



SPoT COFFEE (CANADA) LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2022 AND 2021



This Management's Discussion and Analysis (MD&A) is intended to help the reader understand SPoT Coffee (Canada) Ltd.'s operations, financial performance, and the present and future business environment. This MD&A, which has been prepared as of November 29, 2022, should be read in conjunction with SPoT's audited consolidated financial statements for the years ended December 31, 2021 and 2020.

References to "SPoT" or "the Company" refer to SPoT Coffee (Canada) Ltd. and its share of consolidated subsidiaries and joint ventures unless the context indicates otherwise. All amounts are in Canadian dollars, unless otherwise indicated.

Securities regulators encourage companies to disclose forward-looking information to help investors understand a company's future prospects. This discussion contains statements about SPoT's future financial condition, results of operations and business.

All statements in this MD&A, other than statements of historical fact, that address future acquisitions and events or developments that SPoT expects to occur, are forward-looking statements. Although SPoT believes the expectations expressed in such forward-looking statements are based on reasonable assumptions, such statements are not guarantees of future performance and actual results or developments may differ materially from those in the forward-looking statements. Factors that could cause actual results to differ materially from those in forward-looking statements include industry-related risks, regulatory approvals, and continued availability of capital and financing and general economic, market or business conditions. Specific factors that would impact the Company's ability to execute its growth plan include, amongst others, availability of expansionary capital, potential inability to locate and secure new café sites in locations that the Company believes to be attractive, obstacles to hiring and training qualified operating personnel in the local market, delay or cancelation of new site development by developers and landlords, which may become increasingly common during periods of economic uncertainty or tight credit, difficulty managing construction and development costs of new cafés at affordable levels, particularly in competitive markets, difficulty negotiating leases with acceptable terms, any shortage of construction materials and labor or lack of availability of, or inability to obtain, adequate supplies of ingredients that meet the Company's quality standards. Except as required by applicable securities requirements, the Company undertakes no obligation to update forward-looking statements if circumstances or management estimates or opinions should change, the reader is cautioned not to place undue reliance on forward-looking statements.

This MD&A contains the term "Earnings Before Interest, Taxes, Depreciation and Amortization" ("EBITDA"), which should not be considered as an alternative to, or more meaningful than, net earnings or cash flow from operating activities as determined in accordance with International Financial Reporting Standards ("IFRS"), as an indication of the Company's performance. This term does not have a standardized meaning prescribed by IFRS and SPoT's determination of EBITDA may not be comparable to that reported by other operating companies. Management uses EBITDA, among other measures, to assess the operating performance of the ongoing business without the effect of depreciation and amortization expenses. The Company excludes depreciation and amortization expenses, accruals, and other one-time, non-recurring expenses because they largely depend on the accounting methods and assumptions a company uses, as well as non-operating factors.

Overview of the Company

SPoT Coffee (Canada) Ltd. is a Canadian hospitality company with extensive operations in the United States of America. It was incorporated on March 5, 2007, under the laws of the province of Ontario, Canada. Its head offices are located at Suite 1007, 141 Adelaide Street West, Toronto, Ontario, M5H 3L5. Effective July 24, 2009, the Company's shares commenced trading on the TSX Venture Exchange (the "TSX-V") under the symbol "SPP."



SPoT is presently engaged in the following businesses:

1. Designing, building, and operating company-owned cafés in the United States of America, each of which conform to one of two distinct models;
 - a. The SPoT café (2,500 square feet or larger).
 - b. The SPoT “Express” café (smaller than 1,500 square feet).
2. Selling franchise cafés that conform to one of the Company’s two café models.
3. Retailing packaged gourmet coffee and gift cards under the brand name “SPoT” in-store and online.

In 2014, expansion via a combination of company-owned and franchised café locations was identified as the foundation of the company’s growth strategy. The Company’s internal systems have been optimized for this approach. SPoT applied for its license to franchise locations in New York State, which remains one of the most difficult states to obtain a franchise license in 2015. The Company was granted its first franchise license by the State of New York in the same year.

The Company is now capitalizing on more than 25 years of successful brand building, operating model improvements, and franchise sales to continue expanding throughout the American northeast into new territories. These new territories include the states of Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, and Vermont.

Franchise Café Business Model

SPoT received franchise registration approval from the State of New York on February 27, 2015. The Company adopted the franchise business model after proof of concept, and after it had completed the development of the necessary infrastructure upon which it could build a successful franchise development and support program. This infrastructure includes, among other things, streamlined café operating procedures, training manuals, operating manuals, and financial reporting systems.

The franchise program has accelerated the growth of the Company throughout the states of New York and Connecticut.

The SPoT franchise model is designed around the distinguishing features of SPoT Original and Express cafés that ensure profitable operations. Management is confident that the Company can continue to expand its current company-owned and franchise café footprint throughout the northeastern United States in accordance with its established growth plan, which is outlined and summarized in the section below.

Overview of Operations

Throughout 2022, the Company’s management continued implementation of service improvements, menu optimization, new procurement and marketing programs, quality control inspections and online sales programs as SPoT’s cafés have returned to their pre-Covid 19 performance levels. The Company has continued to ensure that cleanliness and customer safety are foremost considerations at every SPoT café.

New Senior Management Staff

The onboarding of new senior executives for SPoT’s US team was a top priority for the Company throughout 2022. As of this date, all senior executive positions at the Company’s US head office have been filled by highly qualified professionals.

SPoT’s new Director of Human Resources has had a major positive impact on café operations by reducing turnover and subsequent staffing shortages. The Company’s Procurement Manager has made significant contributions to SPoT’s central kitchen outsourcing program and the associated reduction of the cost of goods sold, and the Company’s accounting department has been strengthened by the addition of an internally promoted Accounting Manager, highly qualified accounts receivable and accounts payable staff, and improved general accounting practices including regular internal audits.



SPoT COINS Loyalty Program

The Company rolled out its new customer loyalty program and has been closely monitoring and improving its functionality. The loyalty program, SPoT COINS, was developed during 2021 and was successfully launched in Q2 of this year. As the database of enrolled customers continues to expand, the Company has been carefully reviewing important data from the program including product popularity, customer product preferences by location, and the overall rate of enrollment.

Marketing Programs

Under the direction of SPoT's new Chief Marketing and Communications Officer Kevin Kuchta, SPoT online and in-store marketing campaigns designed to introduce new products and boost customer retention continue to increase customer loyalty and have a positive effect on sales. Since taking over as CMCO, Mr. Kuchta has significantly improved SPoT's social media profiles and expanded the Company's presence online via Twitter, Facebook and LinkedIn. His regular interviews with café and roastery staff have become one of the best methods for online followers of the Company to receive updates on SPoT products, seasonal promotions and special promotions for new products introduced by the procurement department.

Other New Programs

During this quarter, the Company rolled out its new Toast POS-based network marketing system for implementation across all SPoT cafés. The new system ensures that all menu changes are automatically updated throughout the entirety of SPoT simultaneously.

SPoT Deals, one of the Company's new marketing programs, has been introduced to encourage current members of SPoT COINS loyalty program to return regularly to SPoT, and to entice new guests to join, therefore increasing the Company's list of customer profiles including their contact information.

Central kitchen outsourcing has become a top priority for SPoT. Between the Company's central kitchen management and the procurement manager, significant cost savings have recently been realized, particularly on fresh baked goods and key ingredients to some of SPoT's most popular dishes.

Upcoming Programs

The introduction of Toast Kiosks to compliment SPoT's outstanding barista counter service is currently being planned for the near future, along with the introduction of Toast "Xtra Chef" inventory tracking software that will allow for even better management of both central kitchen and individual café inventories.

SPoT is also planning to undertake the digitalization of all employee files, as well as saving all important information to a secure backup, which will eliminate all paper costs and reduce the time associated with record keeping and associated paperwork. Furthermore, this upcoming digitization will allow for more detailed and reliable tracking of performance evaluations and corrective actions for record keeping of accountability and fighting unemployment claims. In addition, the questionnaire for the WOTC tax credits and eligibility will be automatically forwarded to the correct department for processing. It will manage and provide notifications for all annual events such as wage increases and compliance training. It will also automatically export vital financial data from the Toast POS into Quickbooks, which eliminates the possibility of human error during the process.

Quality Assurance

Quality, Service, and Cleanliness ("QSC") checks have continued, demonstrating SPoT's strong operating fundamentals and commitment to quality control. These inspections help strengthen the SPoT brand and reinforce brand standards. Café-level operations and guest satisfaction have improved despite challenges posed by shifting regulations and mandates.

The Company conducts regular quality control inspections at company and franchise cafés to properly evaluate compliance and consistency. QSC checks picked up in 2021 and have continued into 2022, demonstrating SPoT's strong operating fundamentals and commitment to quality control.



These inspections help strengthen the SPoT brand and reinforce brand standards. Quality control continues to be a top priority for the Company's US management team.

Best Procurement Practices

The Company continues to work with its vendors to streamline the review and purchasing process for new ingredients and menu items, and it expanded its list of potential suppliers to safeguard itself against shortfalls in order fulfillment and a lack of availability of certain products at different times due to logistics issues and supply problems.

Online Operations

The SPoT website interface was updated to display online ordering and third-party delivery service links. Commission-free links have been prominently positioned on the page to attract more guests. The Toast Online Ordering service is being continuously optimized.

Growth Plans

In addition to routine organic growth through the construction of new company-owned and operated cafés as well as new franchise location sales, the Company does not rule out expansion via acquisitions. At the present time, SPoT continues to benefit from strong regional brand recognition and is presently engaged in discussions with different parties that are interested in aiding with the growth of the Company.

Business Operations

Credit Facilities

The Company has a loan as at September 30, 2022 of \$683,567 (\$498,699 USD), (December 31, 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 1.24% (December 31, 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 \$27,134 (\$21,149 USD) for the nine month period ended September 30, 2022 (September 30, 2021 - \$14,761 (\$10,831 USD)). The loan is due upon demand and the Lender has the right to set off against and to apply to such due and payable amounts any obligations owing to, and any other funds held with KeyBank.

E-commerce/Retail

Online marketing and sales of coffee, the Company's core product, is available through its website, www.spotcoffee.com, and delivery is available throughout the United States. The Company has added new retail products to its online store and is continuing to grow its online sales.



Results of Operations

Overall Performance - September 30, 2022 vs. 2021

The Company has posted slightly lesser results in the nine-month period ending September 30, 2022 than in the 2021 period.

Net loss for the period ended September 30, 2022 was \$1,246,200 compared to net income of \$452,712 for the period ended September 30, 2021. The 2021 results were aided by SBA loan forgiveness.

Property and equipment have decreased by the depreciation taken on assets in Q3 of 2022.

The Company is reporting goodwill of \$280,165 from the purchase of the Spot Orchard Park café on March 1, 2022.

Total assets have increased by \$525,390 over 2021 due mainly to an increase in Right of Use assets and goodwill associated with the purchase of the Orchard Park café.

Accounts payables and accrued liabilities increased by \$1,273,814 during Q3 of 2022 as a slower Q1 period saw cash flows decrease and payables increase.

Current liabilities are up due to the increase in accounts payables and accrued liabilities.

Long-term debt increased over 2021 due to the assumption of a Vendor take back loan of \$195,000 USD associated with the purchase of the Spot Orchard Park café and an increase in lease liabilities because of the Orchard Park café.

Operating results – Three-month periods ended September 30, 2022 and 2021

The Company has a net loss of \$185,708 for Q3 of 2022 versus a gain of \$296,297 for the same period in 2021. This is a decrease of \$482,005 over 2021. The Company has seen its revenues increase over 2021 by \$436,203. Q3 2021 results were aided by the recognition over \$800,000 dollars in loans forgiven and debt reduction. The operating loss for Q3 2022 was higher by \$322,487 than Q3 2021. SPoT remains focused on expense control in these uncertain times and believes the continued growth of the Company will continue despite the negative impact of the pandemic.

Revenues

The Company's revenue for the three-month period ended September 30, 2022, was \$2,326,993 vs. \$1,890,790 for the same period of 2021.

The increase in revenues of \$436,203 over the same period of 2021 is due to the complete reopening of the cafés 2021 and increased spending of customers now that the pandemic has subsided and society has returned to some normalcy again. The cafés as of the date of this MD&A are operating at 100% capacity.

Cost of Sales

The Company's cost of sales for the three-month period ended September 30, 2022 were \$649,142 (September 30, 2021: \$534,903). The cost of sales represents 27.9% of the total revenue for this period (September 30, 2021: 28.3%). The rising cost of food caused by increasing inflation and the effects of the war in the Ukraine have driven up the cost of food the Company uses. The Company continues to try and reduce its costs by continually pushing its suppliers for better pricing.

For the three-month period ended September 30, 2022, the Company's gross profit amounted to \$1,677,851 (September 30, 2021: \$1,355,887). The Company's gross margins for the three-month period ended September 30, 2022 was 72.1% (September 30, 2021: 71.7%).



Operating Expenses

Salaries and wages have increased by \$162,600 for the three-month period ended September 30, 2022 over the same period of 2021. This is due to the Company receiving the Employee Retention tax credits during 2021. Salaries and wages have also increased due to the complete lifting of the COVID-19 restrictions, this in turn resulted in the full reopening of the café's with indoor and outdoor dining and resulted in the re-hiring of staff and additional staff for the cafés.

Occupancy costs have decreased by \$177,045 over 2021 solely due to the Company's transition to IFRS 16, which now mandates that all leases be capitalized. This corresponds to the increase in interest on lease liabilities and depreciation on the right-of-use assets. It includes rent, insurance, building maintenance, utilities and janitorial expenses.

Office and general expenses are the same as 2021. This corresponds to the Company maintaining strict spending controls over office expense spending. These expenses relate to supplies, maintenance, telephone and shipping expenses at the café level. SPoT continues to closely monitor its day-to-day operations at both the corporate and café level.

Professional fees have increased in 2022 over 2021. Most of the professional fees relate to public communications, legal, accounting and audit advisory expenses associated with the Company's listing requirements, operations, franchise licensing registration and café development activities.

Travel expenses are up slightly over 2021 as all café's are now open and the Company has additional senior staff that travel as part of their responsibilities.

Credit card fees and bank charges have dropped over 2021.

Depreciation costs remained relatively consistent due to capital asset purchases throughout the year. Depreciation begins when the asset is available for use and capable of operating in the manner intended by management.

Operating results – Nine month periods ended September 30, 2022 and 2021

The Company has a net loss of \$1,246,200 for Q3 of 2022 versus net income of \$452,712 for the same period in 2021. This is a 1,698,912 change over 2021 and is mainly due to the recognition in 2021 of \$1,750,000 in loans and debt forgiveness. The Company has seen its revenues increase over 2021 by over \$1,532,361. SPoT remains focused on expense control in these uncertain times and believes the continued growth of the Company will continue despite the overall negative impact of the pandemic.

Revenues

The Company's revenue for the nine-month period ended September 30, 2022, was \$5,927,583 vs. \$4,395,222 for the same period of 2021.

The increase in revenues is due to the complete reopening of the cafés starting in 2021 and the increased spending of customers now that the pandemic has subsided and society has returned to some normalcy again. The cafés as of the date of this MD&A are operating at 100% indoor sit-down capacity but still with reduced operating hours.

Cost of Sales

The Company's cost of sales for the nine-month period ended September 30, 2022 was \$1,857,323 (September 30, 2021: \$1,208,059). The cost of sales represents 31.3% of the total revenue for this period (September 30, 2021: 27.5%). The rising cost of food caused by increasing inflation and the effects of the war in the Ukraine have driven up the costs food the Company uses.



Operating results – nine-month periods ended September 30, 2022 and 2021 (Cont'd)

For the nine-month period ended September 30, 2022, the Company's gross profit amounted to \$4,070,260 (September 30, 2021: \$3,187,163). The Company's gross margins for the nine-month period ended September 30, 2022 was 68.7% (September 30, 2021: 72.5%).

Operating Expenses

Salaries and wages have increased by \$577,158 for the nine-month period ended September 30, 2022 over the same period of 2021. This increase over 2021 is due to the Company receiving the Employee Retention tax credits during 2021 resulting in a lower salaries figure. Salaries and wages have also increased due to the lifting of the COVID-19 restrictions, which resulted in the cafés reopening with indoor and outdoor dining. This resulted in the re-hiring of staff and additional staff for the cafés.

Occupancy costs have dropped over 2021 solely due to the Company's transition to IFRS 16, which now mandates that all leases be capitalized. This corresponds to the increase in interest on lease liabilities and depreciation on the right-of-use assets. It includes rent, insurance, building maintenance, utilities and janitorial expenses.

Office and general expenses are down over 2021. This decrease directly tied to the Company maintaining strict spending controls over office expense spending. These expenses relate to supplies, maintenance, telephone and shipping expenses at the café level. SPoT continues to closely monitor its day-to-day operations at both the corporate and café level.

Professional fees have increased in 2022. Most of the professional fees relate to public communications, legal, accounting and audit advisory expenses associated with the Company's listing requirements, operations, franchise licensing registration and café development activities.

Travel expenses are up over 2021 as all café's are now open and the Company has additional senior staff that travel as part of their responsibilities.

Credit card fees and bank charges are more than double in Q3 of 2022 over 2021. This increase is related to the credit card transactions which coincides with the increase in sales in 2022.

Depreciation costs remained relatively consistent due to capital asset purchases throughout the year. Depreciation begins when the asset is available for use and capable of operating in the manner intended by management.

Purchase of SPoT Orchard Park

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

Closure of SPoT North Tonawanda

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



In January of 2022 the Company determined that the café would be closed down due to misrepresentations made to the Company by the Vendor. These misrepresentations made operating a viable income-oriented café impossible by the Company. Therefore, at December 31, 2021 in conjunction with the completion of the annual audited financial statements it was determined that the equipment and goodwill acquired would be deemed to be impaired and written down to \$Nil. The VTB for the purchase of the franchise remains on the Balance sheet at December 31, 2021 until litigation that has commenced is concluded.

Also, at the time of purchase a Right-of-Use asset and liability were setup due to the building lease acquired from the Vendor. This asset was also written down, but the liability remains on the Company's Balance sheet until the litigation that has commenced by the Company against the Vendor resolves itself in court.

The total one-time impairment charge taken on the Statement of Operations and Comprehensive Income and Loss totals \$1,001,737.

Liquidity and Capital Resources

The Company started to recover from the pandemic in Q1 of 2022. The Company was severely hit by the onset of COVID-19. It was forced to shut down all of its cafés for four full months in 2020 and then could only re-open on reduced hours and take-out orders. It was not until June 2021 that indoor dining was re-introduced, and hours of operation were extended back to pre-pandemic hours.

With the help of Government relief programs, the Company was able to pass the COVID-19 acid test of the financial viability, resilience and value of the Company's café concept and business model.

SPoT is now moving forward with its business and financial plans for the years 2022-2025 to grow the Company and increase its value. In drawing up its three-year business and financial plans, the Company will be relying on the following financial resources for its liquidity and support of its growth objectives:

- a) Given all the operational improvements outlined in the COVID-19 note at the end of this MD&A, the Company has now returned to its pre-COVID-19 revenue levels and its cafés are poised to go beyond their pre-COVID-19 revenue generating capabilities.
- b) The Company received \$883,000 in from the Internal Revenue Service ("IRS") under the ERTC ("Employee Retention Tax Credit") program, a broad-based refundable tax credit designed to encourage employers to keep employees on their payroll and was recorded as a credit against salaries and wages in the Statement of Operations. This program is complete as of the end of December 31, 2021.
- c) On October 12, 2021, the Company issued a news release announcing that it has won its lawsuit against Concord Adex and in a 58-page judgement order by the Honourable Madam Justice S. Vella, SPoT was awarded operating losses of \$269,296 and damages of \$757,755 as well as interest on the damages to run from January 29, 2015, the date the claim was filed by SPoT, until such time as Concord Adex makes full payment of the damages to SPoT. Accordingly, after adding the interest and the lawyer's reasonable costs, the total amount that would be paid to the Company by Concord Adex would be approximately \$1.2 million.

Although Concord Adex has subsequently decided to appeal the judgement of the Honourable Madam Justice S. Vella, the Company feels that, considering the factual and legal basis upon which the lengthy judgement was made, Concord Adex has the lesser odds of winning the case at the Ontario Court of Appeal. The appeal was heard in September 2022 and the parties are awaiting the release of the reserved judgement.

- d) The Company also has strong financial support from its shareholders, the majority of whom are long-term shareholders who have demonstrated, time and time again, that they understand and have aligned their own investment objectives with those of the Company's as well as SPoT's café concepts and business model.



Loans payable – Purchase of North Tonawanda SPoT Franchise

In August 2021, the Company purchased the SPoT North Tonawanda franchise from its original franchisee.

The Company paid \$361,624 USD for the franchise which included \$11,624 in cash and a \$350,000 vendor take back loan and is secured by a general security agreement on the assets of the café. The loan bears interest at 3% per annum and has a term of three (3) years. The 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 USD\$10,178.42 and the total interest costs will amount to \$16,423 USD over the three years of the loan.

Loans payable – Purchase of Orchard Park SPoT Franchise

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

Loans payable – Government assistance programs due to COVID-19

The Company received loans from the Canadian Federal Government in May 2020. The first loan is a \$60,000 Canadian Emergency Business account loan ("CEBA") and the second is a subsidy of \$65,505 from the Canadian Emergency Wage Subsidy program. The CEBA loan is interest free with no principal payments until December 31, 2023. 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) year term loan with interest at 5% starting on January 1, 2024. The balance of the loan must be paid no later than December 31, 2025.

The Canadian Emergency Wage Subsidy ("CEWS") program is a federally funded program aimed at helping Canadian small business with their payroll costs during the COVID-19 pandemic. The maximum amount receivable per employee is \$847 per week. This is strictly a reimbursement to companies with no repayment terms.

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

The Company has also applied for assistance under the Employee Retention Credit ("ERC") which is provided under Section 2301 of the *Coronavirus Aid, Relief, and Economic Security Act* ("CARES Act").

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

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



The Company has received a total of CAD\$950,160 (USD\$749,456) 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. These loans were forgiven, and these amounts are shown as other income on the Statement of Operations and Comprehensive Income (Loss).

Off Balance Sheet Arrangements

As at September 30, 2022, SPoT had no off-balance sheet arrangements, such as guaranteed contracts, contingent interests in assets transferred to an entity, derivative instrument obligations, or any instruments that could trigger financing, market or credit risk to SPoT.

Transactions with Related Parties

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.

	September 30, 2022			September 30, 2021		
	(Unaudited)			(Unaudited)		
	Officers	Directors	Total	Officers	Directors	Total
	\$	\$	\$	\$	\$	\$
Salaries and wages	152,600	118,615	271,215	180,115	115,385	295,500
Consulting fees	-	46,188	46,188	-	45,061	45,061
	152,600	164,803	317,403	180,115	160,446	340,561

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:

	September 30, 2022	December 31, 2021
	(Unaudited)	(Audited)
Advances to related parties:		
Advances to franchisees	\$1,568,124	\$ 1,339,034
Advances to associated company	509,308	509,308
	2,077,932	1,848,342
Provision on advances to related parties	(1,746,615)	\$(1,746,615)
Advances from related parties		
Advances from a company controlled by a Director	98,060	(108,533)
	\$ 233,257	\$ 166,640

Disclosure of Outstanding Share Data

As at August 29, 2022, the Company had 159,576,670 common shares issued and outstanding and 4,550,300 warrants outstanding with an exercise price of \$0.075 per warrant.



Critical Accounting Estimates

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.

If the recoverable amount of an asset is estimated to be less than the 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 recognized for the asset in prior years. A reversal of an impairment loss is recognized 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.

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. When the grant relates to an expense item, it is recognized as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognized as income in equal amounts over the expected useful life of the related asset.

Functional currency

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

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.

Financial Instruments and Other Instruments

The Company's financial instruments consist of cash, accounts receivable, leases receivable, advances to related parties, bank overdraft, accounts payable and accrued liabilities, advances from related parties, demand grid note, finance leases, lease liabilities, loans payable, convertible debentures, promissory note and government loans.

Management does not believe these financial instruments expose SPoT to any significant interest, liquidity, currency or credit risks arising from these financial instruments. The fair market value of these financial instruments is as stated in the unaudited interim consolidated financial statements for the period ended September 30, 2022 and 2021.



Summary of Quarterly Results

There were no dividends paid in the last eight quarters.

	2022 Q3	2022 Q2	2022 Q1	2021 Q4	2021 Q3	2021 Q2	2021 Q1	2020 Q4
Revenue from operations	2,326,993	2,014,041	1,586,549	1,828,246	1,890,790	1,514,124	990,308	783,813
Cost of sales	649,142	663,677	544,504	547,202	534,903	395,971	277,185	247,915
Net income (loss)	(185,708)	(476,667)	(583,825)	605,292	296,297	694,734	(538,319)	(791,000)
Total assets	4,982,760	4,884,274	4,913,334	4,246,777	3,667,670	3,518,810	3,581,388	3,623,160
Long-term liabilities	3,508,068	3,465,251	3,554,132	3,146,753	3,971,155	3,799,571	3,771,074	3,105,341

Results of July 1, 2022 – September 30, 2022

The Company continues to post strong revenue figures as all the cafés have been open for full indoor dining since June 2021. Sales have increased continuously from Q1. This is typically the Company's trend after Q1 as Q1 is the slowest quarter of the fiscal year. The Company is encouraged that the figures are heading back to pre-pandemic levels.

Cost of Sales remains consistent with prior period results due to the fact that the Company has strict controls implemented over the purchasing of products for the cafés and watches cost changes in products closely as well.

Expenses for Q3-2022 remained similar to Q3-2021 with the exception of increased salaries and wages expense due to the increase in staffing needed now that all the cafes are open completely.

COVID-19

The Company's primary activity is the operation of cafés predominantly located in Buffalo, NY USA, in the capital region of NYS and in West Hartford, Connecticut, USA.

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

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

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

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



INTERNAL CONTROLS OVER FINANCIAL REPORTING AND DISCLOSURE CONTROLS AND PROCEDURES

In accordance with National Instrument 52-109, Certification of Disclosure in Company's Annual and Interim Filings ("NI 52-109"), the CEO and CFO file a Venture Company Basic Certificate with respect to the financial information contained in the financial statements and accompanying Management's Discussion and Analysis. The Venture Company Basic Certification includes a "Note to Reader" stating that the CEO and CFO do not make any representations relating to the establishment and maintenance of disclosure controls and procedures ("DC&P") and internal controls over financial reporting ("ICFR"), as defined in NI 52-109.

As part of our corporate governance practices, ICFR and DC&P have been designed. There has been no formal evaluation of the operation of these controls. The Company has designed its ICFR to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance IFRS.

Management works to mitigate the risk of a material misstatement in financial reporting; however, a control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

The Company's DC&P have been designed to ensure that information required to be disclosed by Star is accumulated and communicated to the Company's management as appropriate to allow timely decisions regarding required disclosure.

It should be noted that while the Company's CEO and CFO believe that the Company's DC&P provide a reasonable level of assurance that they are effective, they do not expect that the DC&P or ICFR will prevent all errors or fraud. There have been no material changes to the internal controls of the Company for the period ended September 30, 2022.