with Raley’s supermarkets, a West Coast chain. The company placed its entire KOIOS beverage line within the chain. The Company announced multiple placements of its beverage products with regional grocers in markets on the west coast of the United States including Market of Choice in Oregon, Jensen’s in Southern California, and major natural grocery chain Sprouts Farmers Market, which has a substantial west coast presence, with one third of its locations (360+ stores across 23 states) in California as well as Washington State.

On April 6th, 2022, the company announced that its entire line of Fit Soda SKUs was placed in Tonys Fresh Markets, a supermarket chain based out of the greater Chicago area of Illinois.

On April 28th, 2022, the Company announced that it had placed its KOIOS an FIT SODA functional beverage into United Supermarkets, a subsidiary of Albertsons Companies, Inc., the second largest grocery chain in the United States behind Kroger. Albertsons had revenue in 2021 of 62.46 billion with 2,253 stores in operation. Albertsons subsidiaries include, VONS, Safeway, Tom Thumb, Jewel Osco and more.

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On May 3rd, 2022, the Company announced that all flavours of its Fit Soda functional beverages had been approved for placement in 261 Harris Teeter locations. Harris Teeter is an American supermarket chain based out of Matthews, North Carolina. Harris Teeter was acquired by the Kroger Co. (“Kroger”) (NYSE:KR) in July 2013 and operates as one of its wholly owned subsidiaries. Harris Teeter 2011 fiscal year sales were 4.3 billion.

On May 6th, 2022, the Company announced that all flavours of its Fit Soda functional beverages had been placed in all Ingles supermarket locations. Ingles is a supermarket chain based in Black Mountain, North Carolina. The company operates 198 supermarkets in the Southeastern United States. It reported 4.987 billion in revenue in 2021 and currently has 26,000 employees.

On May 9th, 2022, the Company announced that its KOIOS functional beverages were being placed and distributed in over 600 CVS locations. CVS is the largest retail pharmacy chain in the United States and one of the largest in the world. The locations of the CVS locations include Texas, Tennessee, Missouri, New Jersey, California, Florida, Indiana, and New York.

Distributors:

Apart from entering into agreements with Walmart, the Company has secured a diverse network of distributors throughout the United States and have entered into the following distribution agreements:

On May 11th, 2022, the Company announced that it had entered into a distribution agreement with McClane Company, INC. to further grow its distribution network into convenience stores and gas stations across America. McClane is an American Wholesale supply chain services company based in Temple, Texas. It is wholly owned by Berkshire Hathaway Inc., the 11th largest company in the world according to the Fortune 500.

On August 12, 2021, the Company entered into a one-year renewable agreement with Blackbeard Beverage Company, a distributor for Carolina Caners Inc., an independent bottler for Pepsi Beverages on the east coast of the United States. Blackbeard Beverage Company placed an order for 216 pallets of *FitSoda*[™] valued at USD \$575,000, the largest single wholesale order of canned beverages in the Company’s history.

On May 11, 2021, the Company was pleased to announce that all four flavours of *FitSoda*[™] are being carried in more than 1,100 supermarkets operated by Food Lion LLC, a multistate grocery chain based in Salisbury, North Carolina.

On March 2, 2021, the Company announced that it has entered into a distribution agreement with NewAge, Inc. (“NewAge”) (NASDAQ: NBEV), a major omnichannel wholesaler of beverages and snacks. Based in Denver Colorado, NewAge provides direct store delivery (“DSD”) service for beverage brands across the state of Colorado, primarily in the Front Range region.

On February 24, 2021, the Company announced that the full range of five flavours of its KOIOS[™] nootropic beverages can now be purchased at all grocery stores operated by Jensen’s Foods (“Jensen’s”), a long-established family-owned grocery chain operating in the San Diego, Los Angeles, and Palm Springs areas of Southern California.

On February 23, 2021, the Company announced that it has further expanded its footprint in the state of Louisiana with the upcoming addition of its KOIOS[™] nootropic beverage product to the beverage aisles of all locations of Matherne’s Market (“Matherne’s”), a local supermarket chain based in Baton Rouge, the state’s capital.

On February 19, 2021, the Company announced that it has added the Oregon based Market of Choice grocery chain to its growing roster of retailers for Koios products. As part of the Company’s continued focus on regional grocers and supermarket chains, this placement in Market of Choice has grown the Company’s presence in the state of Oregon by approximately 36%.

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HIGHLIGHTS – RESEARCH AND DEVELOPMENT

Innovation within the retail market has never been more important, and the Company has been working to produce new and innovative flavours, as well as contemplate and implement new product offerings.

On May 17th, 2022, the Company announced that it was launching 6 new flavours of its Fit Soda line. The flavours being released are Cherry Slushie, Strawberry Snow Cone, Mimosa, Pumpkin Spice, Sweet Tea Lemonade and Blueberry Lemonade.

HIGHLIGHTS – ACQUISITION OF RETOX BEVERAGE CORP.

On April 22, 2022, the Company entered into a Share Exchange Agreement to acquire 100% of Retox Beverage Corp. (“Retox”). Retox is in the business of formulating soft beverages, soda and seltzers. As consideration, the Company issued 15,000,000 units (“Units”) of the Company. Each Unit is comprised of one common share and one common share purchase warrant which entitles the holder thereof to acquire one additional Share of the Company at a price of \$0.175 for a period of 12 months from the date of issuance.

The acquisition of Retox does not constitute a business combination because this entity does not meet the definition of a business under IFRS 3 – Business Combination. As a result, the transaction has been measured at the fair value of equity consideration issued to acquire Retox.

Purchase Price:	\$
15,000,000 common shares	5,550,307
15,000,000 warrants	4,263,654
Share-based compensation	9,813,961

The acquisition was accounted for as a share-based payment as none of the products of Retox have been market listed. Retox was in the early stage of formulation soft beverages, soda and seltzers. At the time of acquisition, the Company was conducting research and was in the processes of formulating soft beverages, soda and seltzers which did not meet the definition of intangible assets. As such, the purchase consideration of \$9,813,961 was expensed in the consolidated statements of loss and comprehensive loss during the year ended May 31, 2022.

MANAGEMENT DISCUSSION

The Company believes the Retox acquisition will allow the company to quickly penetrate into adjacent beverage spaces, including alcohol beverages and functional sparkling beverages, including CBD based products. The Company plans to leverage existing relationships with key retailers and broker partners, to expand its retail footprint with the Retox line of products. During Q3, the Company plans to conduct a series of consumer insights tests to better assess which channels and which consumer segments will make most sense for launching the Retox beverages. Additionally, the company will continue research and development efforts to refine the Retox formulations so that they better align with Koios’ existing supply chain capabilities, improving product margins and creating production synergies.

Retox was purchased at a substantially higher price than what was originally anticipated when the letter of intent was executed earlier in the year. This was due to an increase in share price between when the LOI was signed and when the purchase of Retox was completed. Although the increase in share value inflated the final purchase cost, Management still believes the acquisition is a smart investment that will evolve into a significant source of revenue in 2023. Management also believes the potential to enter the alcohol beverage space will attract additional strategic partners in the months ahead.

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HIGHLIGHTS – FINANCING

Financing is an essential part of running our Company as we work to achieve greater profitability. The Company raised funds in Fiscal 2021 from the exercise of warrants and a private placement, and the Company continues to watch its cash flow to maintain operations. The Company intends to utilize funds to pursue potential opportunities and fund operations.

During the year ended May 31, 2022, the Company completed the following financing activities:

On October 14th, 2021, the company announced a consolidation of shares. Per a director’s resolution the company consolidated all its issued and outstanding share capital (the “Common Shares”) on the basis of every ten (10) old common shares into one (1) new common share (the “Share Consolidation”). On the same date the company also changed its ticker symbol from “KBEV” to “FIT”.

On March 11th, 2021, the Company announced it had amended the terms of an unsecured convertible debenture previously issued on February 12, 2021, to an arm’s length investor in the principal amount of \$600,000 (the Convertible debenture.) The total principal amount and all accrued and unpaid interest outstanding under the convertible debenture was \$857,847.

On March 16th, 2021, the Company announced an issuance of 172,662 common shares at a price of \$.037 per common share to Blackbeard Beverages, LLC (“Blackbeard”) in respect of a distribution agreement to sell the Company’s beverage products directly to distributors and retailers in new territories.

On April 6th, 2022, the Company announce its definitive agreement to purchase Retox beverage company. The deal was to acquire all of the issued and outstanding securities from the shareholders of Retox Beverage Corp, a privately held beverage company that is focused in the production of non-alcoholic and alcoholic beverages.

For the acquisition, the Company issued 15,000,000 units of the Company to shareholders of Retox. The Company completed this acquisition to acquire unique IP in the distillation of Vodka into functional beverage.

On May 18th, 2022, the Company announced that it had requested investors in its non-brokered private placement (the “Private Placement.”) completed on February 8, 2022, agree to a voluntary escrow (the Voluntary Escrow’) to extend the resale restrictions applicable to common shares issued in the Private placement by an additional 60 days through to August 8,2022. None of the investors of the private placement accepted the offer.

On October 3, 2022, the Company announced it had closed a non-brokered private placement of 2,000,00 units (“Units”) at a price of CAD \$0.05 per unit for gross aggregate proceeds of 100,000 (the “Private Placement”). Each United consisted of one common share in the capital of the Company (each, a “Share”) and one transferable common share purchase warrant (each, a “Warrant”). Each Warrant will entitle the holder thereof to acquire one additional share at a price of \$.075 per Warrant for a period of five (5) years from closing.

SELECTED ANNUAL INFORMATION

A summary of selected annual financial information for the last three fiscal years is as follows, as expressed in United States dollars, and in accordance with IFRS:

	May 31, 2022	May 31, 2021	May 31, 2020
	\$	\$	\$
Total assets	2,504,506	1,557,331	1,428,301
Total long-term financial liabilities	16,625	68,696	11,421
Total revenues	1,200,983	640,963	871,521
Net loss and comprehensive loss	(21,065,021)	(2,193,578)	(3,060,692)
Loss per share, basic and diluted	(1.00)	(0.27)	(0.40)

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SELECTED ANNUAL INFORMATION (CONTINUED)

During fiscal 2022, the Company revenues grew by 87.4% since fiscal 2021, increasing to \$1,200,983 from \$640,963. In addition, the Company completed a financing in February 2022, raising gross proceeds of \$2,159,336. The increase in cash allowed the Company to purchase additional inventory and bolstered its cash position, which explains why the Company's total assets grew year over year. Net loss and comprehensive loss increased from \$2,193,578 to \$21,065,021. The majority of the losses recorded during fiscal 2022 related to non-cash items, including amortization of \$55,928 (2021 - \$42,192), share based compensation of \$16,253,401 (2021 - \$343,861). The Company settled its convertible debenture and recorded a loss on amendment of convertible debenture of \$2,131,477 (2021 - \$Nil). Non cash items accounted for approximately 87% of the recorded net loss during fiscal 2022.

RESULTS OF OPERATIONS

For the year ended May 31, 2022

For the year ended May 31, 2022, the Company incurred a loss of \$21,159,674 (2021 – \$2,080,906). A discussion of the significant variances is discussed below:

- Stock-based compensation expense increased to \$16,253,401 from \$343,861. The Company issued 3,000,000 common shares to management and consultants, totaling \$1,167,686. During the year ended May 31, 2022, the Company issued 600,000 stock options with various vesting terms with a fair value of \$105,741. Pursuant to the acquisition of Retox Beverage Corp., the assets acquired from Retox did not meet the definition of an intangible asset, and the Company recorded the consideration paid as a stock-based compensation, totaling \$9,813,961. Finally, the Company promised to issue equity to various consultants and management upon the achievement of certain milestones. Under IFRS 2 – *Share Based Payment*, the Company estimated the fair value of the stock-based compensation to be \$5,166,014. The fair value of the milestones was calculated using the share price on the date of the contract. The Company entered into these milestone awards to preserve cash and motivate key personnel.
- Corporate development increased to \$339,704 from \$229,958. In the comparative period, corporate development primarily consisted of brand awareness and a concentrated effort to increase the Company's presence within the industry. The Company has worked to change investor's perspectives as the Company shifted from a mineral and exploration background to a leading nootropic beverage Company. The beverage industry is very competitive and the Company's brand awareness is a very important step in the overall success of the Company.
- Freight and shipping increased to \$300,699 from \$171,130 as the Company grew its retail presence and shipped to more distributors across the country.
- Amortization increased to \$55,928 from \$42,192 as the Company entered into various office and equipment lease agreements.
- Consulting fees increased to \$1,306,506 from \$646,425 as the Company hired key consultants to provide corporate, advisory and capital market services. The Company relies on consultants to help them achieve their goals on all facets of business and these consultants bring a wide range of expertise and connections to the Company. Consultants include management, advisors, technical support and other support roles. The execution of the distribution agreements and product development requires due diligence and planning to ensure the products and agreements meet the Company's standards.
- Through its joint venture with BevCreation. The Company recorded its share of income of \$40,965.
- During the year ended May 31, 2022, the Company amended a convertible debenture agreement. Because of the amendment and the conversion of this debt, the Company recorded a loss of \$2,131,477.
- Professional fees increased to \$317,287 from \$181,719 as a result of the Company incurring fees related to its annual financial statement audit in addition to its other professional fees which include accounting, legal and other professional fees required for its ordinary operations.
- Finance expense increased to \$243,587 from \$71,391 because of the interest expense related to the Company's convertible debenture, lease liability, and other miscellaneous fees.

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For the three-month period ended May 31, 2022

For the three-month period ended May 31, 2022, the Company incurred a loss of \$20,332,139 (2021 – \$1,031,058). The loss is primarily attributed share based compensation expense of \$16,253,401 (2021 - \$Nil) and the loss on amendment of convertible debenture of \$2,131,477 (2021 - \$Nil). These two non-cash items represent 90% of the loss for the three months period ended May 31, 2022.

Revenue and Cost of Sales Analysis

	May 31, 2022	May 31, 2021
	\$	\$
Sales	1,200,983	640,963
Cost of goods sold	(1,159,672)	(793,381)
Gross profit	41,311	(152,418)

- The Company's wholly owned subsidiary, Koios, sells a variety of health-conscious product offerings. The Company intends to utilize its distribution channels to facilitate significant revenue growth.
- Cost of sales include all expenditures related to the product such as ingredients and manufacturing costs.
- During the year ended May 31, 2022, revenues increased to \$1,200,983 in the comparative period from \$640,963. The Company attributes the increase to several factors. Achieving retail distribution with some of the largest retailers in the United States and expanding its store presence by several thousand locations. In addition, the company has grown in several other verticals, including natural/specialty and C-Store. The Company also hired several key executives who helped bolster its internal infrastructure which allowed for greater growth.
- The Company has entered into several new distribution agreements in April and May 2022 and hopes to realize an increase in revenues on a go-forward basis.
- Through the Company's joint venture with BevCreation, the Company intends to realize cost efficiencies and an overall reduction in cost of goods sold on a go-forward basis and will eliminate the need for expensive third-party co-packers.
- Fiscal 2022 was a difficult year with many obstacles, such as the impact of COVID-19 on the Company's supply chain and overall demand for its product. However, the company was able to grow with its focus on retail and intends to realize additional growth in 2023.

SUMMARY OF QUARTERLY RESULTS

The following table summarizes the operation results for the past eight quarters:

	May 31, 2022	February 28, 2022	November 30, 2021	August 31, 2021
	\$	\$	\$	\$
Total assets	2,504,506	3,349,355	935,949	1,220,432
Working capital (deficiency)	719,887	994,419	(841,766)	(285,401)
Shareholders' equity (deficiency)	914,661	920,369	(680,850)	(133,794)
Revenue	(7,190)	746,264	259,588	202,351
Gross profit	(411,191)	412,829	(213,636)	3,309
Net loss and comprehensive loss	(20,332,139)	(196,593)	(528,847)	(340,781)
Loss per share	(0.39)	(0.009)	(0.06)	(0.04)

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SUMMARY OF QUARTERLY RESULTS (CONTINUED)

	May 31, 2021	February 28, 2021	November 30, 2020	August 31, 2020
	\$	\$	\$	\$
Total assets	1,557,331	1,271,027	911,028	1,014,197
Working capital	73,127	(319,032)	160,984	350,604
Shareholders’ equity	203,987	(172,294)	920,369	382,054
Revenue	640,963	99,280	138,378	214,232
Gross profit	(158,942)	(97,653)	51,918	52,259
Loss and comprehensive loss	(1,031,058)	(531,472)	(1,254,996)	(538,889)
Loss per share	(0.10)	(0.06)	(0.03)	(0.07)

The amount and timing of expenses and availability of capital resources vary substantially from quarter to quarter, depending on the level of demand and distribution needs and the availability of funding. During fiscal 2022, the Company’s net assets increased, as the Company utilized cash to fund the Company’s operations. During the second and third quarter of fiscal year 2022, revenues increased due to achieving additional retail distribution with some of the largest retailers in the United States and expanding its store presence by several thousand locations. In addition, the company has grown in several other verticals, including natural/specialty and C-Store. The Company also hired several key executives who helped bolster its internal infrastructure which allowed for greater growth.

LIQUIDITY AND CAPITAL RESOURCES

Capital management

The Company considers its capital to be the main component 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, high liquid, high-grade financial instruments. There were no changes to the Company’s approach to capital management during the period. The Company is not subject to externally imposed capital requirements.

Liquidity and capital resources

The Company’s working capital and deficit positions at May 31, 2022 and May 31, 2021 were as follows:

	May 31, 2022	May 31, 2021
	\$	\$
Working capital	719,887	73,127
Deficit	(36,890,558)	(15,730,884)

The balance of cash available at May 31, 2022 was \$1,313,440 (May 31, 2021 - \$1,381,136) with a working capital of \$719,887 (May 31, 2021 - \$73,127). A large portion of liabilities is old and unrelated to the Company’s current business and intends to write this debt off in future periods.

The Company anticipates its working capital will continue to improve over time as product is sold. The Company intends to fund short-term capital requirements via equity financings.

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LIQUIDITY AND CAPITAL RESOURCES (CONTINUED)

There can be no assurance that the Company will be able to obtain adequate financing in the future or that the terms of such financing will be favourable. If adequate financing is not available when required, the Company may be unable to continue operating. The Company may seek such additional financing through debt or equity offerings, but there can be no assurance that such financing will be available on terms acceptable to the Company or at all. Any equity offering will result in dilution to the ownership interests of the Company’s shareholders and may result in dilution to the value of such interests.

Liquidity and capital resources – Operating activities

Net cash used in operating activities for the year ended May 31, 2022 was \$2,439,385 (2021 - \$1,028,827). The increase in net cash used in operating activities is primarily caused by increasing distribution and hiring additional executives. In addition, as sales have grown so has the cost of goods in relation to manufacturing.

Liquidity and capital resources – Investing activities

Net cash used in investing activities for the year ended May 31, 2022 was \$Nil (2021 - \$58,961).

Liquidity and capital resources – Financing activities

Net cash from financing activities for the year ended May 31, 2022 was \$2,654,025 (2021 – \$1,364,168). The increase is mainly due to \$2,015,875 (2021 - \$743,187) from the issuance of common shares from treasury and upon the exercise of warrants versus \$647,488 (2021 - \$502,929) the year earlier.

RELATED PARTY TRANSACTIONS

The Directors and Executive Officers of the Company are as follows:

Chris Miller	Chief Executive Officer and Director
Chris Miller	Interim-Chief Financial Officer
Gina Burrus	Vice-President
Josh Luman	Director
Erik LeVang	Director
Sherron Lewis	Director

The Company entered into the following transactions with related parties during the period ended May 31, 2022:

	May 31, 2022 \$	May 31, 2021 \$
Consulting fees paid or accrued to the CEO	201,667	120,000
Consulting fees paid or accrued to the vice president	110,000	90,800
Consulting fees paid or accrued to a director	10,600	-
Consulting fees paid or accrued to the CFO	-	46,355
Accounting and corporate fees paid or accrued to a company controlled by the CFO	8,403	51,298
Shares granted for performance bonus	778,458	71,133
Share based compensation paid to directors and officers	4,623,123	160,306
	<u>5,732,251</u>	<u>539,892</u>

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RELATED PARTY TRANSACTIONS (CONTINUED)

As at May 31, 2022, the Company is owed \$105,276 (May 31, 2021 – \$103,962,192) from the CEO of the Company via a loan receivable. The loan receivable bears interest of 5% per annum, compounded monthly.

As at May 31, 2022, the Company owes \$160,062 (May 31, 2021 – \$147,810) to related parties or companies owned by directors and officers of the Company. Accounts payable to related parties do not bear interest, are unsecured, and are repayable on demand.

On April 8, 2022, the Company issued 1,000,000 shares each, to the CEO and Vice-President of the Company in recognition of per bonuses for a total fair value of \$778,458 (2021 - \$71,133).

The key management personnel of the Corporation include the Chief Executive Officer, Chief Financial Officer, Corporate Secretary and the Board of Directors. During the year ended May 31, 2022 and 2021, no key management personnel were indebted to the Corporation, with the exception of that mentioned above.

As of May 31, 2022, the Company owed BevCreation of \$33,610 (2021 - \$18,533) for processing fees.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a significant impact on the Company's financial statements.

FINANCIAL INSTRUMENTS

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

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 receivables. The Company limits its exposure to credit risk on liquid financial assets through maintaining its cash with high-credit quality financial institutions. Receivables consist of Goods and Services Tax ("GST") receivable from the Canadian government and receivables from trade customer. The credit risk is considered low. Credit risk related to the loan receivable is monitored by performing ongoing credit checks. The credit risk is considered low. During the year ended May 31, 2022, 92% of revenues were generated from four key customers and 73% of trade accounts receivable are from two key customers.

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. 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.

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 are currently held in large financial institutions.

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FINANCIAL INSTRUMENTS (CONTINUED)

Fair value measurements of financial assets and liabilities

The Company believes that the recorded values of receivables, loan receivable, due to related parties, short term loan, and accounts payable and accrued liabilities, approximate their current fair values because of their nature and relatively short maturity dates or durations.

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, had 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.

OTHER RISKS AND UNCERTAINTIES

The 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, 2022, the Company incurred a net loss of \$21,159,674 (2021 - \$2,080,906), had an accumulated deficit of \$36,890,558 (May 31, 2021 - \$15,730,884) and had working capital of \$719,887 (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. The 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.

OUTSTANDING SHARE DATA

The following table summarizes the Company's outstanding share data as of the date of this MD&A:

	Number of shares issued or issuable
Common shares	79,747,942
Stock options	1,263,333
Special warrants	4,500,000
Warrants	45,191,823

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off balance sheet items.

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RISKS AND UNCERTAINTIES

The following are certain factors relating to the Company's business which prospective investors should carefully consider before deciding whether to purchase common shares in the Company's authorized capital. The following information is a summary only of certain risk factors and is qualified in its entirety by reference to, and must be read in conjunction with, the detailed information appearing elsewhere in this Listing Statement. These risks and uncertainties are not the only ones we are facing. Additional risk and uncertainties not presently known to us, or that we currently deem immaterial, may also impair our operations. If any such risks actually occur, the business, financial condition, liquidity and results of our operations could be materially adversely affected.

Risk Factors Associated with the Business of the Company

We may need to raise further capital.

Our business strategy is based in part on the scalability of our operations. In order to expand our operations, we will need to raise additional funds in the future, and such funds may not be available on commercially reasonable terms, if at all. If we cannot raise enough funds on acceptable terms, we may not be able to fully implement our business plan, take advantage of future opportunities, or respond to competitive pressures or unanticipated requirements. This could seriously harm our business, financial condition and results of operations.

We rely on third party co-packers to manufacture our products

We rely on third party co-packers to manufacture our products. If we are unable to maintain good relationships with our co-packers and/or their ability to manufacture our products becomes constrained or unavailable to us, our business could suffer. We do not directly manufacture our products, but instead outsource such manufacturing to established third party co-packers. These third-party co-packers may not be able to fulfill our demand as it arises, could begin to charge rates that make using their services cost inefficient or may simply not be able to or willing to provide their services to us on a timely basis or at all. In the event of any disruption or delay, whether caused by a rift in our relationship or the inability of our co-packers to manufacture our products as required, we would need to secure the services of alternative co-packers. We may be unable to procure alternative packing facilities at commercially reasonable rates and/or within a reasonably short time period and any such transition could be costly. In such case, our business, financial condition, and results of operations would be adversely affected. Large co-packing minimums have affected our cash flow in the past. We have worked diligently to develop relationships with co-packers in the Denver area that will allow us to produce product on demand.

We rely on distributors to distribute our products in the DSD sales channel

We rely on distributors to distribute our products in the DSD sales channel. If we are unable to secure such distributors and/or are unable to maintain good relationships with our existing distributors, our business could suffer. We distribute our products in the DSD sales channel by entering into agreements with direct-to-store delivery distributors having established sales, marketing, and distribution organizations. We similarly are seeking to expand our online distribution. Many of our distributors are affiliated with and manufacture and/or distribute other beverage products. In many cases, such products compete directly with our products. The marketing efforts of our distributors are important for our success. If our products prove to be less attractive to our distributors and/or if we fail to attract distributors, and/or our distributors do not market and promote our products with greater focus in preference to the products of our competitors, our business, financial condition, and results of operations could be adversely affected.

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If we are unable to maintain good relationships with our existing customers, our business could suffer

Our customers are material to our success. If we are unable to maintain good relationships with our existing customers, our business could suffer. Unilateral decisions could be taken by our distributors, grocery chains, convenience chains, drug stores, nutrition stores, mass merchants, club warehouses and other customers to discontinue carrying all or any of our products that they are carrying at any time, which could cause our business to suffer. The majority of our revenues are derived from wholesale and online channels. Accordingly, if sales to either of these customers were to significantly decline or cease entirely, our business, results of operations and financial condition may be significantly harmed.

Increases in cost or shortages of raw materials or increases in costs of co-packing could harm our business

The principal raw materials used by us are flavours and ingredient blends as well as aluminum cans, the prices of which are subject to fluctuations. We are uncertain whether the prices of any of the above or any other raw materials or ingredients we utilize will rise in the future and whether we will be able to pass any of such increases on to our customers. We do not use hedging agreements or alternative instruments to manage the risks associated with securing sufficient ingredients or raw materials. In addition, some of these raw materials, such as our distinctive sleek 12 ounce can, are available from a single or a limited number of suppliers. As alternative sources of supply may not be available, any interruption in the supply of such raw materials might materially harm us.

Our ability to accurately estimate demand for our products could adversely affect our business and financial result

We may not correctly estimate demand for our products. If we materially underestimate demand for our products and are unable to secure sufficient ingredients or raw materials, we might not be able to satisfy demand on a short-term basis, in which case our business, financial condition and results of operations could be adversely affected.

We depend upon our trademarks and proprietary rights, and any failure to protect our intellectual property rights or any claims that we are infringing upon the rights of others may adversely affect our competitive position

Our success depends, in large part, on our ability to protect our current and future brands and products and to defend our intellectual property rights. We cannot be sure that trademarks will be issued with respect to any future trademark applications or that our competitors will not challenge, invalidate, or circumvent any existing or future trademarks issued to, or licensed by, us.

There can be no assurance that our trade secrets, including our proprietary ingredient blends will not become known to competitors

Our products are manufactured using our proprietary blends of ingredients. These blends are created by third-party suppliers to our specifications and then supplied to our co-packers. Although all the third parties in our supply and manufacture chain execute confidentiality agreements, there can be no assurance that our trade secrets, including our proprietary ingredient blends will not become known to competitors. We believe that our competitors, many of whom are more established and have greater financial and personnel resources than we do, may be able to replicate or reverse engineer our processes, brands, flavours, or our products in a manner that could circumvent our protective safeguards. Therefore, we cannot give you any assurance that our confidential business information will remain proprietary. Any such loss of confidentiality could diminish or eliminate any competitive advantage provided by our proprietary information.

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We may incur material losses as a result of product recall and product liability

We may be liable if the consumption of any of our products causes injury, illness, or death. We also may be required to recall some of our products if they become contaminated or are damaged or mislabeled. A significant product liability judgment against us, or a widespread product recall, could have a material adverse effect on our business, financial condition, and results of operations. The amount of the insurance we carry is limited, and that insurance is subject to certain exclusions and may or may not be adequate.

Key Personnel Risk

Our success will depend on our directors and officers to develop our business and manage our operations, and on our ability to attract and retain key quality assurance, scientific, sales, public relations and marketing staff or consultants once operations begin. The loss of any key person or the inability to find and retain new key persons could have a material adverse effect on our business. Competition for qualified technical, sales and marketing staff, as well as officers and directors can be intense and no assurance can be provided that we will be able to attract or retain key personnel in the future, which may adversely impact our operations.

We are dependent on our ability to attract and retain qualified technical, sales and managerial personnel.

Our future success depends in part on our continuing ability to attract and retain highly qualified technical, sales and managerial personnel. Competition for such personnel in the beverage industry is intense and we may not be able to retain our key managerial, sales and technical employees or attract and retain additional highly qualified technical, sales and managerial personnel in the future. Any inability to attract and retain the necessary technical, sales and managerial personnel could materially adversely affect us.

We are subject to significant competition in the beverage industry

The beverage industry is highly competitive. The principal areas of competition are pricing, packaging, distribution channel penetration, development of new products and flavours and marketing campaigns. Our products compete with a wide range of drinks produced by a relatively large number of manufacturers, most of which have substantially greater financial, marketing and distribution resources and name recognition than we do.

Important factors affecting our ability to compete successfully include the taste and flavour of our products, trade and consumer promotions, rapid and effective development of new, unique cutting-edge products, attractive and different packaging, branded product advertising and pricing. Our products compete with all liquid refreshments and with products of much larger and substantially better financed competitors, including the products of numerous nationally and internationally known producers, such as The Coca Cola Company, Dr. Pepper Snapple Group, PepsiCo, Inc., Nestle, Waters North America, Inc., Hansen Natural Corp., and Red Bull. We also compete with companies that are smaller or primarily local in operation. Our products also compete with private label brands such as those carried by supermarket chains, convenience store chains, drug store chains, mass merchants and club warehouses. There can be no assurance that we will compete successfully in the functional beverage industry. The failure to do so would materially adversely affect our business, financial condition, and results of operations.

Our business is substantially dependent upon awareness and market acceptance of our products and brands by our targeted consumers

We compete in an industry that is brand-conscious, so brand name recognition and acceptance of our products are critical to our success and significant marketing and advertising could be needed to achieve and sustain brand recognition. Our business is substantially dependent upon awareness and market acceptance of our products and brands by our targeted consumers. Our business depends on acceptance by our independent distributors of our brand as one that has the potential to provide incremental sales growth rather than reduce distributors' existing beverage sales. The development of brand awareness and market acceptance is likely to require significant marketing and advertising expenditures. There can be no assurance that we will achieve and maintain satisfactory levels of acceptance by independent distributors and retail consumers. Any failure of our brand to maintain or increase acceptance or market penetration would likely have a material adverse effect on business, financial condition, and results of operations.

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Our sales are affected by seasonality

As is typical in the beverage industry, our sales are seasonal. Our highest sales volumes generally occur in the second and third quarters, which correspond to the warmer months of the year in our major markets. Consumer demand for our products is also affected by weather conditions. Cool, wet spring or summer weather could result in decreased sales of our beverages and could have an adverse effect on our results of operations.

Our business is subject to many regulations and noncompliance is costly. The production, marketing and sale of our beverage products are subject to the rules and regulations of various federal, state, and local health agencies. If a regulatory authority finds that a current or future product or production run is not in compliance with any of these regulations, we may be fined, or production may be stopped, thus adversely affecting our business, financial condition, and results of operations. Similarly, any adverse publicity associated with any noncompliance may damage our reputation and our ability to successfully market our products. Furthermore, the rules and regulations are subject to change from time to time and while we closely monitor developments in this area, we have no way of anticipating whether changes in these rules and regulations will impact our business adversely. Additional or revised regulatory requirements, whether labeling, environmental, tax or otherwise, could have an adverse effect on our business, financial condition, and results of operations.

Global Economy Risk

The ongoing economic slowdown and downturn of global capital markets has generally made the raising of capital by equity or debt financing more difficult. We will be dependent upon the capital markets to raise additional financing in the future, while we establish a client base for our product. Access to financing has been negatively impacted by the ongoing global economic downturn. As such, we are subject to liquidity risks in meeting our development and future operating cost requirements in instances where cash positions are unable to be maintained or appropriate financing is unavailable. These factors may impact our ability to raise equity or obtain loans and other credit facilities in the future and on terms favourable to us and our management. If uncertain market conditions persist, our ability to raise capital could be jeopardized, which could have an adverse impact on our operations and the trading price of our common shares on the CSE.

In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. The impact on the Company is not currently determinable but management continues to monitor the situation.

We have not paid dividends in the past and do not anticipate paying dividends in the near future. We expect to retain our earnings to finance further growth and, when appropriate, retire debt.

DISCLAIMER

The information provided in this document is not intended to be a comprehensive review of all matters concerning the Company. The users of this information, including but not limited to investors and prospective investors, should read it in conjunction with all other disclosure documents. No securities commission or regulatory authority has reviewed the accuracy of the information presented herein.