



SPOT COFFEE (CANADA) LTD.

UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS THREE MONTHS ENDED MARCH 31, 2017 AND 2016

(In Canadian Dollars)

SPOT COFFEE (CANADA) LTD.
CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2017 AND 2016

TABLE OF CONTENTS

Notice to Reader	1
Consolidated Interim Statements of Financial Position	2
Consolidated Interim Statements of Operations, Comprehensive Loss	3
Consolidated Interim Statements of Changes in Equity	4
Consolidated Interim Statements of Cash Flows	5
Notes to Consolidated Interim Financial Statements	6 - 29

NOTICE TO READER

The accompanying consolidated interim financial statements have been prepared by the Company's management and the Company's independent auditors have not performed a review of these consolidated financial statements.

Toronto, Canada

May 30, 2017

SPOT COFFEE (CANADA) LTD.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT MARCH 31, 2017 AND 2016
(In Canadian Dollars)

2

	<u>March 31, 2017</u>	<u>December 31, 2016</u>
	\$	\$
Assets		
Current		
Cash	72,402	282,461
Accounts and other receivables	151,220	120,309
Inventories (Note 4)	142,185	128,078
Advances to related parties (Note 15)	160,730	359,719
Prepaid and other assets	165,877	172,797
	<u>692,414</u>	<u>1,063,364</u>
Property and equipment (Note 5)	1,279,256	1,363,056
Investment in associate (Note 6)	248,307	249,487
	<u>2,219,977</u>	<u>2,675,907</u>
Liabilities		
Current		
Accounts payable and accrued liabilities (Note 15)	830,048	981,238
Advances from related parties (Note 15)	174,139	241,050
Deferred revenue	108,806	136,724
Demand grid note (Note 7)	199,485	201,405
Secured promissory note (Note 8)	22,500	25,000
Current portion of finance leases (Note 9)	40,708	32,697
Current portion of long-term debt (Note 10)	1,190,939	1,186,489
Current portion of convertible debentures (Note 11)	1,235,000	1,235,000
	<u>3,801,625</u>	<u>4,039,603</u>
Finance leases (Note 9)	47,321	54,027
Deferred lease inducements (Note 22)	344,935	344,154
	<u>4,193,881</u>	<u>4,437,784</u>
Shareholders' deficit		
Equity attributable to owners of the parent		
Share capital (Note 12)	10,273,036	10,242,536
Equity reserves		
Warrants (Note 14)	717,652	717,652
Contributed surplus	2,093,172	2,093,172
Equity portion of convertible debenture (Note 11)	112,650	112,650
Accumulated other comprehensive income	1,114,132	1,044,754
Deficit	(16,096,251)	(15,869,324)
	<u>(1,785,525)</u>	<u>(1,658,560)</u>
Non-controlling interests	(188,379)	(103,317)
	<u>(1,973,904)</u>	<u>(1,761,877)</u>
	<u>2,219,977</u>	<u>2,675,907</u>

Commitments and contingency (Notes 16 and 19)

ON BEHALF OF THE BOARD

Signed "Anton Ayoub", Director

Signed "John Lorenzo", Director

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

SPOT COFFEE (CANADA) LTD.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
FOR THE THREE MONTHS ENDED MARCH 31, 2017 AND 2016
(In Canadian Dollars)

3

	Three months ended March 31, 2017	Three months ended March 31, 2016
	\$	\$
Revenues	2,152,478	2,969,850
Cost of sales	697,412	1,092,361
Gross profit	<u>1,455,066</u>	<u>1,877,489</u>
Expenses		
Salaries and wages (Note 15)	998,470	1,218,126
Share-based payments (Note 15)	-	2,689
Occupancy costs	339,657	399,260
Interest, credit card fees and bank charges	45,739	165,322
Office and general	116,678	155,928
Professional fees	36,327	35,235
Consulting (Note 15)	31,950	14,249
Travel	24,041	15,435
Depreciation	100,179	170,530
Share of gains in associate (Note 6)	(1,192)	-
	<u>1,691,849</u>	<u>2,176,774</u>
Loss before income taxes	(236,783)	(299,285)
Income tax	-	-
Net loss	<u>(236,783)</u>	<u>(299,285)</u>
Other comprehensive income		
- foreign currency translation	69,462	(205,543)
Comprehensive loss	<u>(167,321)</u>	<u>(504,828)</u>
Net income (loss) attributable to:		
Owners of the parent	(226,927)	(301,008)
Non-controlling interests	(9,856)	1,723
Net loss	<u>(236,783)</u>	<u>(299,285)</u>
Loss per share attributable to owners of the parent – basic and diluted	<u>(0.002)</u>	<u>(0.003)</u>
Weighted average number of shares outstanding	<u>115,702,337</u>	<u>92,426,837</u>

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

SPOT COFFEE (CANADA) LTD.
CONSOLIDATED STATEMENTS OF CHANGES IN DEFICIT
FOR THE THREE MONTHS ENDED MARCH 31, 2017 AND 2016
(In Canadian Dollars)

4

	Deficiency Attributable to Owners of the Parent						Non-controlling interest	Total Deficiency
	Share Capital	Equity Reserve	Equity portion of Convertible Debenture	AOCI	Deficit	Total		
	\$	\$	\$	\$	\$	\$	\$	\$
Balance - December 31, 2015	9,518,701	2,435,926	112,650	782,214	(15,679,349)	(2,829,858)	423,517	(2,406,341)
Net loss					(301,008)	(301,008)	1,723	(299,285)
Share-based payments		2,689				2,689		2,689
Other comprehensive income				(205,543)		(205,543)	43,402	(162,141)
Balance - March 31, 2016	9,518,701	2,438,615	112,650	576,671	(15,980,357)	(3,333,720)	468,642	(2,865,078)
Balance - December 31, 2016	10,242,536	2,810,824	112,650	1,044,754	(15,869,324)	(1,658,560)	(103,317)	(1,761,877)
Net loss					(226,927)	(226,927)	(9,856)	(236,783)
Options exercised	30,500					30,500		30,500
Other comprehensive income				69,378		69,462	(75,206)	(5,744)
Balance - March 31, 2017	10,273,036	2,810,824	112,650	1,114,132	(16,096,251)	(1,785,525)	(188,379)	(1,973,904)

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

SPOT COFFEE (CANADA) LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2017 AND 2016
(In Canadian Dollars)

5

	Three months ended March 31, 2017	Three months ended March 31, 2016
Operating activities		
Net loss	\$ (236,783)	\$ (299,285)
Adjustments for:		
Depreciation	100,179	170,530
Accretion of convertible debenture	10,451	49,959
Share of losses in associate	(1,192)	-
Rent inducement	781	(20,677)
Share-based payments	-	2,689
	<u>(126,564)</u>	<u>(96,784)</u>
Changes in non-cash working capital items		
Accounts and other receivables	(30,911)	(9,563)
Inventories	(14,107)	17,078
Prepaid and other assets	6,920	(36,669)
Accounts payable and accrued liabilities	(218,101)	293,083
Deferred revenue	-	(77,029)
Total cash outflows from operating activities	<u>(382,763)</u>	<u>90,116</u>
Investing activities		
Purchases of property and equipment	(29,567)	(30,391)
Total cash inflows (outflows) from investing activities	<u>(29,567)</u>	<u>(30,391)</u>
Financing activities		
Repayment of secured promissory note	(2,500)	(27,500)
Repayment of long-term debt	(16,808)	(15,023)
Advances to related party	133,383	60,152
Stock options exercised	30,500	-
Total cash inflows from financing activities	<u>144,575</u>	<u>17,629</u>
Effect of exchange rate changes on cash	<u>57,696</u>	<u>(99,406)</u>
Change in cash	(210,059)	(22,052)
Cash, beginning of the period	<u>282,461</u>	<u>29,133</u>
Cash, end of the period	<u>\$ 72,402</u>	<u>\$ 7,081</u>

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

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.

SPoT 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 entered into an agreement for its first franchise cafe in Hamburg, New York in July 2015, and its second franchise café in Kenmore, New York in February 2016.

The Company is incorporated under the *Business Corporations Act* (Ontario). The Company’s shares are listed on the Toronto Venture Stock Exchange under the Symbol “SPP”. The head office, principal address and records office of the Company are located at 141 Adelaide Street West, Suite 110, Toronto, Ontario, M5H 3L5.

The consolidated financial statements of the Company have been prepared by management on the assumption that the Company will continue as a going concern which presumes that it will be able to realize its assets and discharge its obligations in the normal course of business for the foreseeable future. However, material uncertainty related to conditions and events exist which may cast significant doubt on the Company’s ability to continue as a going concern, which include current operating losses, working capital deficiencies and negative cash flows from operations. Management believes that the future success of the Company depends primarily upon its ability to raise future capital to implement its comprehensive business plan. While the Company is using its best efforts to achieve its business plans by exploring further financing opportunities, there is no assurance that the Company will be successful in obtaining acceptable financing. These consolidated financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary in the event that the Company is unable to continue as a going concern. Such adjustments could be material.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of Compliance

These unaudited interim financial statements have been prepared in accordance with International Accounting Standard (IAS) 34, *Interim Financial Reporting*, using the same basis of presentation and accounting policies as described in the Company’s audited financial statements for the year ended December 31, 2016. These financial statements should be read in conjunction with the Company’s audited financial statements for the year ended December 31, 2016 which 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 30, 2017.

(b) Basis of Presentation

These financial statements were prepared under the historical cost basis.

(c) Functional and Presentation Currency

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Basis of Consolidation

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

Subsidiaries are entities controlled by the Company. The 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.

(e) Critical Accounting Estimates and Judgments

The preparation of 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 year. Actual results may differ from these estimates.

Certain estimates, such as those related to valuation of inventories, 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 financial statements in future periods.

The key sources of estimation uncertainty at the balance sheet date, which have a significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year, 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 judgement. 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.

Impairment of Depreciable Assets

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Critical Accounting Estimates and Judgments (Continued)

Impairment of Depreciable Assets (Continued)

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, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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 recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Share-based Payments

Under the Company's stock option plan, all stock options granted have graded vesting periods and exercisable up to five years 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 taking into account the terms and conditions upon which the options were granted, the estimated volatility, estimated risk-free rate 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.

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. Actual results, however, may vary due to a variety of factors including technical obsolescence.

Valuation of Convertible Debentures

The convertible debentures were separated into their liability and equity components or derivative liability component at the date of issue, in accordance with the substance of the contractual agreements. The conversion options require an estimation of the fair value of a similar liability that doesn't have an associated equity component by using a suitable discount rate at initial recognition and each extension date. The carrying amount of the conversion options is then determined by deducting the fair value of the financial liability from the fair value of the convertible debenture as a whole.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Critical Accounting Estimates and Judgments (Continued)

Valuation of Stock Options and Warrants

The warrants attached with common shares and stock options require an estimation of the fair value at initial recognition. Management uses the Black-Scholes option pricing model to estimate the fair value of stock options and warrants.

(f) Other Significant Accounting Policies

Loss per Share

Basic loss per share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding during the year. Diluted loss per share is computed giving effect to the potential dilution that would occur if securities or other contracts to issue common shares were exercised or converted to common shares using the treasury stock method, except when their effect would be anti-dilutive.

Inventories

Inventories are valued initially at cost and subsequently at the lower of cost and net realizable value. 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 is recognized when persuasive evidence of an arrangement exists, delivery occurs, the sales price is fixed or determinable and collectability is reasonably assured.

Retail sales

Retail sales are recognized when payment is tendered at the point of sale. 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 title and risk have been transferred to the customer.

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. The performance obligations for franchise revenues are satisfied at a point in time. The franchise revenues are recognized when the performance obligations are satisfied and collection is reasonably assured.

Licensing and royalty fees

The Company charges its franchisees a usage-based licensing fee in exchange for the right of using Spot Coffee's brand name. The performance obligations are satisfied over time, and the licensing revenues are recognized over time when earned and collection is reasonably assured.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Other Significant Accounting Policies (Continued)

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, including appropriate borrowing costs.

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.

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 year 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 net income 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
Vehicle	- 5 years

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Other Significant Accounting Policies (Continued)

Leased Assets

IAS 17, *Leases*, requires the Company to classify a lease to be a finance lease or operating lease based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred. An operating lease is a lease if it does not transfer substantially all the risks and rewards incidental to ownership. Risks include the possibilities of losses from idle capacity or technological obsolescence and of variations in return because of changing economic conditions. Rewards may be represented by the expectation of profitable operation over the asset's economic life and of gain from appreciation in value or realization of a residual value.

For finance leases, at the commencement of the lease term, the Company shall recognize finance leases as assets and liabilities in their statements of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. The discount rate to be used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease, if this is practicable to determine; if not, the Company's incremental borrowing rate shall be used. Any initial direct costs of the Company are added to the amount recognized as an asset.

Initial direct costs are often incurred in connection with specific leasing activities, such as negotiating and securing leasing arrangements. The costs identified as directly attributable to activities performed by the lessee for a finance lease are added to the amount recognized as an asset.

Subsequent measurement

Minimum lease payments shall be apportioned between the finance charge and the reduction of the outstanding liability. The finance charge shall be 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 shall be charged as expenses in the periods in which they are incurred.

A finance lease gives rise to depreciation expense for depreciable assets as well as finance expense for each accounting period. The depreciation policy for depreciable leased assets shall be consistent with that for depreciable assets that are owned, and the depreciation recognized shall be calculated in accordance with IAS 16, *Property, Plant and Equipment* and IAS 38, *Intangible Assets*. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset shall be fully depreciated over the shorter of the lease term and its useful life.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Other Significant Accounting Policies (Continued)

Disposal of Subsidiary

When a disposal of a subsidiary occurs or is planned, the Company will consider *IFRS 5, Non-current assets held for sale and discontinued operations*. If the subsidiary is available for its immediate sale in its present condition and its sale is highly probable, it is classified as “held for sale”. A subsidiary classified as held for sale is carried at the lower of the carrying amount and fair value less costs to sell, and presented separately on the face of the balance sheet. The Company will cease recording depreciation on property and equipment in the subsidiary is held for sale.

The date of disposal of a subsidiary is the date on which control passes. The consolidated statements of operations includes the results of a subsidiary up to the date of disposal and the gain or loss on disposal is the difference between the carrying amount of the net assets and the proceeds of sale.

When the Company disposes of a partial interest in a subsidiary in which the Company retains control, the Company applies *IFRS 10, Consolidated financial statements*. The Company will recognize the gain or loss on the partial disposal in the consolidated statements of operations and present non-controlling interests in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent. Changes in the Company’s ownership interest in a subsidiary that do not result in the Company losing control of the subsidiary are equity transactions.

A partial disposal of an interest in a subsidiary in which the parent company loses control creates a gain or loss on the entire interest. If the Company loses control of a subsidiary, the Company derecognises the assets and liabilities of the former subsidiary from the consolidated financial statements at their carrying amounts, and derecognizes the carrying amount of any non-controlling interest. The Company recognises the fair value of the proceeds and recognizes any retained non-controlling investment in the former subsidiary at its fair value. The difference between the carrying value of the entire interest which is the carrying value of the subsidiary net of the carrying value of non-controlling interest, and fair value of proceeds plus the fair value of retained investment, is recognized as a gain or loss in the consolidated statements of operations.

Where the Company loses control of a subsidiary, the retained non-controlling investment will be recorded as investment in associate using the equity method, if the Company has significant influence over the subsidiary and *IFRS 28, Investment in associates and joint ventures* applies. If the Company does not have significant influence over the subsidiary, the retained non-controlling investment will be recorded as a financial asset in accordance with *IFRS 9, Financial instruments*.

The Company applies *IFRS 5* to an investment or a portion of an investment in an associate or a joint venture that meets the criteria to be classified as held for sale. Any retained portion of an investment in an associate that has not been classified as held for sale shall be accounted for using equity method until disposal of the portion that is classified as held for sale takes place. After the disposal takes place, the Company accounts for any retained interest in the associate in accordance with *IFRS 9*, unless the retained interest continues to be an associate or a joint venture, in which case the entity uses the equity method.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Other Significant Accounting Policies (Continued)

Investment in Associate

An investment in associate is accounted for using the equity method from the date on which the subsidiary becomes an associate. An associate is an entity over which the Company has significant influence, but not control, over financial and operating policy decisions. Under the equity method the investment in an associate is initially recognised at cost on date of acquisition. Subsequently the carrying amount of investment is increased or decreased to recognise the Company's share of the profit or loss of the associate and eliminate gains and losses resulting from upstream and downstream sales to the extent of the Company's share. Additionally any distributions received from the associate are adjusted against the carrying amount of the investment.

If the Company loses control through disposal of a subsidiary, but retains significant influence, on disposal date the retained non-controlling investment is recognized at fair value determined by disposal of ownership in the subsidiary.

When the Company's share of losses of an associate or a joint venture equals or exceeds its interest in the associate or joint venture, the Company discontinues recognising its share of further losses. The interest in an associate or a joint venture is the carrying amount of the investment in the associate or joint venture determined using the equity method together with any long-term interests that, in substance, form part of the Company's net investment in the associate or joint venture.

After the Company's interest is reduced to zero, additional losses are provided for, and a liability is recognised, only to the extent that the entity has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture. If the associate or joint venture subsequently reports profits, the entity resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

The carrying amount of the investment in associate is tested for impairment as a cash generate unit by comparing its recoverable amount with the carrying value of investment to determine if an impairment loss needs to be recognized against the carrying value of the investment. A reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

Financial Instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument. The classification of financial assets and liabilities depends on the nature and purpose of the financial assets or liabilities and is determined at the time of initial recognition.

Financial assets and financial liabilities are measured initially at fair value plus directly attributable transaction costs, except for financial assets and financial liabilities carried at fair value through profit or loss ("FVTPL"), which are measured initially at fair value.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Other Significant Accounting Policies (Continued)

Financial Instruments (Continued)

Financial assets and financial liabilities are measured subsequently depending on their classification as discussed below.

Financial Assets

The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

a) Fair value through profit or loss ("FVTPL") – This category comprises financial assets held for trading and assets designated upon initial recognition as FVTPL. Financial assets held for trading are acquired or incurred principally for the purpose of selling or repurchasing in the near term. On initial recognition it is part of a portfolio of identifiable financial instruments managed together for which there is evidence of a recent pattern of short-term profit taking, or a derivative (excluding a derivative used for hedging). FVTPL are carried in the statement of financial position at fair value with changes in fair value recognized in the statement of comprehensive loss for the year.

b) Loans and receivables – Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are recognized initially at the amount expected to be received, less, when material, a discount to reduce loans and receivables to fair value. Subsequently, loans and receivable are measured at initial measurement less any allowance for doubtful accounts.

c) Held-to-maturity investments – Non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, the amount of the impairment loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows discounted at the Company's original effective interest rate. The impairment losses are recognized in the statement of comprehensive loss.

d) Available-for-sale – Non-derivative financial assets designated as available-for-sale and financial assets that are not classified as loans and receivables, held to maturity investments or FVTPL. Available-for-sale are carried at fair value with changes in fair value recognized in other comprehensive income. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment other than temporary, the amount of the loss is removed from the other comprehensive income and recognized in the statement of comprehensive loss.

All financial assets except for those recorded at fair value through profit or loss and as available-for-sale are subject to review for impairment. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Other Significant Accounting Policies (Continued)

Financial Instruments (Continued)

Financial liabilities

The Company classifies its financial liabilities into one of two categories depending on the purpose for which the liability was assumed. The Company's accounting policy for each category is as follows:

a) FVTPL – This category comprises financial liabilities held for trading and liabilities designated upon initial recognition as FVTPL. FVTPL liabilities are carried in the statement of financial position at fair value with changes in fair value recognized in the statement of comprehensive loss for the period.

b) Other financial liabilities – All other financial liabilities except financial liabilities FVTPL.

Classification of financial instruments

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).

The classification of a financial instrument in the fair value hierarchy is based upon the lowest level of input that is significant to the measurement of fair value.

The Group's financial instruments consist of the following:

Financial Instrument	Classification	Measurement
Cash	FVTPL	Fair value
Accounts and other receivables	Loans and receivables	Amortized cost
Advances to related parties	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Advances from related parties	Other financial liabilities	Amortized cost
Demand grid note	Other financial liabilities	Amortized cost
Secured promissory note	Other financial liabilities	Amortized cost
Finance leases	Other financial liabilities	Amortized cost
Long-term debt	Other financial liabilities	Amortized cost
Convertible debentures	Other financial liabilities	Amortized cost

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Other Significant Accounting Policies (Continued)

Financial Instruments (Continued)

The fair value of cash, accounts and other receivables, advances to related parties, accounts payable and accrued liabilities, demand grid note, secured promissory note, finance leases, long-term debt and convertible debentures approximates their carrying values due to their short-term nature.

As of December 31, 2016 and 2015, except for cash, none of the Company's financial instruments are recorded at fair value in the consolidated statement of financial position. Cash is classified as Level 1.

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/income.

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted by the year-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 proceeds related to common share warrants are estimated based on the grant date estimated fair value of the warrants as 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 graded vesting period and exercisable up to five years 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 taking into account the terms and conditions upon which the options were granted, the estimated volatility, estimated risk-free rate and estimated forfeitures.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Other Significant Accounting Policies (Continued)

Share-based Payments (Continued)

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.

Convertible debentures

The Company's convertible debentures are segregated into their debt and equity components or derivative liability 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 of 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 as a whole 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 as a whole. No gain or loss arises from initially recognizing the components of the instrument separately.

If the conversion feature does not meet the fixed for fixed criteria, the conversion option will be recorded as derivative financial liability, which must be separately accounted for at fair value on initial recognition. The carrying amount of the debt component, on initial recognition, is recalculated as the difference between the proceeds of the convertible debentures as a whole and the fair value of the derivative financial liabilities. Subsequent to initial recognition, the derivative financial liability is re-measured at fair value at the end of each reporting period with changes in fair value recognized in the statement of operation for each reporting period, while the debt 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 or derivative liability 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; cost allocated to the derivative financial liability component are expensed; 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.

Leases

IAS 17 Leases requires to classify the lease to be a finance lease or operating lease based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred. An operating lease is a lease if it does not transfer substantially all the risks and rewards incidental to ownership. Risks include the possibilities of losses from idle capacity or technological obsolescence and of variations in return because of changing economic conditions. Rewards may be represented by the expectation of profitable operation over the asset's economic life and of gain from appreciation in value or realization of a residual value.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Other Significant Accounting Policies (Continued)

Other comprehensive income (loss)

Other comprehensive income (loss) is the change in shareholders' equity (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

Functional currency

The consolidated financial statements are presented in Canadian dollars, which is the parent's functional and presentation 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.

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 income, 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 income. 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 income. On disposition or partial disposition of a foreign operation, the cumulative amount of related exchange difference in other comprehensive income is recognized within profit or loss.

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.

Deferred Lease Inducements

Deferred lease inducements consist of lease incentive funds received from lessors. All incentives for the agreement of a new or renewed operating lease have been recognized as an integral part of the consideration agreed for the use of the leased asset, irrespective of the incentive's nature or form or the timing of payments. The Company recognizes the lease inducements as a reduction of rental expense over the lease term, on a straight-line basis.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) New and Amended Standards and Interpretations

IFRS 9 Financial Instruments ("IFRS 9")

IFRS 9, *Financial Instruments* was issued in November 2009 as the first step in its project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 introduces new requirements for classifying and measuring financial assets that must be applied starting January 1, 2018, with early adoption permitted.

IFRS 15 Revenue from Contracts with Customers ("IFRS 15")

IFRS 15 specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers. IFRS 15 was issued in May 2014 and applies to an annual reporting period beginning on or after January 1, 2018, with early adoption permitted.

IFRS 16, Leases ("IFRS 16")

IFRS 16 was issued in January 2016, and replaces IAS 17 *Leases*. IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Certain leases will be exempt from these requirements. The most significant effect expected of the new requirements will be an increase in lease assets and financial liabilities for lessees with material off-balance sheet leases. IFRS 16 is required for annual periods beginning on or after January 1, 2019 with early adoption permitted.

The Company is in the process of assessing the impact that the new standards will have on its consolidated financial statements and has not adopted any of the new requirements.

SPOT COFFEE (CANADA) LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2017 AND 2016
(In Canadian Dollars)

3. SUBSIDIARIES

Name	% Ownership	Functional currency	Location
Spot Coffee International Inc.	100%	US Dollars	Buffalo, New York State
Spot Coffee Buffalo Inc., operates two cafés known as the Spot Elmwood and Spot Delaware cafés	100%	US Dollars	Buffalo, New York State
Spot Coffee Transit Inc., operates café known as the Spot Transit café	100%	US Dollars	Buffalo, New York State
Spot Coffee Hertel Inc., operates café known as the Spot Hertel café	25%	US Dollars	Buffalo, New York State
Spot Coffee Saratoga LLC, operates café known as the Spot Saratoga Springs café	60%	US Dollars	Saratoga Springs, New York State
Valshire Spot Inc., operates café known as the Spot Valshire café	100%	US Dollars	Rochester, New York State
Spot Coffee Glen, LLC, operates café known as the Spot Glen Falls café	100%	US Dollars	Glens Falls, New York State
Hot Spot Concord Place Inc., operated café known as the Spot Hot Spot café which closed down in September 2014	100%	Canadian Dollars	Toronto, Ontario
Spot Coffee Park Place Inc., operated café known as the Spot Park Place café which closed down in May 2013	100%	Canadian Dollars	Toronto, Ontario

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 quarter ended March 31, 2017 amounted to \$469,369 (2016 - \$542,359) which is included in the cost of sales in the consolidated statements of operations and comprehensive loss.

	2017		2016	
Raw Materials	\$	46,291	\$	28,113
Finished Goods		95,894		99,965
	\$	142,185	\$	128,078

SPOT COFFEE (CANADA) LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2017 AND 2016
(In Canadian Dollars)

21

5. PROPERTY AND EQUIPMENT

	Computer equipment and software	Furniture and fixtures	Machinery and equipment	Leasehold Improvements	Vehicles	Assets Under Finance Leases			Total
						Machinery and equipment	Furniture And Fixtures	Leasehold Improvements	
Cost									
Balance as of December 31, 2015	373,336	600,595	1,503,465	4,001,546	89,444	99,667	-	90,825	6,758,878
Additions	4,674	13,093	36,003	18,972	-	13,327	26,844	-	112,913
Disposal of subsidiary	(78,203)	(137,317)	(332,014)	(1,235,137)	-	-	-	(13,061)	(1,795,732)
Impact of foreign exchange	(10,084)	3,902	(54,368)	(28,765)	(2,668)	2,354	-	(2,710)	(92,339)
Balance as of December 31, 2016	289,723	480,273	1,153,086	2,756,616	86,776	115,348	26,844	75,054	4,983,720
Additions	4,954	3,230	5,914	4,110	-	11,329	-	-	29,567
Impact of foreign exchange	(2,424)	(21,943)	67	(116,060)	(828)	(6,378)	(256)	(715)	(148,672)
Balance as of March 31, 2017	292,283	461,560	1,158,933	2,644,666	85,946	120,299	26,588	74,339	4,864,615
Accumulated depreciation and impairment losses									
Balance as of December 31, 2015	294,402	481,636	1,178,627	2,317,161	36,508	39,426	-	12,025	4,359,785
Depreciation	38,718	42,479	143,156	317,764	10,773	22,762	3,118	7,404	586,174
Disposal of subsidiary	(71,804)	(102,634)	(281,010)	(854,415)	-	-	-	(980)	(1,310,843)
Impact of foreign exchange	(7,858)	7,169	(37,525)	25,791	(944)	(868)	42	(259)	(14,452)
Balance as of December 31, 2016	253,458	428,650	1,003,248	1,806,301	46,337	61,320	3,160	18,190	3,620,664
Depreciation	6,286	1,899	27,216	52,859	2,689	6,058	1,322	1,849	100,179
Impact of foreign exchange	(2,182)	(21,132)	(3,944)	(106,999)	(442)	(585)	(30)	(171)	(135,484)
Balance as of March 31, 2017	257,562	409,417	1,026,522	1,752,161	48,584	66,793	4,452	19,868	3,585,359
Net Book Value									
At December 31, 2015	78,934	118,959	324,838	1,684,385	52,936	60,241	-	78,800	2,399,093
At December 31, 2016	36,265	51,623	149,838	950,315	40,439	54,028	23,684	56,864	1,363,056
At March 31, 2017	34,721	52,143	132,411	892,505	37,363	53,506	22,136	54,471	1,279,256

Certain property and equipment are pledged as security for the secured subordinated note (see Note 10). All property and equipment are pledged as security to the secured promissory note and convertible debentures (see Notes 8 and 11).

6. GAIN ON DISPOSAL OF SUBSIDIARIES

	<u>2016</u>
Gain on disposal of Williamsville Spot Inc. (a)	\$ 546,501
Gain on disposal of Spot Coffee Hertel Inc. (b)	416,712
	<u>963,214</u>

a) Disposal of investment in Williamsville Spot Inc. ("Williamsville")

As at December 31, 2014, the Company owned a 100% interest in Williamsville. On January 1, 2015, the Company disposed of a 33% interest in Williamsville for proceeds of \$346,000 (USD \$250,000) to non-controlling interests. A gain of \$247,495 was recorded for the year ended December 31, 2015. 33% of the loss from Williamsville, amounted to \$5,337, has been recorded as non-controlling interest during the year ended December 31, 2015.

On June 30, 2016, the Company disposed of the remaining 67% interest in Williamsville for total proceeds of \$673,364 (USD \$501,500), which included \$402,810 (USD \$300,000) cash and \$270,554 (USD \$201,500) accounts payable and loans. A gain of \$546,501 was recorded in the consolidated statements of operations during the year ended December 31, 2016. 67% of the loss from Williamsville, amounted to \$20,990 for the period from January 1, 2016 to June 30, 2016 and has been recorded as non-controlling interest during the year ended December 31, 2016.

B) Disposal of investment in Spot Coffee Hertel Inc. ("Hertel")

As at December 31, 2015, the Company owned a 60% interest in Hertel. On November 11, 2016, the Company disposed of a 35% interest in Hertel for total proceeds of \$352,458 (USD \$262,500). During the year ended December 31, 2015, the Company recognized a gain on disposal of \$416,712, in which \$173,649 is the gain from the 25% retained non-controlling investment in Hertel, and \$243,063 is the gain from the 35% interest disposed.

Subsequent to the disposal of Hertel, the Company owns a 25% interest in Hertel. The retained non-controlling investment was recorded at fair value in the amount of \$251,756 (USD \$187,500) as investment in associate using the equity method of accounting. From the date of disposal to year ended December 31, 2016, the Company recognized \$2,239 as its share of losses from the associate and a reduction in the investment.

c) Changes in non-cash working capital of subsidiaries disposed of

	Hertel	Williamsville	Total
Assets			
Inventories	\$ 14,030	\$ 11,454	\$ 25,484
Advances to related parties	80,195	-	80,195
Prepaid and sundry	13,681	10,734	24,415
Property and equipment	235,876	190,699	426,575
Total Assets	343,782	212,887	556,669
Liabilities			
Accounts payable and accrued liabilities	40,534	132,189	172,723
Deferred revenue	35,386	32,006	67,392
Advance from related parts	-	325,277	325,277
Finance leases	-	5,885	5,885
Deferred lease inducements	6,356	33,324	39,680
Total Liabilities	82,276	528,681	610,957
Net assets (liabilities)	\$ 261,506	\$ (315,794)	\$ 54,288

7. DEMAND GRID NOTE

The Company has a loan of \$199,485 (USD \$150,000) from KeyBank (formerly First Niagara Bank, N.A.) in the form of a Demand Grid Note. The Demand Grid Note bears interest at the KeyBank prime rate plus 1.25% and interest is payable monthly in arrears on the first day of each consecutive month. The Company recorded interest expense of \$2,946 for the quarter ended March 31, 2017 (2016 - \$3,035).

8. SECURED PROMISSORY NOTE

The Company has a short-term secured promissory note to fund working capital in connection with the operating of its new cafés. The maximum available amount is \$300,000 and bears interest at the rate of 12% per annum, payable at maturity. The loans are for a term of 90 days, with the Company retaining the right to renew the loans for an additional term. As at March 31, 2017, the Company borrowed \$22,500 (2016 - \$25,000) and is due on demand.

All property and equipment disclosed in note 5 are pledged as security for the secured promissory notes. The secured promissory notes are due to certain shareholders of the Company.

9. FINANCE LEASES

Finance leases relate to café equipment and fixtures with a net carrying amount \$88,029 (2016 - \$86,724) and lease terms of 36 months payable in monthly installments in advance. The Company classified the leases as finance leases because the rental periods are the estimated useful economic life of the assets concerned and the Company has the right to purchase the assets outright at the end of the minimum lease term by paying a nominal amount of two month lease payments. The Company's obligations under finance leases are secured by the lessor's title to the leased assets.

The interest rates are fixed at contract dates and the fair value of the finance lease liabilities approximated carrying value.

10. LONG-TERM DEBT

- (i) On July 29, 2011, the Company closed a \$750,000 financing in the form of secured subordinated note ("Note 1") with 1,500,000 detachable 5-year common share purchase warrants at an exercise price of \$0.18 per share. Note 1 has a 5-year term and semi-annual coupon equivalent to 9% annualized interest on the principal amount. There is no prepayment option in year 1. In year 2, a prepayment of the balance can be made subject to a prepayment penalty of 10% of the prepayment amount. During year 3 the prepayment penalty is 5% of the prepayment amount. There is no prepayment penalty after year 3.
- (ii) On April 20, 2012, the Company closed a \$250,000 financing in the form of secured subordinated note ("Note 2") with 500,000 detachable 5-year common share purchase warrants at an exercise price of \$0.25 per share. Note 2 has a 5-year term and semi-annual coupon equivalent to 9% annualized interest on the principal amount. There is no prepayment option in year 1. In year 2, a prepayment of the balance can be made subject to a prepayment penalty of 10% of the prepayment amount. During year 3 the prepayment penalty is 5% of the prepayment amount. There is no prepayment penalty after year 3. The fair value of Note 2 was determined at the time of issue as the difference between the \$250,000 and the discounted cash flows assuming a 15.7% rate. The valuation allocation of the warrants amounted to \$53,000.

10. LONG-TERM DEBT (Continued)

- (iii) On July 17, 2012, the Company closed a \$280,000 financing in the form of secured subordinated note ("Note 3") with 560,000 detachable 5-year common share purchase warrants at an exercise price of \$0.25 per share. Note 3 has a 5-year term and semi-annual coupon equivalent to 9% annualized interest on the principal amount. There is no prepayment option in year 1. In year 2, a prepayment of the balance can be made subject to a prepayment penalty of 10% of the prepayment amount. During year 3 the prepayment penalty is 5% of the prepayment amount. There is no prepayment penalty after year 3. The fair value of Note 3 was determined at the time of issue as the difference between the \$280,000 and the discounted cash flows assuming a 15.7% rate. The valuation allocation of the warrants amounted to \$60,000.
- (iv) On October 11, 2012, the Company closed a \$200,000 financing in the form of secured subordinated note ("Note 4") with 400,000 detachable 5-year common share purchase warrants at an exercise price of \$0.25 per share. Note 4 has a 5-year term and semi-annual coupon equivalent to 9% annualized interest on the principal amount. There is no prepayment option in year 1. In year 2, a prepayment of the balance can be made subject to a prepayment penalty of 10% of the prepayment amount. During year 3 the prepayment penalty is 5% of the prepayment amount. There is no prepayment penalty after year 3. The fair value of Note 4 was determined at the time of issue as the difference between the \$200,000 and the discounted cash flows assuming a 15.7% rate. The valuation allocation of the warrants amounted to \$42,000.

11. CONVERTIBLE DEBENTURES

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

The convertible debentures were initially recorded according to their respective liability and equity components as follows: liability component of \$1,229,439 and conversion option equity component of \$112,650. The liability portion of the debentures was recorded at the present value of the expected future principal and interest cash flows using a discount rate of 15%. The value of the equity component is the difference between the present value of the liability component of the convertible debenture and the total proceeds from the issue of convertible debenture, and has been included as components of shareholders' deficiency.

All property and equipment disclosed in note 5 are pledged as security to the convertible debentures. The convertible debentures are due to certain shareholders of the Company.

Also see Note 29.

12. SHARE CAPITAL

The Company is authorized to issue an unlimited number of common shares. As at March 31, 2017, the Company had 116,312,337 common shares issued and outstanding.

- (i) On July 23, 2015, the Company closed its first tranche of non-brokered private placement of 7,500,000 units at a price of \$0.05 per unit for total gross proceeds of \$375,000. Each unit consists of one common share of SPoT and one half common share purchase warrant. Each warrant entitles the holder to acquire one additional common share at a price of \$0.075 for a period of four years from closing. The value of warrants in the amount of \$82,000 was estimated using the Black-Scholes option pricing model with the following assumptions: expected dividend yield 0%; expected volatility of 131%; risk free interest rate of 0.79%; and expected life of 4 years. Share issue costs of \$3,375 were incurred in relation to this private placement.

12. SHARE CAPITAL (Continued)

- (ii) On December 14, 2015, the Company closed its second tranche of non-brokered private placement of 5,500,000 units at a price of \$0.05 per unit for total gross proceeds of \$275,000. Each unit consists of one common share of SPoT and one half common share purchase warrant. Each warrant entitles the holder to acquire one additional common share at a price of \$0.075 for a period of four years from closing. The value of warrants in the amount of \$109,252 was estimated using the Black-Scholes option pricing model with the following assumptions: expected dividend yield 0%; expected volatility of 135%; risk free interest rate of 0.79%; and expected life of 4 years.
- (iii) On June 30, 2016, the Company completed a private placement of 14,146,600 units at a price of \$0.05 per unit for total gross proceeds of \$707,330, and a further issuance of 848,900 units for the settlement of \$42,445 in services provided to the Company. Each unit consists of one common share of SPoT and one half common share purchase warrant. Each warrant entitles the holder to acquire one additional common share at a price of \$0.075 for a period of four years from closing. The value of warrants in the amount of \$219,600 was estimated using the Black-Scholes option pricing model with the following assumptions: expected dividend yield 0%; expected volatility of 148%; risk free interest rate of 0.57%; and expected life of 4 years. Share issue costs of \$57,610 were incurred in relation to this private placement.
- (iv) On November 24, 2016, the Company completed a private placement of 8,280,000 units at a price of \$0.06 per unit for total gross proceeds of \$496,800. Each unit consists of one common share of SPoT and one half common share purchase warrant. Each warrant entitles the holder to acquire one additional common share at a price of \$0.08 for a period of four years from closing. The value of warrants in the amount of \$151,800 was estimated using the Black-Scholes option pricing model with the following assumptions: expected dividend yield 0%; expected volatility of 154%; risk free interest rate of 1%; and expected life of 4 years. Share issue costs of \$93,730 were incurred in relation to this private placement.
- (v) In March 2017, 610,000 stock options were exercised at \$0.05 per share for gross proceeds of \$30,500.

13. STOCK OPTIONS

On July 20, 2015, the Company granted of an aggregate of 1,209,994 common share options to certain directors, officers, employees and consultants of the Company, exercisable \$0.05 per share vesting in 12 equal monthly installments beginning from the date of the grant. These options expire on the earlier of their fifth anniversary date or the time the optionees cease to serve as directors, officers, employees or consultants of the Company. The fair value of these options was estimated by using the Black-Scholes options pricing model with the following assumptions: expected dividend yield 0%; expected volatility of 102%; risk free interest rate of 1.32%; and expected life of 5 years. As at March 31, 2017, 610,000 stock options were exercised for aggregate amount of \$30,500.

The expected price volatility is based on the historic volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information. The weighted average remaining contractual life of the outstanding options was 1.97 years as of March 31, 2017 (2015 - 2.22 years).

As at March 31, 2017, the Company had the following outstanding and exercisable stock options:

Expiry Date	Options Outstanding	Options Exercisable	Weighted Average Exercise Price
	#	#	\$
November 19, 2017	680,000	680,000	0.1900
January 20, 2019	4,180,000	4,180,000	0.1200
July 20, 2020	599,994	599,994	0.0500
Total	5,459,994	5,459,994	0.1210

13. STOCK OPTIONS (Continued)

The following table summarizes the stock option activity during the period ended March 31, 2017 and December 31, 2016:

	Options	Weighted Average Exercise Price
	#	\$
Balance, December 31, 2015	7,942,684	0.1259
Expired	(1,209,584)	0.1400
Expired	(663,106)	0.2100
Balance, December 31, 2016	6,069,994	0.1139
Exercised	(610,000)	0.0500
Balance, March 31, 2017	5,459,994	0.1210

The Company recorded \$nil stock-based compensation during the quarter ended March 31, 2017 (2016 - \$3,498).

14. WARRANTS

On June 30, 2016, the Company issued 7,497,750 common share purchase warrants at an exercise price of \$0.075 for a period of four years from closing. The estimated grant date fair value of these warrants were determined to be \$219,600 using Black-Scholes option pricing model with the following assumptions: expected dividend yield 0%; expected volatility of 148%; risk free interest rate of 0.57%; and expected life of four years.

On November 24, 2016, the Company issued 4,140,000 common share purchase warrants at an exercise price of \$0.08 for a period of four years from closing. The value of warrants in the amount of \$151,800 was estimated using the Black-Scholes option pricing model with the following assumptions: expected dividend yield 0%; expected volatility of 154%; risk free interest rate of 1%; and expected life of 4 years.

Summary of outstanding warrants at March 31, 2017:

Expiry Date	Exercise Price	Warrants Outstanding	Value
April 20, 2017	\$ 0.25	500,000	\$ 53,000
July 17, 2017	\$ 0.25	560,000	\$ 60,000
October 11, 2017	\$ 0.25	400,000	\$ 42,000
July 23, 2019	\$ 0.075	3,750,000	\$ 82,000
December 14, 2019	\$ 0.075	2,750,000	\$ 109,252
June 30, 2020	\$ 0.075	7,497,750	\$ 219,600
November 24, 2020	\$ 0.080	4,140,000	\$ 151,800
		19,597,750	\$ 717,652

15. RELATED PARTY TRANSACTIONS

Key management compensation

The Company entered into 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.

	Three Months Ended March 31, 2017			Three Months Ended March 31, 2016		
	Officers	Directors	Total	Officers	Directors	Total
	\$	\$	\$	\$	\$	\$
Salaries and wages	59,330	-	59,330	63,747	29,700	93,447
Consulting fees	-	43,181	43,181	-	12,000	12,000
Stock-based compensation	-	-	-	800	911	1,711
	<u>59,330</u>	<u>43,181</u>	<u>102,511</u>	<u>64,547</u>	<u>42,611</u>	<u>107,158</u>

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. Details of the transactions between the Company and other related parties are disclosed below.

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

	March 31, 2017	December 31, 2016
Advances to related parties:		
Advances to franchisees	87,572	348,977
Advances to director	-	10,742
	<u>87,572</u>	<u>359,719</u>
Advance from related parties		
Salary and wages to officers	117,992	109,298
Consulting fees to directors	6,776	34,504
Head office occupancy expenses	37,639	37,601
Advances from associate	-	59,647
	<u>162,407</u>	<u>241,050</u>

16. COMMITMENTS

The Company is committed to lease agreements for its premises. Basic rent payments of \$178,723 were included in occupancy costs for the quarter ended March 31, 2017 (2016 - \$215,681). Future minimum payments under these operating leases approximate the following:

Less than 1 year	\$	506,943
2 to 5 years		1,338,763
More than 5 years		230,288
	<u>\$</u>	<u>2,075,994</u>

17. 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

The Company's credit risk is primarily attributable to cash, accounts and other receivables and advances to related parties. Accounts receivable includes approximately \$20,731 of commodity tax credits due from the Canada Revenue Agency. The allowance for doubtful accounts is \$Nil for the quarter ended March 31, 2017 and 2016. Management believes that the credit risk concentration with respect to financial instruments included in current assets is remote.

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 bank indebtedness is subject to interest rate variability. Long-term debt bears interest at fixed interest rates. The Company monitors its exposure to interest rates annually. A 1% change in interest rates would result in a corresponding change in net loss by approximately \$Nil based on the balances subject to variable interests at March 31, 2017 and 2016.

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 at March 31, 2017, the Company had a cash balance of \$72,402 (2016 - \$282,461) and short term accounts payable and accrued liabilities of \$830,048 (2016 - \$994,749). 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 located 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.

18. CAPITAL MANAGEMENT

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support its general and administrative expenses, working capital 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 quarter ended March 31, 2017 and 2016. The Company is not subject to externally imposed capital requirements.

19. CONTINGENCY

On January 28, 2015, Spot Coffee Park Place Inc., a wholly-owned subsidiary of Spot Coffee (Canada) Ltd., entered into a lawsuit with its landlord on misrepresentation surrounding the lease agreement, which was terminated on June 1, 2013. On August 26, 2015, SPoT was successful on the motion in minimizing the security for costs payable by SPoT. The likelihood of gain cannot be reasonably estimated at this time. The landlord has made counterclaim against Spot Coffee Park Place Inc. for breach of lease contract. Management believes the likelihood of loss cannot be reasonably estimated at this time and no accrual has been made in the consolidated financial statements.

20. DEFERRED LEASE INDUCEMENTS

Deferred lease inducements consist of lease incentive funds received from landlords for each café. The renewal option for each café is as follows:

Café Name	Expiry Date	Renewal Options
Head Office Buffalo	30-Jun-2019	N/A
SPoT Central Kitchen	1-Dec-2020	N/A
SPoT Delaware	31-Dec-2019	N/A
SPoT Elmwood	1-Jan-2019	N/A
SPoT Valshire (Rochester)	1-Nov-2017	N/A
SPoT Saratoga	30-Jun-2022	10 years
Spot Transit	23-Apr-2022	10 years
SPoT Glen Falls	8-Jun-2022	10 years or 15 years

21. SUBSEQUENT EVENTS

- (i) On April 18, 2017, the Company entered into a franchise agreement with Cedarland Foods, LLC to develop a Spot Express Café in Waterfront Village located at 50 Lakefront Blvd, Buffalo, N.Y. Spot Waterfront Village is scheduled to open in the first week of July, 2017.
- (ii) On May 16, 2017, the Company announced that Curvature Market Neutral Fund and Curvature Fund LP have agreed to the Company to convert the full principal amount of \$150,000 convertible debentures into common shares of the Company at the conversion price of \$0.18 per share.