SPOT COFFEE (CANADA) LTD.

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND DECEMBER 31, 2021

(In Canadian Dollars)

SPOT COFFEE (CANADA) LTD.
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021
(In Canadian Dollars)

TABLE OF CONTENTS

DNTW CHARTERED PROFESSIONAL ACCOUNTANTS

45 Sheppard Avenue East, Suite 703
Toronto, ON M2N 5W9
Main 416 924-4900
Fax 416 924-9377
www.dntwtoronto.com

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, 2022, and the consolidated statement of operations and comprehensive loss, changes in deficit, and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2022, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

BASIS OF OPINION

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the 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

We draw attention to note 1 to the consolidated financial statements, which indicates that the Company incurred a net loss during the year ended December 31, 2022 and, as of that date, the Company's current liabilities exceeded its total assets. As stated in note 1, these events or conditions, along with other matters as set forth in note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

KEY AUDIT MATTER

The key audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgements. The communication of the key audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the key audit matter below providing a separate opinion on the key audit matter or on the accounts or disclosures to which it relates.

<u>Completeness and Accuracy of Loans and Convertible Debentures</u>

Description of the Matter

We identified the completeness and accuracy of loans and convertible debentures as a key audit matter as it is quantitatively significant to the consolidated financial statements as a whole. There are potential for material misstatements in relation to debts being recorded in an amount less than what the Company is obligated.

45 Sheppard Avenue East, Suite 703
Toronto, ON M2N 5W9
Main 416 924-4900
Fax 416 924-9377
www.dntwtoronto.com

As of the reporting date, all loans and convertible debentures have been in default, and lenders have the right to collect all principals and accrued interests, as well as the right to take possession of the pledged assets. If lenders take possession of the pledged assets, the Company will no longer be able to continue its operation.

Audit Response

Our primary procedures to address this key audit matter include i) reviewed debt agreements and any amendments; ii) evaluated the appropriateness of the valuation method used by management; iii) performed recalculation to test the reasonableness of management's balances; and iv) obtained confirmations from lenders. As majority of the term loans are overdue and on demand, we also discussed with the Company's internal legal counsel for any risk of potential litigation against the Company.

OTHER MATTER

The consolidated financial statements of the Company for the year ended December 31, 2021, were audited by another auditor who expressed an unmodified opinion on those statements on May 2, 2022.

OTHER INFORMATION

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis;

Our opinion on the consolidated 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 consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the 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 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.

45 Sheppard Avenue East, Suite 703
Toronto, ON M2N 5W9
Main 416 924-4900
Fax 416 924-9377
www.dntwtoronto.com

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.

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 Julia Zhou.

DNTW Toronto LLP

CHARTERED PROFESSIONAL ACCOUNTANTS
LICENSED PUBLIC ACCOUNTANTS

MAY 1, 2023
TORONTO, ONTARIO

(In Canadian Dollars) 4

	2022	**2021**
	$	$
Assets		
Current		
Cash	**-**	37,789
Accounts receivable (note 19)	**1,803,358**	622,835
Inventories (note 4)	**183,791**	170,850
Current portion of leases receivable (note 7)	**257,280**	219,574
Due from related parties (note 17)	**229,649**	166,640
Prepaid and other assets	**85,782**	69,474
	2,559,860	1,287,162
Long-term		
Property and equipment (note 5)	**277,569**	310,408
Right-of-use assets (note 6)	**2,311,425**	1,527,926
Deposits	**48,000**	48,000
Leases receivable (note 7)	**889,314**	1,073,281
	6,086,168	4,246,777
Liabilities		
Current		
Bank indebtedness	**75,558**	-
Accounts payable and accrued liabilities (note 8)	**2,942,010**	1,456,462
Deferred revenue	**187,312**	193,470
Current portion of lease liabilities (note 9)	**806,535**	753,609
Current portion of promissory notes (note 13)	**409,237**	154,850
Demand grid note (note 10)	**664,394**	632,251
Loans payable (note 11)	**831,174**	768,182
Convertible debentures (note 12)	**777,456**	725,564
	6,693,676	4,684,388
Long-term		
Government loans (note 14)	**60,000**	60,000
Promissory notes (note 13)	**195,109**	241,524
Lease liabilities (note 9)	**3,458,955**	2,845,229
	10,407,740	7,831,141
Shareholders' Deficiency		
Equity attributable to the Parent company		
Share capital (note 15)	**13,486,149**	13,486,149
Shares to be issued (note 15)	**82,500**	-
Contributed surplus	**2,363,966**	2,363,966
Accumulated other comprehensive loss	**120,149**	142,160
Deficit	**(20,788,797)**	(19,980,217)
	(4,736,033)	(3,987,943)
Non-controlling interests	**414,461**	403,579
	(4,321,572)	(3,584,364)
	6,086,168	4,246,777

Going concern (note 1)
Contingency (note 21)

ON BEHALF OF THE BOARD

Signed "Anton Ayoub" , Director

Signed "John Lorenzo" , Director

SPOT COFFEE (CANADA) LTD.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021
(In Canadian Dollars)

	2022	2021
	$	$
Revenues (note 20)	**8,021,517**	6,223,468
Cost of sales	**2,554,562**	1,755,261
Gross profit	**5,466,955**	4,468,207
Expenses		
Consulting fees	**237,290**	218,723
Credit card fee and bank charges	**330,369**	176,219
Depreciation of property and equipment (note 5)	**164,221**	158,229
Depreciation of right-of-use assets (note 6)	**547,491**	556,601
Foreign exchange	**(54,528)**	194,294
Interest expense	**181,404**	73,567
Interest on lease liability	**257,040**	157,171
Occupancy costs	**684,128**	423,584
Office and general	**392,189**	473,005
Professional fees	**498,812**	309,664
Salaries and wages	**3,973,406**	2,476,925
Travel	**143,084**	77,518
	7,354,906	5,295,538
Net Loss before undernoted items	**(1,887,951)**	(827,331)
Other income (expenses)		
Impairment of N. Tonawanda Café (Note 3)	**-**	(1,001,737)
Government grant (note 14(b))	**-**	1,871,634
Ontario Small Business Grant	**10,000**	40,000
Restaurant Revitalization Grant (note 14(c))	**-**	950,160
Gain on litigation (note 21)	**1,324,365**	-
Acquisition expense (note 3)	**(232,758)**	-
Gain on debt reduction	**2,813**	25,279
Net Income (loss)	**(783,531)**	1,058,004
Other comprehensive loss		
Foreign currency translation, net of tax	**(36,178)**	(312,032)
Other comprehensive income (loss)	**(819,709)**	745,973
Net income (loss) attributable to:		
Owners of the parent	**(808,580)**	491,745
Non-controlling interests	**25,049**	566,259
Net Income (loss)	**(783,531)**	1,058,004
Income (Loss) per share attributable to owners of the parent company	**(0.005)**	0.007
Basic and diluted weighted average number of shares outstanding	**159,567,670**	146,864,146

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, 2022 AND 2021
(IN CANADIAN DOLLARS)

	Common Shares	Share Capital	Shares to be issued	Contributed Surplus	Accumulated Other Comprehensive loss	Deficit	Parent's Deficit	Non-controlling interest	Total Deficit
		$		$	$	$	$	$	$
Balance – December 31, 2020	**135,408,170**	**12,359,854**		**2,330,960**	**454,192**	**(20,471,962)**	**(5,326,956)**	**(438,813)**	**(5,765,769)**
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)
Balance – December 31, 2021	**159,576,670**	**13,486,149**	-	**2,363,966**	**142,160**	**(19,980,217)**	**(3,987,943)**	**403,579**	**(3,584,364)**
Shares to be issued	-	-	82,500	-	-	-	82,500	-	82,500
Net income	-	-	-	-	-	(808,580)	(808,580)	25,049	(783,531)
Other comprehensive income	-	-	-	-	(22,011)		(22,011)	(14,167)	(36,178)
Balance – December 31, 2022	**159,576,670**	**13,486,149**	**82,500**	**2,363,966**	**120,149**	**(20,788,797)**	**(4,736,033)**	**414,461**	**(4,321,572)**

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

(In Canadian Dollars) 7

	2022	2021
	$	$
Operating activities		
Net Income (Loss)	**(783,531)**	1,058,004
Adjustments for:		
Depreciation of property and equipment	**164,221**	158,229
Depreciation of right-of-use assets	**547,491**	556,601
Acquisition expense (note 3)	**232,758**	-
Interest on lease liabilities	**257,040**	158,728
Forgivable loans	-	(1,876,252)
Impairment of North Tonawanda Café	-	1,001,736
Interest income on sublease	**(98,068)**	-
Interest on debts	**162,473**	-
	482,384	1,057,046
Changes in non-cash working capital items		
Accounts receivable	**(1,148,518)**	(485,709)
Inventories	**1,690**	(27,329)
Prepaids and deposits	**(16,308)**	532
Accounts payable and accrued liabilities	**1,485,548**	(335,122)
Deferred revenue	**(41,004)**	(72,703)
Total cash inflows from operating activities	**763,792**	136,715
Investing activities		
Purchase of property and equipment	**(39,094)**	(46,960)
Advances to related parties	**(63,009)**	(204,922)
Payments for acquisitions	**(36,253)**	(14,736)
Total cash outflows from investing activities	**(138,356)**	(266,618)
Financing activities		
Repayment of loans payable	-	(15,000)
Proceeds from SBA/PPP loans	-	1,026,762
Issuance of capital Stock, net of fees	-	392,980
Proceeds from shares to be issued	**82,500**	-
Repayment of unsecured promissory note	-	(47,356)
Repayment of promissory notes	**(87,066)**	(248,596)
Repayment of demand grid note	**(51,118)**	-
Capital distributions	-	(42,074)
Lease payments	**(730,066)**	(720,065)
Total cash inflows/(outflows) from financing activities	**(785,750)**	346,651
Foreign currency translation adjustment	**46,967**	(19,151)
Change in cash	**(113,347)**	197,097
Cash (Bank indebtedness), beginning of the year	**37,789**	(159,308)
Cash (Bank indebtedness), end of the year	**(75,558)**	37,789
NON-CASH FINANCING TRANSACTIONS		
Acquisition of Orchard Park Café (note 3)	**248,021**	-

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 seven (7) corporate-owned cafés located in Buffalo, Rochester, Saratoga Springs, Elmwood, Glens Falls, Orchard Park and North Tonawanda, eleven (11) Operating Franchise cafés 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 (the "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 had a net loss of $783,351 during the year ended December 31, 2022 and net income in December 31, 2021 – $1,058,004, has an accumulated deficit of $20,788,797 (December 31, 2021 – $19,980,217) and has a working capital deficiency of $5,561,529 (December 31, 2021 – $3,397,226). 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 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 financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These financial statements have been authorized for issue by the Board of Directors on May 1, 2023.

(b) Basis of Presentation

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

(c) Functional and Presentation Currency

These 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 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 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 of 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 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

Financial Instrument	Measurement
Cash	Amortized cost
Accounts receivable	Amortized cost
Leases receivable	Amortized cost
Due from related parties	Amortized cost
Bank indebtedness	Amortized cost
Accounts payable and accrued liabilities	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, 2022 and December 31, 2021, none of the Company's financial instruments are recorded at fair value in the consolidated statements 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

Classification of Liabilities as Current or Non-Current

In January 2020, the IASB issued "Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)", which provides a more general approach to the classification of liabilities under IAS 1 based on the contractual arrangements in place at the reporting date. The amendment clarified that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. Only rights to defer settlement by at least twelve months, which are in place at the end of the reporting period, affect the classification of a liability. Classification is unaffected by an entities' expectation to exercise its right to defer settlement of a liability.

(In Canadian Dollars) 21

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The amendments are to be applied retrospectively and are effective for annual reporting periods beginning on or after January 1, 2023. The Company expects to apply the amendment to the classification of liabilities on January 1, 2023, and adopting this amendment is not expected to have a significant impact on the Company's financial statements.

Clarifying amendment to account for deferred tax on leases and decommissioning obligations

In May 2021, the IASB amended IAS 12 – "Income Taxes" to clarify that the initial recognition exemption does not apply to leases and decommissioning obligations. As a result, companies are required to recognize deferred tax on such transactions. The amendment is effective January 1, 2023, and earlier application is permitted. The Company expects to apply the amendment on January 1, 2023, and adopting this amendment is not expected to have a significant impact on the Company's financial statements.

3. SUBSIDIARIES AND BUSINESS COMBINATION

Name	% Ownership	Functional currency	Location
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
SPoT Orchard Park, LLC, operates café known as the SPoT Orchard Park café	100%	US Dollars	Orchard Park, New York, USA

Purchase of North Tonawanda

On August 1, 2021, SPoT Coffee International Inc., a wholly owned subsidiary of SPoT Coffee (Canada) Ltd, acquired the principal assets of a franchise café of SPoT's in North Tonawanda ("North Tonawanda") from the franchisee through a newly created subsidiary, SPoT Tonawanda, LLC. Contractual consideration totaled $458,467 CAD ($361,624 USD) payable in the form of cash and a vendor take back loan ("VTB Loan1"). The cash of $14,737 CAD ($11,624 USD) was paid at closing for the remaining 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 Loan1 bears interest at the rate of 3% per annum and has a term of three (3) years. The VTB Loan1 is in the form of Promissory Note (Note 13).

The acquisition constitutes a business combination as it met the definition of a business as defined in IFRS 3 Business Combinations. The estimates of fair value allocation to the identifiable net assets acquired was summarized as follows:

(In Canadian Dollars) 22

3. SUBSIDIARIES AND BUSINESS COMBINATION (Continued)

Net assets acquired	**$ USD**	**$ CAD**
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)
	$ 361,624	$ 458,467
Fair value of consideration		
Cash amounts payable, at net present value	$ 11,624	$ 14,737
Vendor take back loan	350,000	443,730
	$ 361,624	$ 458,467

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.

In January 2022, the Company closed North Tonawanda permanently and filed a lawsuit against the seller who is also the landlord of the premise that the store located. This closure was caused by misrepresentations regarding the redevelopment of the building housing the location from the part of the seller. SPoT is now seeking damages in court in regard of this matter.

While litigation is ongoing, SPoT has ceased payments on both the lease and the VTB Loan1 monthly installments starting February 2022. The Landlord has filed a counterclaim asking the Court to order SPoT to uphold its obligations under both the lease and the VTB Loan1. Given the closure of the location in January 2022, future cashflows were determined to be nil and resulted impairment charge during the year ended December 31, 2021. The following impairment was recognized as of December 31, 2021:

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

Purchase of SPoT Orchard Park

On January 31, 2022, SPoT Coffee International Inc., a wholly owned subsidiary of SPoT Coffee (Canada) Ltd, acquired the principal assets of a franchise café of SPoT's in Orchard Park ("Orchard Park") from the franchisee through a newly created subsidiary, SPoT Orchard Park, LLC. Contractual consideration totaled $253,556 CAD ($200,000 USD) payable in the form of cash and a vendor take back loan ("VTB Laon2"). Cash consisted of $6,359 CAD ($5,000 USD) with the remainder of $248,021 CAD ($195,000 USD) to be paid in monthly installments of $7,190 CAD ($5,671 USD). The VTB Loan2 bears interest at the rate of 3% per annum and has a term of three (3) years. The VTB Loan2 is in the form of Promissory Note (Note 14). The Company paid additional cash of $14,631 ($11,503 USD) for the inventory of Orchard Park.

The acquisition constitutes a business combination as the acquired assets meet the definition of a business as defined in IFRS 3 Business Combinations. The following table presents the estimates of fair value allocation to the identifiable net assets acquired at acquisition date.

(In Canadian Dollars) 23

3. SUBSIDIARIES AND BUSINESS COMBINATION (Continued)

Net assets acquired	**$ USD**	**$ CAD**
Inventory	$ 11,503	$ 14,631
Property and equipment	17,000	21,622
Right-of-use asset	388,366	493,963
Lease liability	(388,366)	(493,963)
	28,503	36,253
Excess of purchase price over fair value of assets acquired (expensed)	183,000	232,758
	$ 211,503	$ 269,011

Fair value of consideration		
Cash amounts payable, at net present value	$ 16,503	$ 20,990
Vendor take back loan	195,000	248,021
	$211,503	$ 269,011

Transfer of ownership occurred on March 1, 2022. Accordingly, the consolidated statements of comprehensive income and loss includes activity for the period from March 1, 2022 through December 31, 2022. Sales for that period amounted to $83,908 and loss amounted to $16,539.

(In Canadian Dollars) 24

3. SUBSIDIARIES AND BUSINESS COMBINATION (Continued)

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

SPOT COFFEE ELMWOOD INC. – NCI 49%

	December 31, 2022	December 31, 2021
Current assets	$ **104,874**	$ 33,300
Non-current assets	**26,054**	32,248
Current liabilities	**489,163**	85,657
Non-current liabilities	**649,012**	381,052
Total comprehensive income for the year	**(27,629)**	173,566
Net income attributable to non-controlling interests	**(1,676)**	182,041
Accumulated non-controlling interest	**194,560**	228,752

SPOT COFFEE SARATOGA LLC – NCI 40%

	December 31, 2022	December 31, 2021
Current assets	$ **68,937**	$ 25,041
Non-current assets	**50,162**	25,493
Current liabilities	**131,239**	46,557
Non-current liabilities	**97,043**	207,739
Total comprehensive income for the year	**(14,443)**	482,184
Net income attributable to non-controlling interests	**25,006**	208,874
Accumulated non-controlling interest	**37,723**	18,494

SPOT COFFEE GLEN, LLC – 26.5 NCI

	December 31, 2022	December 31, 2021
Current assets	$ **111,728**	$ 126,853
Non-current assets	**115,354**	159,864
Current liabilities	**(315,063)**	53,125
Non-current liabilities	**119,374)**	(75,195)
Total comprehensive income for the year	**19,428**	586,126
Net income attributable to non-controlling interests	**1,718**	175,311
Accumulated non-controlling interest	**182,178**	177,058

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, 2022 amounted to $2,554,562 (2021 - $1,755,261) which is included in the cost of sales in the consolidated statements of operations and comprehensive loss.

	December 31, 2022	December 31, 2021
Raw Materials	$ **19,395**	$ 10,332
Finished Goods	**164,396**	160,518
	$ **183,791**	$ 170,850

(In Canadian Dollars) 25

5. PROPERTY AND EQUIPMENT

Cost	Computer equipment and software	Furniture and fixtures	Machinery and equipment	Leasehold Improvements	Vehicle	Total
Balance as of December 31, 2020	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	-	-	82,407	-	-	82,407
Impact on Foreign Exchange	(1,080)	(1,768)	(5,121)	(10,568)	(349)	(18,886)
Balance as of December 31, 2021	300,800	462,991	1,150,967	2,495,223	81,938	4,491,919
Additions	3,950	3,118	40,731	6,558	-	54,357
Business combination	-	-	21,622	-	-	21,622
Impact on Foreign Exchange	17,787	86,337	144,081	337,059	5,597	590,861
Balance as of December 31, 2022	322,537	552,446	1,357,401	2,838,840	87,535	5,158,759
Accumulated depreciation and impairment losses						
Balance as of December 31, 2020	269,458	437,696	993,842	2,176,982	82,287	3,960,265
Depreciation for the year	9,894	8,163	28,901	111,270	-	158,228
Impairment of assets	-	-	77,555	-	-	77,555
Impact on Foreign Exchange	(887)	(1,588)	(3,725)	(7,989)	(349)	(14,538)
Balance as of December 31, 2021	278,465	444,271	1,096,573	2,280,263	81,938	4,181,510
Depreciation for the year	8,970	12,802	34,146	108,303	-	164,221
Disposals	-	-	-	-	-	-
Impact on Foreign Exchange	16,768	79,014	127,089	306,991	5,597	535,459
Balance as of December 31, 2022	304,203	536,087	1,257,808	2,695,557	87,535	4,881,190
Net Book Value						
At December 31, 2020	22,782	20,884	62,836	314,671	-	421,173
At December 31, 2021	22,335	18,720	54,394	214,960	-	310,408
At December 31, 2022	18,334	16,359	99,593	143,283	-	277,569

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 12).

(In Canadian Dollars) 26

6. RIGHT-OF-USE ASSETS

Cost	
Balance as of December 31, 2020	**2,756,876**
Additions	340,608
Business combination	587,329
Impact on Foreign Exchange	(36,262)
Balance as of December 31, 2021	**3,648,551**
Additions	711,526
Business combination	493,963
Derecognition - end of term	(807,564)
Impact on Foreign Exchange	343,119
Balance as of December 31, 2022	**4,389,595**
Accumulated depreciation and impairment losses	
Balance as of December 31, 2020	**1,006,862**
Amortization for the year	556,601
Impairment of assets	562,858
Impact on Foreign Exchange	(5,696)
Balance as of December 31, 2021	**2,120,625**
Depreciation for the year	547,491
Derecognition - end of term	(807,564)
Impact on Foreign Exchange	217,618
Balance as of December 31, 2022	**2,078,170**
Net Book Value	
At December 31, 2020	1,750,014
At December 31, 2021	1,527,926
At December 31, 2022	2,311,425

7. LEASES RECEIVABLE

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

Balance as of December 31, 2020	**1,068,057**
Additions	478,359
Interest income	78,038
Receipts	(330,825)
Impact on Foreign Exchange	(774)
Balance as of December 31, 2021	**1,292,855**
Additions	-
Interest income	98,068
Payments	(323,512)
Impact on Foreign Exchange	79,183
Balance as of December 31, 2022	**1,146,594**
Current	257,280
Non-current	889,314

(In Canadian Dollars) 27

7. LEASES RECEIVABLE (Continued)

The following table outlines the contractual undiscounted lease payments towards real estate leases receivable as at December 31, 2022:

	USD	CAD
2023	250,838	339,735
2024	253,934	343,928
2025	256,601	347,540
2026	147,686	200,026
2027	63,410	85,883
Thereafter	24,889	33,710
Total cash flow	**997,358**	**1,350,822**
Less: future interest expense	(150,789)	(204,228)
Total liabilities	**846,569**	**1,146,594**

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2022	December 31, 2021
Accounts payables and accrued liabilities	**$ 2,307,094**	$ 1,069,874
Government remittances	**519,677**	281,061
Interest payable	**60,157**	35,383
Payroll liabilities	**55,082**	70,144
	$ 2,942,010	$ 1,456,462

9. LEASE LIABILITIES

Balance as of December 31, 2020	**3,022,912**
Additions	823,483
Business combination	587,329
Interest expense	236,766
Payments	(1,050,890)
Impact on Foreign Exchange	(20,762)
Balance as of December 31, 2021	**3,598,838**
Additions	689,244
Business combination	493,963
Interest expense	257,040
Payments	(1,031,296)
Impact on Foreign Exchange	257,701
Balance as of December 31, 2022	**4,265,490**
Current	806,535
Non-current	3,458,955

(In Canadian Dollars) 28

9. LEASE LIABILITIES (Continued)

The following table outlines the total contractual undiscounted real estate lease liabilities as at December 31, 2022:

	USD	CAD
2023	917,864	1,199,238
2024	830,309	1,094,843
2025	758,141	997,099
2026	559,238	732,659
2027	322,459	436,738
Thereafter	625,595	847,305
Total cash flow	**4,013,606**	**5,307,882**
Less: future interest expense	(781,502)	(1,042,392)
Total liabilities	**3,232,104**	**4,265,490**

10. DEMAND GRID NOTE

The Company has a loan of $664,394 ($490,545 USD) as at December 31, 2022 (2021 - $632,251 ($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% (2021 - 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 $40,497 ($31,116 USD) for the year ended December 31, 2022 (2021 - $31,194 ($24,879 USD)) and $51,118 ($39,270 USD) was paid. 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

The following table presents the loans payable:

	Note A (i)	Note B (ii)	Note C (iii)	Total
Balance, December 31, 2020	**475,032**	**195,922**	**36,250**	**707,204**
Interest expense	44,191	15,793	3,008	62,992
Payments	-	-	(2,014)	(2,014)
Balance, December 31, 2021	**519,223**	**211,715**	**37,244**	**768,182**
Interest expense	44,191	15,793	3,008	62,992
Payments	-	-	-	-
Balance, December 31, 2022	**563,414**	**227,508**	**40,252**	**831,174**

(i) The principal of Note A is $367,500 with an interest rate of 12% per annum, compounding semi-annually. The loan is treated as a demand loan. During the year ended December 31, 2022, the Company recorded interest expense of $44,191 (2021 - $44,191) and $nil (2021 - $nil) was paid.

(ii) The principal of Note B is $175,000 with an interest rate of 12% per annum, compounding semi-annually. The loan is treated as a demand loan. During the year ended December 31, 2022, the Company recorded interest expense of $15,793 (2021 - $15,793) and $nil (2021 - $nil) was paid.

(iii) The principal of Note C is $33,332 with an interest rate of 12% per annum, compounding semi-annually. The loan is treated as a demand loan. During the year ended December 31, 2022, the Company recorded interest expense of $3,008 (2021 - $3,008) and $nil (2021 - $2,014) was paid.

(In Canadian Dollars) 29

12. CONVERTIBLE DEBENTURES

The Company has convertible debentures with principal of $575,000 (2021 - $575,000) and accrued interest of 202,456 ($150,564) outstanding as at December 31, 2022. The convertible debentures are currently in default and are due on demand. Interest continues to accrue at 9% per annum. During the year ended December 31, 2022, the Company recorded interest expense of $51,892 (2021 - $51,892) and $nil (2021 - $nil) was paid.

13. PROMISSORY NOTES

The following table presents the loans payable:

	Note E (i)	North Tonawanda (ii)	Orchard Park (iii)	Total
Balance, December 31, 2020	**$ 1,001,990**	**$ -**	**$ -**	**$ 1,001,990**
Addition	-	440,615	-	440,615
Interest expense	7,053	4,261	-	11,314
Payments	(155,648)	(51,617)	-	(207,265)
Conversion	(853,395)	-	-	(853,395)
FX impact		3,115	-	3,115
Balance, December 31, 2021	**-**	**396,374**	**-**	**396,374**
Addition	-	-	248,021	248,021
Interest expense	-	1,017	6,075	7,092
Payments	-	(13,249)	(73,817)	(87,066)
FX impact	-	26,580	13,345	39,925
Balance, December 31, 2022	**$ -**	**$ 410,722**	**$ 193,624**	**$ 604,346**
Current portion	-	317,070	92,167	409,237
Non-current portion	**$ -**	**$ 93,652**	**$ 101,457**	**$ 195,109**

(i) 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 $853,395 resulting in the issuance of 15,067,900 common shares at $0.05 per common share.

(ii) 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). The Company has ceased payments on this promissory note starting February 2022 (Note 3).

(In Canadian Dollars) 30

13. PROMISSORY NOTES (Continued)

(iii) On January 31, 2022, SPoT Coffee International Inc. a wholly owned subsidiary of SPoT Coffee (Canada) Ltd, acquired the principal assets of a franchise café of the Company in Orchard Park ("Orchard Park") from the 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 Loan2"). Cash consisted of $6,339 CAD ($5,000 USD) with the remainder of $248,021 CAD ($195,000 USD) to be paid in monthly installments of $7,190 CAD ($5,671 USD). The VTB Loan2 bears interest at the rate of 3% per annum and has a term of three (3) years (Note 3).

The following table outlines the total contractual undiscounted promissory note liabilities as at December 31, 2022:

	North Tonawanda	Orchard Park	Total USD	Total CAD
2023	234,103.66	68,050.08	**302,154**	**409,237.00**
2024	81,427.36	68,050.08	**149,477**	**202,452.00**
2025	-	11,341.68	**11,342**	**15,362.00**
Less: future interest expense	(12,281.41)	(4,482.66)	**(16,764)**	**(22,705.00)**
Total liabilities	**303,249.61**	**142,959.18**	**446,209**	**604,346**

14. GOVERNMENT LOANS

(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.

(b) The Company 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 as of December 31, 2021. 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 was shown as other income on the Statement of Operations and Comprehensive Income (Loss) for the year ended December 31, 2021.

(c) During the year ended December 31, 2021, the Company 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 received $950,160 CAD ($749,456 USD) as of December 31, 2021. These grants are shown in other income on the Statement of Operations and Comprehensive Income (Loss) for the year ended December 31, 2021.

(d) During the year ended December 31, 2022, the Company received $10,000 (2021 - $40,000) 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. During the year ended December 31, 2022, the Company recorded the grant of $10,000 (2021 - $40,000) in other income on the Statement of Operations and Comprehensive Income (Loss).

(In Canadian Dollars) 31

15. SHARE CAPITAL

The Company is authorized to issue an unlimited number of common shares. As at December 31, 2022, the Company had 159,576,670 (December 31, 2021 – 159,576,670) 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.

(iii) On December 22, 2022, the Company received cash of $82,500 for a private placement offering of 1,650,000 common shares at $0.05 per share. The shares were issued in February 2023 (Note 25)

16. 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, 2022, the Company had Nil (December 31, 2021 – Nil) outstanding and exercisable stock options.

Warrants

	Number	Weighted-Average Exercise Price	Expiry Date
Balance at December 31, 2021	**4,550,300**	**$0.075**	May 14, 2023
Issued	-	-	
Balance at December 31, 2022	**4,550,300**	**$0.075**	

As at December 31, 2022, 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
	4,550,300		

(In Canadian Dollars) 32

16. CONTRIBUTED SURPLUS, STOCK BASED COMPENSATION AND WARRANTS (Continued)

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, 2022 was $Nil (December 31, 2021 - $75,080).

	December 31, 2022	December 31, 2021
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

17. 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, 2022			December 31, 2021		
	Officers	**Directors**	**Total**	Officers	Directors	Total
	$	**$**	**$**	$	$	$
Salaries and wages	210,185	156,308	366,493	242,000	156,000	398,000
Consulting fees		62,482	62,482	-	60,182	60,182
	210,185	**218,790**	**428,975**	242,000	216,182	458,182

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:

		December 31, 2022		December 31, 2021
Advances to related parties:				
Advances to franchisees	**$**	**1,581,234**	$	1,512,480
Advances to associated company		**509,308**		509,308
		2,090,542		2,021,788
Provision on advances to related parties		**(1,746,615)**		(1,746,615)
Advances from related parties				
Advances from a company controlled by a director		**(114,278)**		(108,533)
	$	**229,649**	$	166,640

18. 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.

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 gird 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, 2022 and December 31, 2021.

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.

(In Canadian Dollars) 34

18. FINANCIAL INSTRUMENTS (Continued)

Liquidity risk (Continued)

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

	Contractual cashflows	Less than one year	1-3 years	Greater than 3 years
December 31, 2022				
Bank Indebtedness	$ 75,558	$ 75,558	$ 0	$ 0
Accounts payable and accrued liabilities	2,942,010	2,942,010	0	0
Demand grid note	664,394	664,394	0	0
Loans payable	575,832	575,832	0	0
Convertible debentures	575,000	575,000	0	0
Promissory note payable	627,051	409,237	217814	0
Total	$ 5,459,845	$ 5,242,031	$ 217,814	$ -
December 31, 2021				
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		
Total	$ 3,978,833	$ 3,978,833	$ -	$ -

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

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, 2022 and December 31, 2021 net asset exposure to USD:

	December 31, 2022	December 31, 2021
	Total (in USD)	
Cash (bank overdraft)	$ (52,452)	$ 38,236
Accounts receivable	471,025	121,706
Prepaid expenses and other current assets	71,156	202,900
	489,729	362,842
Accounts payable and accrued liabilities	(1,167,974)	(619,332)
Net assets exposure	$ (678,245)	$ (256,490)

Based on the above exposure as at December 31, 2022, a 10% depreciation or appreciation of the U.S dollar would result in an decrease, respectively, in the net assets by $69,903 (December 31, 2021 - $25,649). Management believes the carrying values of the financial assets and liabilities listed above approximate their fair values due to their short-term nature.

(In Canadian Dollars) 35

19. ACCOUNTS RECEIVABLES

		December 31, 2022		December 31, 2021
Trade receivable	$	**137,450**	$	154,297
Government remittances		**500,543**		468,538
Receivable from gain on litigation settlement (Note 21)		**1,165,365**		-
	$	**1,803,358**	$	622,385

The receivable from gain on litigation settlement was received in February 2023 (Note 21).

20. REVENUES

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

	2022	2021
Retails sales	6,839,567	4,927,115
Commercial sales	674,735	774,419
Franchise fees	41,004	38,205
Licensing and royalty fees	466,211	483,729
	8,021,517	**6,223,468**
Revenue recognition		
Point in time	7,555,306	5,739,739
over time	466,211	483,729
	8,021,517	**6,223,468**

21. CONTINGENCY

In January 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 January 2023, the Court of appeal made a final decision, and the trial judge awarded the Company $1,027,051 in damages plus interest and costs. During the year ended December 31, 2022, the Company recorded the gain on litigation at amount of $1,324,365 and account receivable of $1,165,365. The Company received $1,273,482 in February 2023 and $50,883 in April 2023.

In January 2022, the Company filed a lawsuit against a franchisee for misrepresentation regarding the redevelopment of the building housing the location (Note 3).

22. 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, 2022:

Reportable segments	Canada	USA (Stated in CAD)	Total	Percentage of total sales
Revenue	$	$	$	
Retail sales	**–**	**6,788,093**	**6,788,093**	**85%**
Commercial sales	**–**	**671,242**	**671,242**	**8%**
Franchise fees	**–**	**41,004**	**41,004**	**1%**
Licensing and royalty fees	**–**	**521,178**	**521,178**	**6%**
Total revenue	**–**	**8,021,517**	**8,021,517**	**100%**
Non-current assets	**6,623**	**263,295**	**$269,918**	

As at December 31, 2021:

Reportable segments	Canada	USA (Stated in CAD)	Total	Percentage of total sales
Revenue	$	$	$	
Retail sales	–	4,927,116	4,927,116	79%
Commercial sales	–	774,419	774,419	12%
Franchise fees	–	38,205	38,205	1%
Licensing and royalty fees	–	483,729	483,729	8%
Total revenue	–	6,223,468	6,223,468	100%
Non-current assets	-	1,886,334	1,886,334	

23. 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:

	December 31, 2022	December 31, 2022
Net income (loss) before income taxes	(783,531)	1,058,004
Expected income tax recovery at statutory rates	(266,714)	360,171
Effect of lower tax rates in Canada	(3,189)	(170,530)
Change in deferred tax assets not recognized	218,965	(194,427)
Other	50,938	4,786
	-	$ -

(In Canadian Dollars) 37

23. INCOME TAXES (Continued)

(b) Deferred tax balances

The tax effect of temporary differences that give rise to deferred tax assets and liabilities at December 31, 2022 and 2021 are as follows:

	2022	2021
Deferred tax assets (liabilities)		
Non-capital losses	$ 3,312,489	$ 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)
	$ -	$ -

(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
2041	168,000
	12,690,205

24. 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 year ended December 31, 2022. The Company is not subject to externally imposed capital requirements.

25. SUBSEQUENT EVENTS

For the lawsuit related to SPoT Coffee Park Place Inc., the Court of appeal made a final decision. The trial judge awarded the Company $1,027,051 in damages plus interest and costs. During the year ended December 31, 2022, the Company recorded the gain on litigation at amount of $1,324,365 and account receivable of $1,165,365. The Company received $1,273,482 in February 2023 and $50,883 in April 2023 (Note 21).

In January 2022, the Company filed a lawsuit against a franchisee for misrepresentation regarding the redevelopment of the building housing the location (Note 3).

In February 2023, the Company completed a private placement offering of 1,650,000 common shares at a price of $0.05 per share for aggregate gross proceeds of $82,500, which was received in December 2022 and was recorded as shares to be issued (Note 15).

26. PRIOR YEAR RECLASSIFICATION

Certain prior year amounts on the statement of financial position have been reclassified to conform with the current year presentation.