



**SPOT COFFEE (CANADA) LTD.**

**CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

(In Canadian Dollars)

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# RICHTER

## Independent Auditor's Report

To the Shareholders of  
**Spot Coffee (Canada) Ltd.**

### *Opinion*

We have audited the consolidated financial statements of Spot Coffee (Canada) Ltd., (the Company), which comprise the consolidated statements of financial position as at December 31, 2021 and 2020, and the consolidated statements of operations and comprehensive income (loss), consolidated statements of changes in deficit and consolidated statements of cash flows for the year ended December 31, 2021 and 2020, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

### *Basis for Opinion*

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

### *Material Uncertainty Related to Going Concern*

Without modifying our opinion, we draw attention to note 1 to the financial statements which explains that the Company has an accumulated deficit of \$19,980,217 (2020 - \$20,471,962) and a working capital deficiency of \$3,397,226 (2020 - \$5,697,581) as at December 31, 2021. This raises doubt about the Company's ability to continue as a going concern. The consolidated financial statements have been prepared assuming that the Company will continue as a going concern and do not include any adjustments that might result from the outcome of this uncertainty.

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### *Information Other than the Financial Statements and Auditor's Report Thereon*

Management is responsible for the other information. The other information comprises the information, other than the financial statements and our auditor's report thereon, in Management's Discussion and Analysis of Financial Condition and Operations.

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

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

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

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

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

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

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

### *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements*

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

The engagement partner on the audit resulting in this independent auditor's report is Marie-Claude Frigon.

The image shows a handwritten signature in black ink that reads "Richter LLP". The signature is written in a cursive, flowing style.

Montréal, Québec  
May 2, 2022

**SPOT COFFEE (CANADA) LTD.**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**AS AT DECEMBER 31, 2021 AND DECEMBER 31, 2020**  
(In Canadian Dollars)

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	<u>December 31, 2021</u>	<u>December 31, 2020</u>
	\$	\$
<b>Assets</b>		
Current		
Cash	37,789	-
Accounts receivable	622,835	137,126
Inventories (note 4)	170,850	28,784
Current portion of leases receivable (note 7)	219,574	250,091
Due from related parties (note 18)	166,640	-
Prepaid and other assets	69,474	70,006
	<u>1,287,162</u>	<u>586,007</u>
Long-term		
Property and equipment (note 5)	310,408	421,173
Right-of-use assets (note 6)	1,527,926	1,750,014
Deposits	48,000	48,000
Leases receivable (note 7)	1,073,281	817,966
	<u>4,246,777</u>	<u>3,623,160</u>
<b>Liabilities</b>		
Current		
Bank overdraft	-	159,308
Accounts payable and accrued liabilities (note 8)	1,799,376	2,134,498
Deferred revenue	193,470	266,673
Current portion of lease liabilities (note 9)	753,609	827,061
Current portion of promissory notes – North Tonawanda VTB (note 14)	154,850	-
Due to related parties (note 18)	-	38,282
Demand grid note (note 10)	632,251	634,944
Loans payable (note 11)	575,832	590,832
Deposits on private placement (note 12)	-	55,000
Convertible debentures (note 13)	575,000	575,000
Promissory notes (note 14)	-	1,001,990
	<u>4,684,388</u>	<u>6,283,588</u>
Long-term		
Government loans (note 15)	60,000	909,490
Promissory notes – North Tonawanda Franchise (note 14)	241,524	-
Lease liabilities (note 9)	2,845,229	2,195,851
	<u>7,831,141</u>	<u>9,388,929</u>
<b>Shareholders' Deficiency</b>		
<b>Equity attributable to the Parent company</b>		
Share capital (note 16)	13,486,149	12,359,854
Contributed surplus	2,363,966	2,330,960
Accumulated other comprehensive loss	142,160	454,192
Deficit	(19,980,217)	(20,471,962)
	<u>(3,987,943)</u>	<u>(5,326,956)</u>
<b>Non-controlling interests</b>	403,579	(438,813)
	<u>(3,584,364)</u>	<u>(5,765,769)</u>
	<u>4,246,777</u>	<u>3,623,160</u>
Going concern (note 1)		
Contingency (note 22)		
Subsequent events (note 26)		

**ON BEHALF OF THE BOARD**

Signed "Anton Ayoub", Director

Signed "John Lorenzo", Director

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

**SPOT COFFEE (CANADA) LTD.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)**  
**FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**  
(In Canadian Dollars)

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	December 31,	
	2021	2020
	\$	\$
<b>Revenues</b> (note 21)	<b>6,223,468</b>	4,098,103
<b>Cost of sales</b>	<b>1,755,261</b>	1,246,951
<b>Gross profit</b>	<b>4,468,207</b>	2,851,152
<b>Expenses</b>		
Consulting fees	218,723	432,106
Credit card fee and bank charges	176,219	164,925
Depreciation of property and equipment (note 5)	158,229	187,709
Depreciation of right-of-use assets (note 6)	556,601	555,048
Foreign exchange	194,332	113,907
Interest on guaranteed rate of return	-	63,020
Interest and accretion	73,567	230,864
Interest on lease liability	157,171	309,258
Occupancy costs	423,584	339,131
Office and general	473,005	431,178
Professional fees	309,664	382,108
Salaries and wages (note 18)	2,476,925	2,533,437
Travel	77,518	84,223
	<b>5,295,538</b>	5,826,914
<b>Net Loss before undernoted items</b>	<b>(827,331)</b>	(2,975,762)
<b>Other income (expenses)</b>		
Impairment of North Tonawanda Café (Note 3)	(1,001,737)	-
Gain on debt forgiveness	25,278	182,500
Other income	-	75,119
Ontario Small Businesses Grant (note 15(d))	40,000	-
SBA Loan Forgiveness (note 15(b))	1,871,634	-
Restaurant Revitalization Grant (note 15(c))	950,160	-
<b>Net income (loss)</b>	<b>1,058,004</b>	(2,718,143)
<b>Other comprehensive loss</b>		
Foreign currency translation, net of tax	(312,032)	205,408
Comprehensive income (loss)	<b>745,972</b>	(2,512,735)
<b>Net income (loss) attributable to:</b>		
Owners of the parent	491,745	(2,432,942)
Non-controlling interests	566,259	(285,201)
<b>Net income (loss)</b>	<b>1,058,004</b>	(2,718,143)
Income (loss) per share attributable to owners of the parent company	0.007	(0.018)
Basic and diluted weighted average number of shares outstanding	146,864,146	135,408,170

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

**SPOT COFFEE (CANADA) LTD.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN DEFICIT**  
**FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**  
**(IN CANADIAN DOLLARS)**

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	Common Shares	Share Capital	Contributed Surplus	Accumulated Other Comprehensive loss	Deficit	Parent's Deficit	Non-controlling interest	Total Deficit
		\$	\$	\$	\$	\$	\$	\$
<b>Balance – December 31, 2019</b>	135,408,170	12,359,854	2,282,747	285,487	(18,039,020)	(3,110,932)	(190,315)	(3,301,247)
Net loss	-	-	-	-	(2,432,942)	(2,432,942)	(285,201)	(2,718,143)
Distributions	-	-	48,213	-	-	48,213	-	48,213
Other comprehensive loss	-	-	-	168,705	-	168,705	36,703	205,408
<b>Balance – December 31, 2020</b>	<b>135,408,170</b>	<b>12,359,854</b>	<b>2,330,960</b>	<b>454,192</b>	<b>(20,471,962)</b>	<b>(5,326,956)</b>	<b>(438,813)</b>	<b>(5,765,769)</b>
<b>Balance – December 31, 2020</b>	<b>135,408,170</b>	<b>12,359,854</b>	<b>2,330,960</b>	<b>454,192</b>	<b>(20,471,962)</b>	<b>(5,326,956)</b>	<b>(438,813)</b>	<b>(5,765,769)</b>
Net income	-	-	-	-	491,745	491,745	566,259	1,058,004
Shares issued on Private Placement (note 16)	9,100,600	447,980	-	-	-	447,980	-	447,980
Fair value of warrants issued on Private Placement (note 17)	-	(75,080)	75,080	-	-	-	-	-
Shares for debt (note 16)	15,067,900	753,395	-	-	-	753,394	-	753,394
Distributions	-	-	(42,074)	-	-	(42,074)	-	(42,074)
Other comprehensive income	-	-	-	(312,032)	-	(312,032)	276,133	(35,899)
<b>Balance – December 31, 2021</b>	<b>159,576,670</b>	<b>13,486,149</b>	<b>2,363,966</b>	<b>142,160</b>	<b>(19,980,217)</b>	<b>(3,987,943)</b>	<b>403,579</b>	<b>(3,584,364)</b>

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



**SPOT COFFEE (CANADA) LTD.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**  
(In Canadian Dollars)

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	December 31,	
	2021	2020
	\$	\$
<b>Operating activities</b>		
Net Income (Loss)	1,058,004	(2,718,143)
Adjustments for:		
Depreciation of property and equipment	158,229	187,707
Depreciation of right-of-use assets	556,601	555,048
Interest on lease liabilities	158,728	172,703
Forgivable loans	(1,876,252)	-
Impairment of North Tonawanda Café	1,001,736	-
Forgiveness of debt	-	(182,500)
	<u>1,057,046</u>	<u>(1,985,185)</u>
Changes in non-cash working capital items		
Accounts receivable	(485,709)	55,671
Inventories	(27,329)	12,402
Prepays and deposits	532	(32,939)
Accounts payable and accrued liabilities	(335,122)	401,043
Deferred revenue	(73,203)	5,051
	<u>136,215</u>	<u>(1,543,957)</u>
<b>Investing activities</b>		
Purchase of N. Tonawanda Franchise	(14,736)	-
Purchase of property and equipment	(46,960)	(31,752)
Advances to related parties	(204,922)	-
Total cash outflows from investing activities	<u>(266,618)</u>	<u>(31,752)</u>
<b>Financing activities</b>		
Advances from related parties	-	38,282
Proceeds from SBA/PPP loans	1,026,762	909,490
Repayment of loans payables	(15,000)	-
Proceeds from Unsecured promissory note	-	975,990
Repayment of North Tonawanda promissory note	(47,356)	-
Deposit on Private placement	-	55,000
Capital contributions (distributions)	(42,074)	48,213
Issuance of capital stock, net of fees of \$7,050	392,980	-
Repayment of promissory note	(248,596)	-
Lease payments	(720,065)	(705,122)
Total cash inflows from financing activities	<u>346,651</u>	<u>1,321,853</u>
<b>Foreign currency translation adjustment</b>	<u>(19,151)</u>	<u>(147,304)</u>
<b>Change in cash</b>	<u>197,097</u>	<u>(106,552)</u>
<b>Bank overdraft, beginning of the year</b>	<u>(159,308)</u>	<u>(52,756)</u>
<b>Cash (Bank overdraft), end of the year</b>	<u>37,789</u>	<u>(159,308)</u>
<b>NON-CASH FINANCING TRANSACTIONS</b>		
Additions to right-of-use assets and lease liability	340,608	200,698
Shares issued for debt settlement	753,395	-
Additions to lease receivable	478,359	-
Transfer of debenture to promissory note	-	26,000
Payments related to lease receivable	330,825	351,920

## **1. NATURE OF OPERATIONS AND GOING CONCERN**

SPoT Coffee (Canada) Ltd. (“SPoT” or the “Company”) designs, builds and operates community-oriented cafés. SPoT has been operating company-owned cafés in Canada and the United States since 2004.

The Company received its franchise registration approval from the State of New York on February 27, 2015. The Company offers both SPoT Coffee Full Cafe and SPoT Coffee Express across the State of New York.

SPoT has a total of twenty-five (25) cafés currently operating, in development or under construction in the states of New York and Connecticut, including six (6) corporate-owned cafés located in Buffalo, Rochester, Saratoga Springs, Elmwood and Glens Falls and North Tonawanda, twelve (12) Operating Franchise cafés in Orchard Park, Kenmore, Hertel, West Hartford, Hamburg, Roswell Park, Clarence, Williamsville, Waterfront Village, Amherst, West Seneca, Niagara Falls and five (5) SPoT Tops café locations, two (2) Express cafés operating under license to Chartwells at the Buffalo State College.

The Company is incorporated under the *Business Corporations Act* (Ontario). The Company’s shares are listed on the Toronto Venture Stock Exchange (“TSX-V”) under the Symbol “SPP”. The head office, principal address and records office of the Company are located at 141 Adelaide Street West, Suite 1007, Toronto, Ontario, M5H 3L5.

The consolidated financial statements of the Company have been prepared by management on the assumption that the Company will continue as a going concern which presumes that it will be able to realize its assets and discharge its obligations in the normal course of business for the foreseeable future. However, material uncertainty related to conditions and events exist which may cast significant doubt on the Company’s ability to continue as a going concern, which include current operating losses, working capital deficiencies, debt obligations and negative cash flows from operations. The Company earned net income of \$1,058,004 during the year ended December 31, 2021 (December 31, 2020 – \$(2,718,143)), has an accumulated deficit of \$19,980,217 (December 31, 2020 – \$20,471,962) and has a working capital deficiency of \$3,397,226 (December 31, 2020 – \$5,697,581). Management believes that the future success of the Company depends primarily upon its ability to raise future capital to implement its comprehensive business plan. While the Company is using its best efforts to achieve its business plans by exploring further financing opportunities, there is no assurance that the Company will be successful in obtaining acceptable financing. These consolidated financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary in the event that the Company is unable to continue as a going concern. Such adjustments could be material.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **(a) Statement of Compliance**

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

These consolidated financial statements have been authorized for issue by the Board of Directors on May 2, 2022.

### **(b) Basis of Presentation**

These consolidated financial statements were prepared under the historical cost basis except for certain financial instruments measured at fair value.

### **(c) Functional and Presentation Currency**

These consolidated financial statements are presented in Canadian dollars, which is the Company’s functional currency.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **(d) Basis of Consolidation**

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Intercompany transactions and balances are eliminated on consolidation.

Subsidiaries are entities controlled by the Company. The Company is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its current ability to direct the entity's relevant activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The interest of non-controlling shareholders in the acquiree is initially measured at the non-controlling shareholders' proportion of the net fair value of the identifiable assets, liabilities and contingent liabilities recognized.

Total comprehensive loss and net loss is attributed to the owner of the parent and its non-controlling interest even if this results in the non-controlling interests having a deficit balance.

### **(e) Critical Accounting Estimates and Judgments**

The preparation of these consolidated financial statements in compliance with IFRS requires management to make certain critical accounting estimates, judgements and assumptions that affect the application of accounting policies. Additionally, these estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Actual results may differ from these estimates.

Certain estimates, such as those related to impairment of property and equipment, valuation of debt conversion options and derivatives, depend upon subjective or complex judgments about matters that may be uncertain, and changes in those estimates could materially impact the consolidated financial statements. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Change in those estimates resulting from continuing changes in the economic environment will be reflected in the consolidated financial statements in future periods.

The key sources of estimation uncertainty at the statement of financial position date, which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period, are discussed below:

#### ***Identification of Cash-Generating Unit ("CGU")***

Identification of an asset's cash-generating unit under International Accounting Standards ("IAS") 36, *Impairment of Assets*, involves judgment. CGUs are the lowest level of assets that cash inflows are independent of other assets. In determining CGUs, the Company considered the internal reporting, including the level at which financial forecasts were prepared and monitored, and the significant assets relating to the Company's products and services required to generate cash inflows.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **(e) Critical Accounting Estimates and Judgments (Continued)**

#### ***Impairment of goodwill***

The Company's impairment test for goodwill is based on internal estimates of value-in-use calculations and uses valuation models such as the discounted cash flow model. Key assumptions on which management has based its determination of value-in-use include estimated growth rates and discount rates. These estimates, including the methodology used, the assessment of CGUs and how goodwill is allocated, can have a material impact on the respective values and ultimately the amount of any goodwill impairment.

#### ***Impairment of Depreciable Assets***

At the end of each reporting period, the Company assesses whether there is any indication of impairment for its depreciable assets. If any such indication exists, then the Company will perform an impairment test. The impairment test is to compare the asset's carrying amount and its recoverable amount, where the recoverable amount is defined as the higher of the assets fair value less costs to sell or disposal and its value-in-use. Under the value-in-use calculation, the expected future cash flows from the asset are discounted to their net present value, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss, which is recognized immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior periods. A reversal of an impairment loss is recognized immediately in profit or loss.

#### ***Useful Lives of Depreciable Assets***

The Company estimates the useful lives for an item of depreciable assets to its significant parts and depreciates separately each such part. Management reviews the useful lives of depreciable assets and their significant parts at each reporting date based on the expected utility of the assets to the Company.

#### ***Government grants***

Government grants are recognized where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. Conditions relates to the eligibility to the program as well as the calculation of the amounts claimed. When the grant relates to an expense item, it is recognized as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognized as income in equal amounts over the expected useful life of the related asset.

#### ***Functional currency***

The consolidated financial statements are presented in Canadian dollars, which is the parent's functional currency. Each subsidiary determines its own functional currency. Management reviewed the primary and secondary indicators in IAS 21, *The Effects of changes in Foreign Exchange Rates*, and determined that the functional currency for Canadian subsidiaries is Canadian dollars, and for US subsidiaries is US dollars.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **(e) Critical Accounting Estimates and Judgments (Continued)**

#### ***Leases***

The application of IFRS 16 requires significant judgements and certain key estimations to be made. Critical judgements required in the application of IFRS 16 include determining whether it is reasonably certain that an extension or termination option will be exercised; determining the appropriate rate to discount lease payments; and assessing whether a right-of-use asset is impaired.

#### ***Extinguishing financial liabilities with equity instruments***

During the year, the Company extinguished some of its borrowings by issuing equity instruments. Critical judgments required in the application of IFRIC 19 include determining if the transaction is in scope of IFRIC 19 and, if so, what is the fair value of the shares issued.

### **(f) Other Significant Accounting Policies**

#### ***Income (loss) per share***

Basic earnings (loss) per share is calculated by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of common stock outstanding during the year. Diluted income (loss) per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of common stock outstanding, adjusted for the effects of all dilutive potential common stock. The weighted average number of common stock outstanding is increased by the number of additional common stock that would have been issued by the Company assuming exercise of all stock options and warrants with exercise prices below the average market price for the year

#### ***Inventories***

Inventories are valued initially at cost and subsequently at the lower of cost and net realizable value. Net realizable value is the estimated sales price in the ordinary course of business after allowing for cost of disposal. Cost comprises all cost of purchase and other costs incurred in transferring the inventories to their present location and condition.

#### ***Revenue Recognition***

The Company derives its revenue from retail food and beverage sales at SPoT café retail locations, the wholesale of roasted coffee beans, licensing and royalty fees and franchise fees.

#### ***Revenue from contracts with customers***

Revenue is recognized at an amount that reflects the consideration to which the Company is expected to be entitled in exchange for transferring services to a customer. For each contract with a customer, the Company: identifies the contract with a customer; identifies the performance obligations in the contract; determines the transaction price which takes into account estimates of variable consideration and the time value of money; allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct service to be delivered; and recognizes revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the services promised.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **(f) Other Significant Accounting Policies (Continued)**

#### ***Revenue Recognition (Continued)***

##### *Retail sales*

Retail sales are recognized when payment is tendered at the point of sale, when the performance obligation is completed. The Company also sells to its customer's reloadable e-cards which can be used to purchase items at SPoT café retail locations. The balance of unused e-cards is recorded as deferred revenue.

##### *Commercial sales*

Sales of roasted coffee beans are recognized at delivery when transfer of control to the customer has been completed.

##### *Franchise revenues*

Franchise revenues are initial franchise fees from its franchisees. The Company grants the right of using SPoT Coffee's brand name to franchisees, provides assistance for locating a new café and negotiation of the lease agreement. Revenue is recognized when the Company has transferred substantially all of the benefits and risks of ownership, which is deferred over the term of the franchise agreement.

##### *Licensing fees*

The Company charges its franchisees a usage-based fee in exchange for the right of using SPoT Coffee's brand name. The fee revenues are recognized in accordance with the substance of the arrangement, on a straight-line basis when earned and collection is reasonably assured.

##### *Royalty fees*

The Company charges its franchisees a royalty-based fee which is based on the franchises gross revenues. Revenue is recognized on an accrual basis in accordance with the substance of the relevant agreement.

##### *Consulting fee*

Consulting revenues are paid by the Company for Administrative Corporate services provided to franchisees and fees for financial planning and assistance in the raising of equity funding for the Company.

#### ***Property and Equipment***

Property and equipment are initially recorded at cost being the purchase price and directly attributable cost of acquisition required to bring the asset to the location and condition necessary to be capable of operating in the manner intended by the Company.

Property and equipment are subsequently measured at cost less accumulated depreciation, less any accumulated impairment losses.

Where an item of property and equipment comprises significant components with different useful lives, the components are accounted for as separate items of equipment.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **(f) Other Significant Accounting Policies (Continued)**

#### ***Property and Equipment (Continued)***

##### *Subsequent Costs*

The cost of replacing part of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The cost of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

##### *Major Maintenance and Repairs*

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

##### *Gains and Losses*

Gains and losses on disposal of an item or property and equipment are determined by comparing the proceeds from disposal with the carrying amount and are recognized net within gain or loss from disposal of equipment in profit or loss.

##### *Depreciation*

Depreciation is recognized in the consolidated statement of operations and comprehensive loss and begins when the asset is available for use, when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation is provided on a straight-line basis over the estimated useful life of the assets as follows:

Computer equipment and software	- 5 years
Furniture and fixtures	- 5 to 7 years
Machinery and equipment	- 5 to 7 years
Leasehold improvements	- 5 to 10 years
Vehicles	- 5 years

Depreciation methods, useful lives and residual values are reviewed annually and adjusted if necessary.

##### ***Right-of-use Assets***

IFRS 16 requires the Company, as a lessee for company-operated cafés and the head office, to recognize (i) right-of-use assets and lease liabilities for leases with terms of more than 12 months, unless the underlying asset is of low value; and recognize (ii) depreciation for lease assets separately from interest on lease liabilities on the Consolidated Statements of Operations and Comprehensive Income (Loss).

The Company has performed an analysis of impairment of its right-of-use assets based on the historical performance of each of its company-operated cafés. The Company has also taken into account certain forward-looking factors including forecasted growth rates and has embedded other assumptions as part of this impairment analysis. The balance of the Company's right-of-use assets as presented on the consolidated statement of financial position is net of any impairment recorded by the Company.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **(f) Other Significant Accounting Policies (Continued)**

#### ***Leases receivable***

The leases receivable balance relates to head leases the Company has entered into for franchise cafés, with a corresponding liability on these leases recorded on the consolidated statement of financial position. The Company enters into head lease agreements for some of its franchise café locations and, in turn, enters into a sublease on the same terms with its franchisees. IFRS 16 requires the Company, as an intermediate lessor, to classify a sublease by reference to the right-of-use asset arising from the head lease, rather than by reference to the underlying property. Leases receivable for the subleases were measured at the amount equal to the lease liabilities. The Company does not have any cashflows for lease receivables or associated lease liabilities for these subleased cafés.

Leases receivable are initially recognized at the amount expected to be received, less a present value discount if collection is to be expected beyond one period. Subsequently, leases receivable are measured at amortized cost using the effective interest method less a provision for impairment. The Company records an adjustment to leases receivable for expected credit losses as required by IFRS 9, Financial Instruments. The lease receivable balance as presented on the consolidated statement of financial position is net of these adjustments.

As the Company is considered an intermediate lessor on certain franchise café locations, the leases receivable balance includes the underlying interest income on these locations resulting from the head lease agreements. The interest income does not reflect actual cash the Company will receive from its franchisees and has been recorded in accordance with IFRS 16.

Lease and other occupancy costs paid by the Company as a result of the head lease agreements, which are due from franchise cafés, have been recorded as part of the lease receivables balance, net of loss allowances.

#### ***Lease Liabilities***

At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs. In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. Interest accretion is recorded as interest expense in finance costs. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

For some of its franchise locations, the company enters into subleases with its franchisees (typically on the same terms as the Company's head lease agreement). For these franchised café locations, leases receivable for the subleases were measured at the amount equal to the lease liability.

Lease liabilities also includes the underlying interest expense calculated on the Company's head lease agreements, and interest expense calculated on the Company's corporate café locations. This interest does not represent actual cash that the Company needs to pay. The interest expense has been recorded in accordance with IFRS 16.



## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **(f) Other Significant Accounting Policies (Continued)**

#### ***Lease Liabilities (Continued)***

##### *Subsequent measurement*

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred.

At each end of reporting date, management assess if there is any indication that those leased assets have suffered an impairment loss. If any such indication exists, then the Company will perform an impairment test.

Lease payments under an operating lease shall be recognized as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit.

#### ***Financial Instruments***

Financial assets include the Company's cash, accounts receivable, leases receivable and advances to related parties. Financial liabilities include bank overdraft, accounts payable and accrued liabilities, lease liabilities, due to related parties, demand grid note, loans payable, deposits on private placement, convertible debentures, promissory notes and government loans.

The Company determines the classification of its financial assets and financial liabilities at initial recognition. The classification of financial instruments depends on the purpose for which they are acquired or incurred. Financial instruments are initially recorded at fair value and, in the case of financial assets or liabilities carried at amortized cost, adjusted for directly attributable transaction costs.

Financial assets and financial liabilities are recognized when the Company becomes party to the contractual provisions of the instrument. Financial assets are no longer recognized when the rights to receive cash flows from the assets have expired or are assigned and all the risks and rewards of ownership have been transferred to a third party. Financial liabilities are no longer recognized when the related obligation expires or is discharged or cancelled.

##### *Financial assets*

The Company's financial assets are classified and measured based on both the business model in which the assets are managed and the contractual cash flow characteristics of the asset. Financial assets subsequent to initial recognition are classified and measured based on three categories: (i) amortized cost; (ii) fair value through profit and loss; (FVTPL); and (iii) fair value through other comprehensive loss (FVOCI).

##### *(i) Financial assets at amortized cost*

Financial assets are recorded at amortized cost when financial assets held with the objective of collecting contractual cash flows and those cash flows represent solely payments of principal and interest and are not designated as FVTPL. These assets are measured at amortized cost subsequent to initial recognition using the effective interest method. This method uses an effective interest rate that discounts estimated future cash receipts through the expected life of the financial asset or liability to the net carrying amount of the financial asset or liability. The amortized cost is reduced by impairment losses, if any. Interest income and impairment losses are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(f) Other Significant Accounting Policies (Continued)**

*Financial Instruments (Continued)*

*(ii) Financial assets at FVTPL*

These financial assets are measured at fair value subsequent to initial recognition. Net gains and losses, including any interest or dividend income, are recognized in profit or loss unless they are derivative instruments designated in an effective hedging relationship.

*(iii) Financial assets at FVOCI*

Financial assets are recognized at FVOCI if the assets meet the following conditions:

- they are held under a business model whose objective it is to hold to collect the associated cash flows and sell, and;
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Any gains or losses recognized in other comprehensive loss will be recycled upon derecognition of the asset.

The Company does not hold any financial assets at FVOCI.

*Financial liabilities*

Financial liabilities are initially measured at fair value and subsequent to initial recognition are classified and measured based on two categories: (i) amortized cost; or (ii) FVTPL.

*(i) Financial liabilities at amortized cost*

Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense is recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

*(i) Financial liabilities at FVTPL*

A financial liability is classified as FVTPL if it is classified as held for trading, it is derivative or designated as FVTPL on initial recognition. Financial liabilities at FVTPL are subsequently measured at fair value and net gains and losses, including any interest expenses, are recognized in profit or loss unless they are derivative instruments designated in an effective hedging relationship.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**(f) Other Significant Accounting Policies** (Continued)

**Financial Instruments** (Continued)

*Classification of financial instruments*

<b>Financial Instrument</b>	<b>Measurement</b>
Cash	Amortized cost
Accounts receivable	Amortized cost
Leases receivable	Amortized cost
Due from related parties	Amortized cost
Bank overdraft	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Due to related parties	Amortized cost
Demand grid note	Amortized cost
Lease liabilities	Amortized cost
Loans payable	Amortized cost
Promissory notes	Amortized cost
Convertible debentures	Amortized cost

IFRS 13, Fair Value Measurement, establishes a fair value hierarchy that reflects the significance of inputs in measuring fair value as the following:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. prices) or indirectly (i.e. derived from prices); and

Level 3 – inputs for the assets or liability that are not based on observable market data (unobservable inputs).

As of December 31, 2021 and December 31, 2020, none of the Company's financial instruments are recorded at fair value in the consolidated statement of financial position.

At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired.

At each reporting date, each financial asset measured at amortized cost is assessed for impairment under an expected credit loss (ECL) model. The Company applies the simplified approach for trade receivables, which uses lifetime ECLs and the general approach for all other receivables.

The Company uses an accounts receivable aging provision matrix to measure the ECL applies losses factors to aging categories greater than 60 days past due.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **(f) Other Significant Accounting Policies (Continued)**

#### ***Income Taxes***

Income tax expense comprises of current and deferred tax. Current tax and deferred tax are recognized in net income except to the extent that it relates to a business combination or items recognized directly in equity or in other comprehensive loss.

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current period and any adjustment to income taxes payable in respect of previous periods. Current income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted by the period-end date. Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit or loss.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. At the end of each reporting period the Company reassesses unrecognized deferred tax assets.

The Company recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

#### ***Share Capital***

Share capital represents shares that have been issued by the Company measured at the proceeds received, net of direct issue costs. The relative fair value method is used to allocate proceeds related to units comprising, common shares, and warrants. The fair value of warrants is determined using the Black-Scholes option pricing model with assumptions including expected dividend yield, expected volatility, risk free interest rate and expected life.

Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's ordinary shares are classified as equity instruments.

#### ***Share-based Payments***

Under the Company's stock option plan, all stock options granted have vesting periods and are exercisable up to five periods from the date of grant. Each tranche of an award with graded vesting period is considered a separate grant at each vest date for the calculation of fair value, and the resulting fair value is amortized over the vesting period of the respective tranches. The fair value of the options granted is measured using the Black-Scholes option pricing model considering the terms and conditions upon which the options were granted, the estimated volatility, estimated risk-free rates and estimated forfeitures.

The amount recognized for goods or services received during the vesting period shall be based on the best available estimate of the number of equity instruments anticipated to vest. The Company shall revise that estimate, if necessary, if subsequent information indicates that the number of share options anticipated to vest differs from previous estimates. On vesting date, the Company shall revise the estimate to equal the number of equity instruments that ultimately vested. After vesting date, the Company shall make no subsequent adjustment to total equity for goods or services received if the share options are later forfeited at the end of the share option's life.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **(f) Other Significant Accounting Policies (Continued)**

#### ***Convertible debentures***

The Company's convertible debentures are segregated into their debt and equity components at the date of issuance, in accordance with the substance of the contractual agreements.

The conversion feature of the convertible debentures is presumed to be classified as a derivative financial liability unless it meets all the criteria to recognize as equity instrument under IAS 32, Financial Instruments: Presentation. One of criteria is that the conversion option exchanges a fixed amount of shares for a fixed amount of cash ("fixed for fixed").

If the conversion feature meets the fixed for fixed criteria, the conversion option will be classified as equity components. Equity instruments are instruments that evidence a residual interest in the assets of an entity after deducting all its liabilities. Therefore, when the initial carrying amount of the convertible debentures is allocated to its equity and liability components, the equity component is assigned the residual amount after deducting from the fair value of the instrument the amount separately determined for the liability component. The sum of the carrying amounts assigned to the liability and equity components on initial recognition is always equal to the fair value that would be ascribed to the instrument. No gain or loss arises from initially recognizing the components of the instrument separately.

After initial recognition, the equity component is not remeasured while the liability component is accreted to the face value of the debt using the effective interest method.

Transaction costs are allocated to the debt and equity components in proportion to the allocation of the proceeds on initial recognition. Transaction costs allocated to equity components will be accounted for as a deduction from equity, net of any related income tax benefit; and cost allocated to the debt component are offset against the carrying amount of the liability and included in the determination of the effective interest rate.

#### ***Other Comprehensive Income (Loss)***

Other comprehensive income (loss) is the change in shareholders' deficit, which results from transactions and other events and circumstances from non-shareholder sources. These transactions and events include unrealized gains and losses resulting from foreign currency translation of foreign subsidiaries.

#### ***Foreign Currencies***

##### ***Foreign operations***

Under IFRS, when the Company translates the financial statements of subsidiaries from their functional currency to presentation currency, assets and liabilities are translated into Canadian dollars at the exchange rate in effect at the balance sheet date. Share capital, warrants, equity reserves, other comprehensive loss, and deficit are translated into Canadian dollars at historical exchange rates. Revenues and expenses are translated into Canadian dollars at the average exchange rate for the period. Foreign exchange gains and losses on translation are included in other comprehensive loss. Foreign exchange differences that arise relating to balances that form part of the net investment in a foreign operation are recognized in a separate component of equity through other comprehensive loss. On disposition or partial disposition of a foreign operation, the cumulative amount of related exchange difference in other comprehensive income (loss) is recognized within profit or loss.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(f) Other Significant Accounting Policies (Continued)**

***Foreign Currencies (Continued)***

*Foreign currency transactions*

Transactions in foreign currencies are translated to the respective functional currencies of the Company's subsidiaries at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss resulting from the settlement of such transactions and from the translation at the reporting date of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on translation are recognized in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

***Business combinations and goodwill***

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. Acquisition-related costs are expensed as incurred.

When the Company acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances, and pertinent conditions as at the acquisition date. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. Management makes assumptions when determining the acquisition-date fair values of the identifiable tangible and intangible assets acquired and liabilities assumed which involve estimates, such as the forecasting of future cash flows, discount rates and the useful lives of the assets acquired. Subsequent changes in fair values are recorded as part of the purchase price allocation and therefore result in corresponding goodwill adjustments if they qualify as measurement period adjustments. The measurement period is the period between the date of acquisition and the date where all significant information necessary to determine the fair values is available, not to exceed 12 months. All other subsequent changes in estimates and judgements are recognized in the consolidated statements of earnings.

Goodwill is measured as the excess of the fair value of the consideration transferred, less any non-controlling interest in the entity being acquired at the proportionate share of the recognized net identifiable assets acquired. Goodwill acquired through a business combination is allocated to each cash-generating unit ("CGU") or group of CGUs that are expected to benefit from the related business combination. A group of CGUs represents the lowest level within the entity at which the goodwill is monitored for internal management purposes, which is not higher than an operating segment.

**(g) New and amended standards and interpretations**

The consolidated entity has adopted all the new or amended Accounting Standards and Interpretations issued by the IASB that are mandatory for the current reporting period.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

**3. SUBSIDIARIES AND BUSINESS COMBINATION**

<b>Name</b>	<b>% Ownership</b>	<b>Functional currency</b>	<b>Location</b>
SPoT Coffee International Inc., operates in wholesale and distribution of food and roastery	100%	US Dollars	Buffalo, New York, USA
SPoT Coffee Elmwood Inc., operates café known as the SPoT Elmwood café	51%	US Dollars	Buffalo, New York, USA
SPoT Coffee Buffalo Inc., operates café known as SPoT Delaware café	100%	US Dollars	Buffalo, New York, USA
SPoT Coffee Transit Inc., operated café known as the SPoT Transit café	100%	US Dollars	Buffalo, New York, USA
SPoT Coffee Saratoga LLC, operates café known as the SPoT Saratoga Springs café	60%	US Dollars	Saratoga Springs, New York, USA
Valshire SPoT Inc., operates café known as the SPoT Valshire café	100%	US Dollars	Rochester, New York, USA
SPoT Coffee Glen, LLC, operates café known as the SPoT Glen Falls café	74%	US Dollars	Glens Falls, New York, USA
SPoT Tonawanda, LLC, operates café known as the SPoT Tonawanda café	100%	US Dollars	Tonawanda, New York, USA

On August 1, 2021, the Company's subsidiary, SPoT Coffee International, acquired the principal assets of SPoT Coffee Tonawanda from a franchisee through a newly created subsidiary. Contractual consideration totaled \$458,467 CAD (\$361,624 USD) payable in the form of cash and a vendor take back loan ("VTB"). Cash consisted of \$14,737 CAD (\$11,624 USD) of which \$14,737 CAD (\$11,624 USD) was paid at closing for the inventory of the café with the remainder of \$443,730 CAD (350,000 USD) to be paid in monthly installments of \$12,904 CAD (\$10,178 USD). The VTB bears interest at the rate of 3% per annum and has a term of three (3) years. The VTB is secured by a Promissory Note.

The acquisition constitutes a business combination as the acquired assets meet the definition of a business as defined in IFRS 3 Business Combinations. Certain fair values have been estimated at the acquisition date, pending confirmation or completion of the valuation process. Where provisional values are used in accounting for a business combination, they may be adjusted retrospectively in subsequent periods, not to exceed one year from acquisition date. The preliminary fair value allocation to the identifiable net assets acquired is subject to change and is summarized as follows:

<b>Net assets acquired</b>	<b>\$ USD</b>	<b>\$ CAD</b>
Inventory	\$ 11,624	\$ 14,737
Property and equipment	65,000	82,407
Right-of-use asset	463,266	587,329
Goodwill	285,000	361,323
Lease liability	(463,266)	(587,329)
	<b>\$ 361,624</b>	<b>\$ 458,467</b>
<b>Fair value of consideration</b>		
Cash amounts payable, at net present value	\$ 11,624	\$ 14,737
Vendor take back loan	350,000	443,730
	<b>\$ 361,624</b>	<b>\$ 458,467</b>

Management anticipates that goodwill is tax deductible. Goodwill relate to the specific location of the business.

Transfer of ownership occurred on August 1, 2021. Accordingly, the consolidated statements of comprehensive income and loss includes activity for the period from August 1, 2021 through December 31, 2021. Sales for that period amounted to \$211,000 and loss amounted to \$89,000.

**3. SUBSIDIARIES (Continued)**

**Impairment testing**

Property and equipment, right-of use asset and goodwill acquired through this business combinations were allocated to the North Tonawanda location as it constitutes a cash generating unit ("CGU").

The recoverable amount of the CGU has been determined by a value-in-use calculation using a discounted cash flow model, based on a 5-year projection period approved by management and a pre-tax discount rate of 25%. The discount rate of 25% pre-tax reflects management's estimate of the time value of money and the consolidated entity's weighted average cost of capital adjusted for the North Tonawanda location, the risk-free rate, and the volatility of the share price relative to market movements. There were no other key assumptions.

Given the closure of the location in January 2022, future cashflows were determined to be nil. This closure was caused by misrepresentations regarding the redevelopment of the building housing the location from the part of the seller, who also is the landlord. SPoT is now seeking damages in court in regard of this matter. While litigation is ongoing, SPoT defaulted on both the lease and the vendor take-back loan starting February 2022. The following impairment was recognized as of December 31, 2021:

	<b>\$ USD</b>	<b>\$ CAD</b>
Property and equipment	61,173	77,556
Right-of-use asset	443,964	562,858
Goodwill	285,000	361,323
	<b>\$ 790,137</b>	<b>\$ 1,001,737</b>

**Details of non-wholly owned subsidiaries that have material non-controlling interests**

**SPOT COFFEE ELMWOOD INC.**

	<b>December 31, 2021</b>		December 31, 2020	
Current assets	\$	<b>33,300</b>	\$	14,083
Non-current assets		<b>32,248</b>		479,945
Current liabilities		<b>85,657</b>		333,647
Non-current liabilities		<b>381,052</b>		913,129
Total comprehensive loss for the year		<b>173,566</b>		(331,639)
Net income (loss) attributable to non-controlling interests		<b>182,041</b>		(162,503)
Accumulated non-controlling interest		<b>228,752</b>		(115,199)

**SPOT COFFEE SARATOGA LLC**

	<b>December 31, 2021</b>		December 31, 2020	
Current assets	\$	<b>25,041</b>	\$	24,255
Non-current assets		<b>25,493</b>		103,249
Current liabilities		<b>46,557</b>		180,318
Non-current liabilities		<b>207,739</b>		616,731
Total comprehensive loss for the year		<b>482,184</b>		(169,082)
Net income (loss) attributable to non-controlling interests		<b>208,874</b>		(67,633)
Accumulated non-controlling interest		<b>18,494</b>		(264,457)



**3. SUBSIDIARIES** (Continued)

**Details of non-wholly owned subsidiaries that have material non-controlling interests** (Continued)

**SPOT COFFEE GLEN, LLC**

	<b>December 31, 2021</b>	December 31, 2020
Current assets	\$ <b>126,853</b>	\$ 98,802
Non-current assets	<b>159,864</b>	309,402
Current liabilities	<b>53,125</b>	242,183
Non-current liabilities	<b>(75,195)</b>	409,395
Total comprehensive income (loss) for the year	<b>586,126</b>	(207,792)
Net income (loss) attributable to non-controlling interests	<b>175,311</b>	(55,065)
Accumulated non-controlling interest	<b>177,058</b>	(59,157)

**4. INVENTORIES**

Inventories consist primarily of raw materials such as coffee beans and finished goods such as restaurant food items. The costs of inventories expensed during the year ended December 31, 2021 amounted to \$1,755,261 (December 31, 2020 - \$1,246,951) which is included in the cost of sales in the consolidated statements of operations and comprehensive loss.

	<b>December 31, 2021</b>	December 31, 2020
Raw Materials	\$ <b>10,332</b>	\$ 13,493
Finished Goods	<b>160,518</b>	115,291
	<b>\$ 170,850</b>	<b>\$ 128,784</b>

**5. PROPERTY AND EQUIPMENT**

	Computer equipment and software	Furniture and fixtures	Machinery and equipment	Leasehold improvements	Vehicles	Total
<b>Cost</b>	\$	\$	\$	\$	\$	\$
<b>Balance as of December 31, 2019</b>	297,240	466,523	1,055,959	2,531,107	83,941	4,434,770
Additions	118	429	20,770	10,435	-	31,752
Impact of foreign exchange	(5,118)	(8,372)	(20,051)	(49,889)	(1,654)	(85,084)
<b>Balance as of December 31, 2020</b>	292,240	458,580	1,056,678	2,491,653	82,287	4,381,438
Additions	9,640	6,179	17,003	14,138	-	46,960
Business combination (note 3)	-	-	82,407	-	-	82,407
Impact of foreign exchange	(1,080)	(1,768)	(5,121)	(10,568)	(349)	(18,886)
<b>Balance as of December 31, 2021</b>	<b>300,800</b>	<b>462,991</b>	<b>1,150,967</b>	<b>2,495,223</b>	<b>81,938</b>	<b>4,491,915</b>
<b>Accumulated depreciation and impairment losses</b>						
<b>Balance as of December 31, 2019</b>	264,930	432,133	999,080	2,084,461	75,034	3,855,638
Depreciation	9,477	13,888	14,405	140,741	9,198	187,709
Impact of foreign exchange	(4,949)	(8,325)	(19,643)	(48,220)	(1,945)	(83,082)
<b>Balance as of December 31, 2020</b>	269,458	437,696	993,842	2,176,982	82,287	3,960,265
Depreciation	9,894	8,163	28,901	111,270	-	158,229
Impairment of assets (note 3)	-	-	77,555	-	-	77,555
Impact of foreign exchange	(887)	(1,588)	(3,725)	(7,989)	(349)	(14,538)
<b>Balance as of December 31, 2021</b>	<b>278,465</b>	<b>444,271</b>	<b>1,096,573</b>	<b>2,280,263</b>	<b>81,938</b>	<b>4,181,507</b>
<b>Net Book Value</b>						
<b>At December 31, 2020</b>	22,782	20,884	62,836	314,671	-	421,173
<b>At December 31, 2021</b>	<b>22,335</b>	<b>18,720</b>	<b>54,394</b>	<b>214,960</b>	-	<b>310,408</b>

Certain property and equipment are pledged as security for the loans payable (see Note 11). All property and equipment are pledged as security to the convertible debentures (see Note 13).

**6. RIGHT-OF-USE ASSETS**

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
<b>Cost</b>		
Opening Balance	\$ 2,756,876	\$ 2,592,036
Additions	340,608	200,698
Business combination (note 3)	587,329	-
Impact of foreign exchange	(36,262)	(35,858)
	<u>3,648,551</u>	<u>2,756,876</u>
<b>Accumulated depreciation and impairment</b>		
Opening Balance	1,006,862	492,565
Amortization of right-of-use assets	556,601	555,048
Impairment – North Tonawanda Café (note 3)	562,858	-
Impact of foreign exchange	(5,696)	(40,751)
	<u>2,120,625</u>	<u>1,006,862</u>
<b>Net Book Value</b>		
At December 31, 2020	-	\$ 1,750,014
At December 31, 2021	\$ <u>1,527,926</u>	<u>-</u>

**7. LEASES RECEIVABLE**

The Company is considered an intermediate lessor on certain franchise café locations.

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Opening Balance	\$ 1,068,057	\$ 1,332,632
Addition	478,359	-
Interest	78,038	101,035
Payments	(330,825)	(351,920)
Impact of foreign exchange	(774)	(13,690)
Closing Balance	<u>1,292,855</u>	<u>1,068,057</u>
Current maturity	<u>(219,574)</u>	<u>(250,091)</u>
Long-term	<u>\$ 1,073,281</u>	<u>\$ 817,966</u>

**7. LEASES RECEIVABLE (Continued)**

The following table outlines the contractual undiscounted lease payments towards real estate leases receivable as at December 31, 2021:

	<u>December 31, 2021</u>	
	USD	CAD
2022	\$ 248,531	\$ 315,087
2023	250,838	318,013
2024	253,934	321,937
2025	256,601	325,319
2026	147,686	187,237
Thereafter	88,300	111,946
Less: unearned interest income	<u>(226,127)</u>	<u>(286,684)</u>
Total Lease Receivables	1,019,763	1,292,855
Current maturity	<u>(173,193)</u>	<u>(219,574)</u>
Long-term	<u>\$ 846,570</u>	<u>\$ 1,073,281</u>

Lease and other occupancy costs paid by the Company as a result of the head lease agreements, which are due from franchise café's, have been recorded as part of the leases receivable balance, net of any loss allowances.

**8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	<u>December 31, 2021</u>	December 31, 2020
Accounts payables and accrued liabilities	\$ 1,069,874	\$ 1,733,001
Government remittances	281,061	113,739
Interest payable	378,297	257,658
Payroll liabilities	70,144	30,100
	<u>\$ 1,799,376</u>	<u>\$ 2,134,498</u>

**9. LEASE LIABILITIES**

	<u>December 31, 2021</u>	December 31, 2020
Opening balance	\$ 3,022,912	\$ 3,661,658
Additions	823,483	200,697
Business combination (note 3)	587,329	-
Interest on lease liabilities	236,766	273,738
Payments	(1,050,890)	(1,057,042)
Impact of foreign exchange	<u>(20,762)</u>	<u>(56,141)</u>
Balance as of December 31, 2021	3,598,838	3,022,912
Current maturity	<u>(753,609)</u>	<u>(827,061)</u>
Long-term	<u>\$ 2,845,229</u>	<u>\$ 2,195,851</u>

**9. LEASE LIABILITIES (Continued)**

The following table outlines the total contractual undiscounted real estate lease liabilities as at December 31, 2021:

	December 31, 2021	
	USD	CAD
2022	\$ 801,376	1,015,985
2023	655,939	831,599
2024	664,726	842,739
2025	589,298	747,112
2026	387,039	490,688
Thereafter	473,834	594,271
Less: future interest expense	(691,722)	(923,556)
Total lease liabilities	<u>\$ 2,880,490</u>	<u>3,598,838</u>

**10. DEMAND GRID NOTE**

The Company has a loan as at December 31, 2021 of \$632,251 (\$498,699 USD), (December 31, 2020 - \$634,944 (\$498,699 USD)) from KeyBank in the form of a Demand Grid Note. The Demand Grid Note bears interest at the KeyBank prime rate plus 1.62% (December 31, 2020 - prime rate plus 1.62%) and interest is payable monthly in arrears on the first day of each consecutive month. The Company recorded interest expense of \$31,194 (\$24,879 USD) for the year ended December 31, 2021 (December 31, 2020 - \$36,244 (\$27,009 USD)). The loan is due upon demand and the Lender has the right to set off against and to apply to such due and payable amounts any obligations owing to, and any other funds held with KeyBank.

**11. LOANS PAYABLE**

	December 31, 2021	December 31, 2020
Secured subordinated note ("Note A") <sup>(i)</sup>	\$ 367,500	\$ 367,500
Secured subordinated note ("Note B") <sup>(ii)</sup>	175,000	175,000
Secured subordinated note ("Note C") <sup>(iii)</sup>	33,332	33,332
Unsecured subordinated note ("Note D") <sup>(iv)</sup>	-	15,000
<b>Balance</b>	<u>\$ 575,832</u>	<u>\$ 590,832</u>

(i) On July 29, 2011, the Company closed a \$750,000 financing in the form of secured subordinated note ("Note A") with 1,500,000 detachable 5-period common share purchase warrants at an exercise price of \$0.18 per share. This note has a 5-period term and semi-annual coupon equivalent to 9% annualized interest on the principal amount. There is no prepayment penalty after period 3. The loan is treated as a demand loan with modified annualized interest rate of 12%, with the option of 3% to be paid in either cash or shares. The loan has been paid down to \$490,000 since inception. On June 9, 2020, a reassignment of \$122,500 of principal debt of the \$490,000 occurred. Subsequent to this reassignment, the party purchasing the \$122,500 note forgave the debt and the Company realized a gain on settlement of debt of \$122,500.

**11. LOANS PAYABLE (Continued)**

- (ii) On April 20, 2012, the Company closed a \$250,000 financing in the form of secured subordinated note (“Note B”) with 500,000 detachable 5-period common share purchase warrants at an exercise price of \$0.25 per share. Note 2 has a 5-period term and semi-annual coupon equivalent to 9% annualized interest on the principal amount. The fair value of Note B was determined at the time of issue as the difference between the \$250,000 and the discounted cash flows assuming a 15.7% rate. The valuation allocation of the warrants amounted to \$53,000. On June 9, 2020, a part of the debenture was reassigned. A total of \$75,000 was reassigned. The loan is treated as a demand loan.
- (iii) On October 11, 2012, the Company closed a \$200,000 financing in the form of secured subordinated note (“Note C”) with 400,000 detachable 5-period common share purchase warrants at an exercise price of \$0.25 per share. Note 4 has a 5-year term and semi-annual coupon equivalent to 9% annualized interest on the principal amount. There is no prepayment option in period 1. In period 2, a prepayment of the balance can be made subject to a prepayment penalty of 10% of the prepayment amount. During period 3 the prepayment penalty is 5% of the prepayment amount. There is no prepayment penalty after period 3. The fair value of Note C was determined at the time of issue as the difference between the \$200,000 and the discounted cash flows assuming a 15.7% rate. The valuation allocation of the warrants amounted to \$42,000. The balance at December 31, 2021 - \$33,332 (December 31, 2020 - \$33,332) is treated as a demand loan with modified annualized interest rate of 12%, with the option of 3% to be paid in either cash or shares.

For the above-mentioned loans payable, there is the agreement of having accelerated payments upon the sale of any asset dispositions.

- (iv) On June 9, 2020, the Company closed a \$75,000 refinancing in the form of an unsecured subordinated note (“Note D”). The Note has a 2-period term and semi-annual coupon equivalent to 9% annualized interest on the principal amount. The loan is treated as a demand loan and is unsecured. The original amount of \$75,000 was reduced down to \$15,000 and the reduction of \$60,000 was forgiven and the Company realized a \$60,000 gain on settlement of debt. The Company paid out the balance of the \$15,000 loan on May 25, 2021 along with the accrued interest.

**12. DEPOSIT ON PRIVATE PLACEMENT**

	<b>December 31, 2021</b>	December 31, 2020
Deposit on Private Placement	<u>\$ -</u>	<u>55,000</u>

In December 2020, the Company started a private placement of equity to raise money. The private placement was completed on May 14, 2021. ((See Note 16 – Share Capital – subsection (iv)).

**13. CONVERTIBLE DEBENTURES**

	<b>December 31, 2021</b>	December 31, 2020
Convertible debentures ("Note E") <sup>(i)</sup>	<u>\$ 575,000</u>	<u>\$ 575,000</u>

In July 2013, the Company closed a non-brokered private placement of secured convertible debentures ("Note E") for aggregate gross proceeds of \$1,400,000. The convertible debentures bear interest at a rate of 9% per annum, matured three periods after their date of issue and are now due on demand. The convertible debentures are convertible into common shares of the Company at a price of \$0.18 per share at any time prior to maturity at the option of the holder.

The convertible debentures were initially recorded according to their respective liability and equity components as follows: liability component of \$1,229,439 and conversion option equity component of \$112,650. The liability portion of the debentures was recorded at the present value of the expected future principal and interest cash flows using a discount rate of 15%. The value of the equity component is the difference between the present value of the liability component of the convertible debenture and the total proceeds from the issue of the convertible debenture has been included as components of shareholders' deficit. All property and equipment disclosed in Note 5 of the consolidated financial statements are pledged as security to the convertible debentures. The convertible debentures are due to certain shareholders of the Company.

**14. PROMISSORY NOTES**

	<b>December 31, 2021</b>	December 31, 2020
Promissory Notes	<u>\$ -</u>	<u>\$ 1,001,990</u>
Promissory Note – North Tonawanda Franchise	<u>\$ 443,730</u>	-
Payments	<u>(51,617)</u>	-
Interest	<u>4,261</u>	-
Current portion	<u>396,374</u>	-
	<u>154,850</u>	-
Balance at December 31, 2021	<u>\$ 241,524</u>	<u>\$ -</u>

(a) The Company raised \$1,000,000 of financing in the form of unsecured promissory notes. The terms of these promissory notes are a two (2) period term and a coupon equivalent to 6% annualized interest on the principal amount. No interest shall be payable until the end of the two-period period. The notes are unsecured and due upon demand. On September 17, 2021, the Company repaid \$155,648 of the unsecured promissory notes. On October 15, 2021, the Company completed a share issuance for debt settlement totaling \$753,395 resulting in the issuance of 15,067,900 common shares at \$0.05 per common share.

(b) On August 1, 2021, the Company purchased the SPoT North Tonawanda franchise from its original franchisee. The Company paid \$458,467 CAD (\$361,624 USD) for the franchise which included \$14,737 (\$11,624 USD) in cash and a \$443,730 CAD (\$350,000 USD) vendor take back loan and is secured by a general security agreement on the assets of the cafe. The loan bears interest at 3% per annum and has a term of three (3) years. The Promissory note may be repaid in full or in part at any time over the term of the loan without penalty. The monthly payments amount to \$12,904 CAD (\$10,178 USD) and the total interest costs will amount to \$20,821 CAD (\$16,423 USD) over the three years of the loan.

**14. PROMISSORY NOTES** (Continued)

The following table outlines the total contractual undiscounted promissory note liabilities as at December 31, 2021:

	December 31, 2021	
	USD	CAD
2022	\$ 122,141	\$ 154,850
2023	122,141	154,850
2024	81,427	103,234
Less: future interest expense	<u>(13,060)</u>	<u>(16,560)</u>
Total liabilities	<u>\$ 312,649</u>	<u>\$ 396,374</u>

**15. GOVERNMENT LOANS**

	December 31, 2021		December 31, 2020
Canadian Emergency Business Account loan (a)	\$ 60,000	\$	60,000
Paycheck Protection Program Loan (b)	-		849,490
<b>Balance</b>	<u>\$ 60,000</u>	<u>\$</u>	<u>909,490</u>

(a) The Company received loans and subsidies from the Canadian Federal Government in May 2021. The Canadian Emergency Business account loan (“CEBA”) is an interest free loan with no principal payments until December 31, 2022. If the Company repays \$40,000 of the total loan prior to December 31, 2023 then the balance of \$20,000 will be forgiven. If the balance is not paid by December 31, 2023 then the balance of the loan is converted to a three (3) period term loan with interest at 5% starting on January 1, 2024. The balance of the loan must be paid no later than December 31, 2025.

The Canadian Emergency Wage Subsidy (“CEWS”) program is a Federally funded program aimed at helping Canadian small business with their payroll costs during the COVID-19 pandemic. The maximum amount receivable per employee is \$847 per week. This is strictly a reimbursement to companies with no repayment terms. The Company received approximately \$193,000 in the year ended December 31, 2020 (2020 - \$220,000) under this program which was recognized against Salaries and wages.

(b) The Company has received a total of \$1,871,634 CAD (\$1,476,285 USD) from the U.S. government through the Paycheck Protection Program Loan (“PPPL”) programs. These loans were subsequently deemed to be forgivable by the U.S. government and will not have to be repaid by the Company. This amount is shown as other income on the Statement of Operations and Comprehensive Income (Loss).

The United States Government introduced a relief program for both individuals and small businesses to help get them through this pandemic. These loans which carry an interest rate of 1% were used for payroll, rent and utilities. On September 4, 2021, the United States Congress passed a revised bill that contained significant changes to the Paycheck Protection Program. Loan forgiveness will be provided for the sum of documented payroll costs, covered rent payments and utilities for the eight-week period following the loans. Under the new bill, in order to receive loan forgiveness at least 60% of the PPP proceeds must be used for payroll and 40% can be utilized for nonpayroll expenses, such as covered rent, utilities, and mortgage interest.



**15. GOVERNMENT LOANS** (Continued)

The Company received a further \$78,700 CAD (\$59,000 USD) in the December 31, 2020 year end through the Economic Injury Disaster Loan Advances, this was recorded under Other Income.

- (c) The Company also received funding from the U.S. Government under the Restaurant Revitalization Fund ("RRF"). The purpose of the RRF was to support the restaurant industry by providing funding to those companies that have suffered significant pandemic-related revenue loss. The Company has applied for the RRF grant for all of its cafes and as of December 31, 2021 had received \$950,160 CAD (\$749,456 USD). These grants are shown in other income on the Statement of Operations and Comprehensive Income (Loss).
- (d) The Company also received \$40,000 CAD from the Ontario Government as part of the Ontario Small Business Support Grant. The grant was designed to help small businesses that had to significantly restrict services under Ontario's province-wide shutdown effective December 26, 2020.
- (e) The Company has also applied for assistance under the Employee Retention Credit ("ERC") which is provided under section 2301 of the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act").

The ERC is a fully refundable tax credit for employers equal to 50 percent of qualified wages (including allocable qualified health plan expenses) that Eligible Employers pay their employees. This Employee Retention Credit applies to qualified wages paid after March 12, 2020, and before January 1, 2021. The maximum amount of qualified wages considered with respect to each employee for all calendar quarters is \$10,000, so that the maximum credit for an Eligible Employer for qualified wages paid to any employee is \$5,000.

The ERC under the CARES Act was subsequently amended twice, the first amendment to extend it under certain terms and conditions to apply to wages paid by an Eligible Employer in Q1 2021 and Q2 2021, and the second amendment to extend it under certain terms and conditions to wages paid by an Eligible Employer in Q3 2021 and Q4 2021. For each calendar quarter in 2021, the maximum credit for an Eligible Employer for qualified wages paid to any employee has been increased to \$7,000.

The Company is awaiting confirmation of its applications for all its cafes on the ERC which if approved could amount to \$992,848 CAD (\$783,127 USD), of which \$470,000 is included in accounts receivable at year-end. This amount has been credited against Salaries and wages on the Statement of Operations and Comprehensive Income (Loss) at December 31, 2021.

**16. SHARE CAPITAL**

The Company is authorized to issue an unlimited number of common shares. As at December 31, 2021, the Company had 159,576,670 (December 31, 2020 – 135,408,170) common shares issued and outstanding.

- (i) On May 14, 2021, the Company completed a non-brokered private placement of units (each a "Unit") at a price of C\$0.05 per Unit. The Company issued an aggregate of 9,100,600 Units for aggregate gross proceeds of C\$455,030. Each Unit consists of one common share of the Company (a "Common Share") and one-half of one common share purchase warrant (a "Warrant"). Each whole Warrant issued under this equity financing entitles the holder to acquire one additional Common Share at a price of \$0.075 for a period of twenty-four months (24) from the initial closing date. The Warrants include an acceleration clause to the effect that if at any time the closing trading price of the Common Shares on the TSX Venture Exchange is \$0.09 or more for a period of thirty (30) consecutive days, the Company will be entitled to notify all holders of Warrants of its intention to force the exercise of the Warrants and to issue a press release to such effect, following which the holders of Warrants shall have thirty (30) days from the date of the press release to exercise the Warrants. All the Common Shares and Warrants issued in connection with this financing are subject to a statutory four-month hold period in accordance with applicable securities laws, which expires on September 15, 2021.
- (ii) On October 15, 2021 the Company completed a Shares for Debt with three holders of outstanding unsecured promissory notes to settle the principal amounts owing thereunder (in the aggregate amount of \$753,395) via the issuance of an aggregate of 15,067,900 common shares of the Company at a price of \$0.05 per share.

## 17. CONTRIBUTED SURPLUS, STOCK BASED COMPENSATION AND WARRANTS

### Stock-Based Compensation

The Company has a Stock Option Plan (the "Plan") for employees, officers, directors, and consultants performing special technical or other services of the Company ("Optionees"). During 2010, the Company amended the Plan whereby the number of common shares to be issued under the Plan is not to exceed 30,000,000 common shares. The designation of Optionees, amount and vesting provisions of awards under the Plan are determined by the Board of Directors. As at December 31, 2021, the Company had Nil (December 31, 2020 – Nil) outstanding and exercisable stock options.

### Warrants

	Number	Weighted-Average Exercise Price	Expiry Date
Balance at December 31, 2020	-		
Issued	4,550,300	\$0.075	May 14, 2023
<b>Balance at December 31, 2021</b>	<b>4,550,300</b>	<b>\$0.075</b>	

As at December 31, 2021, the Company had warrants issued and outstanding as follows:

	Warrants Issued	Exercise Price	Expiry Date
May 14, 2021	4,550,300	\$0.075	May 14, 2023
	<b>4,550,300</b>		

The fair value of the warrants issued is determined using the Black-Scholes model for pricing warrants under the following weighted average assumptions. The fair value of the warrants issued during the year ended December 31, 2021 was \$75,080 (December 31, 2020 - \$Nil).

	December 31, 2021	December 31, 2020
Expected dividend yield	\$Nil	-
Risk free interest rate	0.32%	-
Expected volatility, based on historical data	107.5%	-
Expected life	2.0 years	-
Share price	0.04	-

## 18. RELATED PARTY TRANSACTIONS

### Key management compensation

The Company entered the following compensation with key management personnel, which are defined by IAS 24, *Related Party Disclosures*, as those persons having authority and responsibility for planning, directing, and controlling the activities of the Company, including directors and management.

	December 31, 2021			December 31, 2020		
	Officers	Directors	Total	Officers	Directors	Total
Salaries and wages	\$ 242,000	\$ 156,000	\$ 398,000	\$ 255,074	\$ 168,502	\$ 423,576
Consulting fees	-	60,182	60,182	-	95,398	95,398
	<b>242,000</b>	<b>216,182</b>	<b>458,182</b>	<b>255,074</b>	<b>263,900</b>	<b>518,974</b>

**18. RELATED PARTY TRANSACTIONS (Continued)**

Related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. Balances and transactions between the Company and its subsidiary have been eliminated on consolidation and are not disclosed in this note.

Related party balances included in the statement of financial position, incurred with companies with common directors and officers of the Company are as follows:

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
<b>Advances to related parties:</b>		
Advances to franchisees	\$1,512,480	\$1,339,034
Advances to associated company	509,308	509,308
	<u>2,021,788</u>	<u>1,848,342</u>
Provision on advances to related parties	(1,746,615)	(1,746,615)
<b>Advance from related parties</b>		
Advances from a company controlled by a Director	(108,533)	(140,009)
	<u>\$ 166,640</u>	<u>\$ (38,282)</u>

**19. FINANCIAL INSTRUMENTS**

**General objectives, policies, and processes**

The Board of Directors has overall responsibility for the determination of the Company's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure effective implementation of the objectives and policies to the Company's finance function. The Board of Directors receives quarterly reports from the Company's Chief Financial Officer through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

The Company's financial instruments are exposed to certain financial risks, including credit risk, liquidity risk, currency risk, and interest rate risk. The Company's exposure to these risks and its methods of managing the risks remain consistent.

**Credit risk**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company has a strict code of credit, including obtaining agency credit information, confirming references and setting appropriate credit limits. The maximum exposure to credit risk at the reporting date to recognized financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. The Company does not hold any collateral.

The Company has adopted a lifetime expected loss allowance in estimating expected credit losses to trade receivables using a provisions matrix using fixed rates of credit loss provisioning. These provisions are considered representative across all customers of the Company based on recent sales experience, historical collection rates and forward-looking information that is available.

**General objectives, policies, and processes**

The Company's credit risk is primarily attributable to accounts receivable and advances to related parties.

**19. FINANCIAL INSTRUMENTS (Continued)**

An analysis of aging of accounts receivable from the billing date net of loss allowances are as follows:

	<b>0-30 Days</b>	<b>31-60 Days</b>	<b>61-90 Days</b>	<b>&gt; 90 Days</b>	<b>Total</b>
<b>Gross amount as at December 31, 2021</b>	\$ 71,300	\$ 2,105	\$ 1,802	\$ 79,091	\$ 154,299

Gross amount as at December 31, 2020	\$ 73,731	\$ 10,259	\$ 6,808	\$ 46,328	\$ 137,126
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No loss allowance was recorded as at December 31, 2021 and December 31, 2020.

**Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. The demand grid note is subject to interest rate variability. The Company monitors its exposure to interest rates annually. A 1% change in interest rates would result in an insignificant change in net loss based on the balances subject to variable interest at December 31, 2021 and December 31, 2020.

**Liquidity risk**

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due as all debt will be settled within a 12-month period.

Maturities of the Company's financial liabilities are as follows:

	<b>Contractual cashflows</b>	<b>Less than one year</b>	<b>1-3 years</b>	<b>Greater than 3 years</b>
<b>December 31, 2021</b>				
Accounts payable and accrued liabilities	\$ 1,799,376	\$ 1,799,376	\$ -	\$ -
Demand grid note	632,251	632,251	-	-
Loans payable	575,832	575,832	-	-
Convertible debentures	575,000	575,000	-	-
Promissory note payable – North Tonawanda	396,374	396,374	-	-
<b>Total</b>	<b>\$ 3,978,833</b>	<b>\$ 3,978,833</b>	<b>\$ -</b>	<b>\$ -</b>
<b>December 31, 2020</b>				
Bank overdraft	\$ 159,308	\$ 159,308	\$ -	\$ -
Accounts payable and accrued liabilities	2,134,498	2,134,498	-	-
Demand grid note	634,944	634,944	-	-
Loans payable	1,500,322	590,832	909,490	-
Convertible debentures	575,000	575,000	-	-
Promissory note	1,001,990	-	1,001,990	-
<b>Total</b>	<b>\$ 6,006,062</b>	<b>\$ 4,094,136</b>	<b>\$ 1,911,480</b>	<b>\$ -</b>

Accounts payable and accrued liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

**19. FINANCIAL INSTRUMENTS (Continued)**

**Foreign Currency risk**

The Company is subject to foreign exchange risk as operations are in the United States. The Company is therefore subject to gains and losses due to fluctuations in the US dollar relative to the Canadian dollar. The following table provides the December 31, 2021 and December 31, 2020 net asset exposure to USD:

	<b>December 31, 2021</b>		December 31, 2020	
	<b>Total (in USD)</b>			
Cash (bank overdraft)	\$	<b>38,236</b>	\$	(122,544)
Accounts receivable		<b>121,706</b>		134,008
Prepaid expenses and other current assets		<b>202,900</b>		189,368
		<b>362,842</b>		200,832
Accounts payable and accrued liabilities		<b>(619,332)</b>		(869,337)
<b>Net assets exposure</b>	<b>\$</b>	<b>(256,490)</b>	<b>\$</b>	<b>(668,505)</b>

Based on the above exposure as at December 31, 2021, a 10% depreciation or appreciation of the U.S dollar would result in an increase, respectively, in the net assets by \$25,649 (December 31, 2020 - \$66,850). Management believes the carrying values of the financial assets and liabilities listed above approximate their fair values due to their short-term nature.

**20. CAPITAL MANAGEMENT**

The Company manages its capital structure and adjusts it, based on the funds available to the Company, to support its general and administrative expenses, working capital, long-term debt obligations and overall capital expenditures. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The Company considers its capital to consist of share capital, equity reserves and contributed surplus.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the period ended December 31, 2021. The Company is not subject to externally imposed capital requirements.

## 21. REVENUES

Revenues, as reported in the consolidated statements of operations and comprehensive loss, consists of the following:

	<b>December 31, 2021</b>	December 31, 2020
Retail sales	\$ 4,927,115	\$ 3,190,709
Commercial sales	774,419	497,739
Franchise fees	38,205	30,813
Licensing and royalty fees	483,729	303,842
Office & admin servicing	-	75,000
Interest & consulting income	-	-
	<b>\$ 6,223,468</b>	<b>\$ 4,098,103</b>

Geographical regions:

	<b>December 31, 2021</b>	December 31, 2020
Canada	\$ -	\$ 75,000
USA	6,223,468	4,023,103
	<b>\$ 6,223,468</b>	<b>\$ 4,098,103</b>

Timing of revenue recognition:

	<b>December 31, 2021</b>	December 31, 2020
Goods transferred at a point in time	\$ 5,739,739	\$ 3,719,261
Services transferred over time	483,729	378,842
	<b>\$ 6,223,468</b>	<b>\$ 4,098,103</b>

## 22. CONTINGENCY

On January 28, 2015, SPoT Coffee Park Place Inc., a wholly owned subsidiary of SPoT Coffee (Canada) Ltd., filed a lawsuit against its landlord on grounds of misrepresentation surrounding the lease agreement, which was terminated on September 1, 2013. The landlord filed a counterclaim against SPoT Coffee Park Place Inc. for breach of contract. In the course of the legal process leading to trial which took place on March 1, 2021 and lasted 5 days, SPoT was successful in all three motions brought by the landlord; SPoT was successful in the 1<sup>st</sup> motion in minimizing the security for costs payable by SPoT; in the 2<sup>nd</sup> motion, SPoT was allowed to amend its claim in support of its position of misrepresentation by the landlord and to compel the landlord to provide further and more fulsome answers to undertakings and answers to refusals; in the 3<sup>rd</sup> motion, the landlord was denied its request to increase the security for costs. In all three motions the landlord was ordered to reimburse SPoT for its legal cost.

On October 12, 2021, the Company issued a news release announcing that it has won its lawsuit against Concord Adex and in a 58-page judgement order by the Honorable Madam Justice S. Vella, SPoT was awarded operating losses of \$269,296 and damages of \$757,755 as well as interest on the damages to run from Jan. 29, 2015, the date the claim was filed by SPoT, until such time Concord Adex makes full payment of the damages to SPoT. Although Concord Adex has subsequently decided to appeal the judgement of the Honorable Madam Justice S. Vella, the Company feels that, considering the factual and legal basis upon which the judgement was made, Concord Adex has the lesser odds of winning the case at the Ontario Court of Appeal. If Concord Adex loses on appeal, then SPoT stands to receive the awarded amount of \$1.22 million in the beginning of the second quarter of 2022. The Ontario Court of Appeal has set the date of September 19, 2022, to hear the appeal.

**23. OPERATING SEGMENTS**

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Executive Officer. The Company has two operating segments.

**As at December 31, 2021:**

<b>Reportable segments</b>	<b>Canada</b>	<b>USA (Stated in CAD)</b>	<b>Total</b>	<b>Percentage of total sales</b>
<b>Revenue</b>				
Retail sales	\$ –	\$4,927,115	\$4,927,115	79%
Commercial sales	–	774,419	774,419	12
Franchise fees	–	38,205	38,205	1
Licensing and royalty fees	–	483,729	483,729	8
<b>Total revenue</b>	<b>\$ –</b>	<b>\$6,223,468</b>	<b>\$6,223,468</b>	<b>100%</b>
<b>Non-current assets</b>	<b>\$ –</b>	<b>\$1,886,334</b>	<b>\$1,886,334</b>	

**As at December 31, 2020:**

<b>Reportable segments</b>	<b>Canada</b>	<b>USA (Stated in CAD)</b>	<b>Total</b>	<b>Percentage of total sales</b>
<b>Revenue</b>				
Retail sales	\$ –	\$3,190,709	\$3,190,709	78%
Commercial sales	–	497,739	497,739	12
Franchise fees	–	30,813	30,813	1
Licensing and royalty fees	–	303,842	303,842	7
Office and admin servicing	75,000	–	75,000	2
<b>Total revenue</b>	<b>\$ 75,000</b>	<b>\$4,023,103</b>	<b>4,098,103</b>	<b>100%</b>
<b>Non-current assets</b>	<b>\$ 5,116</b>	<b>\$2,214,071</b>	<b>\$2,219,187</b>	

**24. INCOME TAXES**

a) Provision for income taxes

The Company computes an income tax provision annually in each of the jurisdictions in which it operates. The operations in Canada and the United States are subject to income tax at average rate of 26.5% - 38.7% (2020: 26.5% - 38.7%).

The major items causing the Company's income tax expense to differ from the combined federal and provincial statutory rate were:

	<u>2021</u>	<u>2020</u>
Net income (loss) before income taxes	\$ 1,058,004	\$ (2,578,967)
Expected income tax recovery at statutory rates	360,171	(877,945)
Permanent differences	-	(80,000)
Effect of lower tax rates in Canada	(170,530)	200,016
Change in deferred tax assets not recognized	(194,427)	745,839
Other	4,786	12,090
	<u>\$ -</u>	<u>\$ -</u>

(b) Deferred tax balances

The tax effect of temporary differences that give rise to deferred tax assets and liabilities at December 31, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
Deferred tax assets (liabilities)		
Non-capital losses	\$ 3,312,490	\$ 3,906,804
Property and equipment	(61,631)	(143,378)
Goodwill	123,003	-
Difference in timing of recognition of expenses under IFRS16	264,870	69,733
Deferred tax assets not recognized	(3,638,732)	(3,833,159)
	<u>\$ -</u>	<u>\$ -</u>

(c) Deferred tax assets were not recorded on the following non-capital losses carried forward:

Year of expiry:	\$
2028	60,000
2029	300,000
2030	545,000
2031	1,174,000
2032	1,221,000
2033	1,269,000
2034	1,457,000
2035	1,582,000
2036	716,000
2037	889,000
2038	199,000
2039	475,000
2040	2,635,205



## **25. IMPACT OF COVID-19**

The Issuer's primary activity is the operation of cafes predominantly located in Buffalo, NY USA, in the capital region of New York State and in West Hartford, Connecticut, USA.

Since the start of the global outbreak of COVID-19 in March of 2020 and to a lesser extent in 2021, due mainly to the introduction of effective vaccines against COVID-19, SPoT has been facing major challenges and various restrictions and limitations on its business operations. Yet, despite the COVID-19 negative impact on businesses worldwide, SPoT emerged with a greater number of corporate-owned and franchise cafes that were built and opened during the height of the pandemic period of years 2020 and early part of 2021.

Starting in 2020 when the Company's cafes were closed, the management of SPoT Coffee undertook major efforts to safeguard the health of the Company's employees and guests as well as to improve SPoT's operational and management systems. These efforts included, but were not limited to:

- a) Rapid implementation of stringent new bylaw-compliant guest and employee safety and café cleanliness procedures across all company-owned and franchise café locations.
- b) Promotion and/or hiring, if needed, of highly qualified executives to key positions in the Company's USA subsidiary namely, SPoT Coffee International Inc.
- c) Addition of home and work delivery via the safe and reliable third-party delivery service companies.
- d) Thorough testing and onboarding of new point-of-sale features designed to deliver better financial reporting and improve the overall customer experience at SPoT cafes.

Management also communicated regularly with its employee representatives at Workers United, and furthermore, worked with them to ensure that all employees of the Company were appropriately compensated by both SPoT and the states of New York and Connecticut throughout their respective lockdowns.

## **26. SUBSEQUENT EVENTS**

### **Purchase of SPoT Orchard Park**

On January 31, 2022, SPoT Coffee International Inc. a 100% wholly owned subsidiary of SPoT Coffee (Canada) Ltd, acquired the principal assets of SPoT Coffee Orchard Park from a franchisee through a newly created subsidiary. Contractual consideration totaled \$253,556 CAD (\$200,000 USD) payable in the form of cash and a vendor take back loan ("VTB"). Cash consisted of \$6,339 CAD (\$5,000 USD) with the remainder of \$247,221 CAD (\$195,000 USD) to be paid in monthly installments of \$7,190 CAD (\$5,671 USD). The VTB bears interest at the rate of 3% per annum and has a term of three (3) years. The VTB is secured by a Promissory Note.

The acquisition constitutes a business combination as the acquired assets meet the definition of a business as defined in IFRS 3 Business Combinations. Certain fair values have been estimated at the acquisition date, pending confirmation or completion of the valuation process. Where provisional values are used in accounting for a business combination, they may be adjusted retrospectively in subsequent periods, not to exceed one year from acquisition date.

**26. SUBSEQUENT EVENTS** (Continued)

**Purchase of SPoT Orchard Park** (Continued)

The preliminary fair value allocation to the identifiable net assets acquired is subject to change and is summarized as follows:

<b>Net assets acquired</b>	<b>\$ USD</b>	<b>\$ CAD</b>
Inventory	\$ 5,000	\$ 6,339
Property and equipment	17,000	21,553
Right-of-use asset	388,366	493,536
Goodwill	178,000	225,668
Lease liability	(388,366)	(493,536)
	<b>\$ 200,000</b>	<b>\$ 253,560</b>
<b>Fair value of consideration</b>		
Cash amounts payable, at net present value	\$ 5,000	\$ 6,339
Vendor take back loan	195,000	247,221
	<b>\$200,000</b>	<b>\$ 253,560</b>

Management anticipates that goodwill is tax deductible. Goodwill relates to the specific location of the business.