Condensed consolidated interim financial statements of

Flow Beverage Corp.

For the three and nine months ended July 31, 2023 and 2022

[unaudited] [expressed in Canadian dollars]

Flow Beverage Corp.
Condensed consolidated interim statements of financial position
[unaudited] [expressed in Canadian dollars]

As at	Notes	July 31, 2023 $	October 31, 2022 $
ASSETS			
Current assets			
Cash and cash equivalents		**7,574,878**	2,281,521
Restricted cash	8	**1,000,000**	—
Trade and other receivables	4	**19,814,091**	11,901,259
Inventories	5	**10,770,940**	10,060,553
Prepaid expenses		**1,567,892**	2,452,120
		40,727,801	26,695,453
Assets held for sale	3	**14,197,303**	33,299,615
Non-current assets			
Deposits		**158,105**	115,914
Right-of-use assets, net	6	**156,145**	10,430,353
Property and equipment, net	7	**5,225,587**	11,208,088
Intangible assets, net		**496,053**	588,766
TOTAL ASSETS		**60,960,994**	82,338,189
LIABILITIES			
Current liabilities			
Trade and other payables		**14,229,719**	12,948,110
Deferred revenue		**161,630**	—
Lease obligations	6	**106,746**	2,023,378
Borrowings	8	**12,021,440**	2,009,689
Derivative liability	8	**1,930,324**	—
		28,449,859	16,981,177
Liabilities directly associated with assets held for sale	3	**9,050,763**	15,279,666
Non-current liabilities			
Lease obligations	6	**78,340**	6,927,865
Derivative liability	8	**—**	1,842,248
Borrowings	8	**17,250,271**	8,211,072
		54,829,233	49,242,028
SHAREHOLDERS' EQUITY			
Share capital	9	**98,208,856**	95,186,901
Warrants	10	**3,054,477**	11,397,285
Contributed surplus	11	**179,987,408**	171,812,817
Foreign currency translation reserve		**(1,579,263)**	(1,139,305)
Deficit		**(273,539,717)**	(244,161,537)
		6,131,761	33,096,161
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**60,960,994**	82,338,189
Contingencies	14		
Subsequent events	17		

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

Signed "Nicholas Reichenbach", Director *Signed "Stephen A. Smith", Director*

Flow Beverage Corp.

Condensed consolidated interim statements of loss and comprehensive loss

[unaudited] [expressed in Canadian dollars, except number of shares]

		Three months ended July 31,		Nine months ended July 31,	
		2023	2022	**2023**	2022
	Notes	**$**	$	**$**	**$**
Net revenue	13	**13,780,242**	12,717,981	**37,607,159**	33,564,157
Cost of revenue		**10,822,555**	9,109,803	**29,256,714**	25,754,327
Gross profit		**2,957,687**	3,608,178	**8,350,445**	7,809,830
Operating expenses					
Sales and marketing		**1,847,284**	1,912,087	**4,768,936**	4,732,909
General and administrative		**6,490,491**	4,587,209	**14,495,299**	12,707,880
Salaries and benefits		**2,976,590**	3,741,646	**10,880,107**	11,236,548
Amortization and depreciation	6, 7	**62,358**	543,945	**650,681**	1,539,710
Share-based compensation	11	**1,654,429**	1,927,474	**2,054,308**	5,711,957
		13,031,152	12,712,361	**32,849,331**	35,929,004
Loss before the following		**(10,073,465)**	(9,104,183)	**(24,498,886)**	(28,119,174)
Other (income) expense, net		**(398,301)**	12,943	**(379,396)**	(2,623)
Finance expense	16	**1,570,314**	2,022,637	**3,833,207**	4,665,537
Foreign exchange (gain) loss		**(50,383)**	(255,023)	**189,241**	(310,357)
Restructuring and other costs		**354,403**	597,110	**1,236,242**	620,895
Loss before income taxes		**(11,549,498)**	(11,481,850)	**(29,378,180)**	(33,092,626)
Income tax expense		**—**	—	**—**	—
Net loss		**(11,549,498)**	(11,481,850)	**(29,378,180)**	(33,092,626)
Other comprehensive loss					
Exchange (loss) gain on translation of foreign operations		**(505,207)**	246	**(439,958)**	822,760
Comprehensive loss		**(12,054,705)**	(11,481,604)	**(29,818,138)**	(32,269,866)
Loss per share - basic and diluted	12	**$ (0.21)**	$ (0.21)	**$ (0.53)**	$ (0.61)
Weighted average number of shares outstanding - basic and diluted	12	**55,734,321**	54,231,978	**55,521,632**	53,987,324

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

Flow Beverage Corp.
Condensed consolidated interim statements of changes in shareholders' equity

For the periods ended July 31, 2023 and 2022
[unaudited] [expressed in Canadian dollars, except number of shares]

	Share capital		Warrants	Contributed surplus	Foreign currency translation reserve	Deficit	Total
	#	$	$	$	$	$	$
Balance as at October 31, 2021	53,504,527	87,026,834	11,976,400	171,811,237	(4,185,352)	(196,454,203)	70,174,916
Warrants expired [Note 10]	—	—	(956,903)	956,903	—	—	—
Warrants issued [Note 10]	—	—	1,275,133	—	—	—	1,275,133
Share issuance on RSU release [Note 11]	908,598	6,899,194	—	(6,899,194)	—	—	—
Share-based compensation [Note 11]	—	—	—	5,711,957	—	—	5,711,957
Comprehensive income (loss)	—	—	—	—	822,760	(33,092,626)	(32,269,866)
Balance as at July 31, 2022	**54,413,125**	**93,926,028**	**12,294,630**	**171,580,903**	**(3,362,592)**	**(229,546,829)**	**44,892,140**
Balance as at October 31, 2022	54,812,594	95,186,901	11,397,285	171,812,817	(1,139,305)	(244,161,537)	33,096,161
Warrants expired [Note 10]	—	—	(9,195,238)	9,195,238	—	—	—
Warrants issued [Note 10]	—	—	852,430	—	—	—	852,430
Share issuance on RSU release [Note 11]	397,633	2,742,792	—	(2,742,792)	—	—	—
Share issuance on DSU release [Note 11]	524,094	279,163	—	(279,163)	—	—	—
Settlement of DSU [Note 11]	—	—	—	(53,000)	—	—	(53,000)
Share-based compensation [Note 11]	—	—	—	2,054,308	—	—	2,054,308
Comprehensive loss	—	—	—	—	(439,958)	(29,378,180)	(29,818,138)
Balance as at July 31, 2023	**55,734,321**	**98,208,856**	**3,054,477**	**179,987,408**	**(1,579,263)**	**(273,539,717)**	**6,131,761**

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

Flow Beverage Corp.
Condensed consolidated interim statements of cash flows
[unaudited] [expressed in Canadian dollars]

For the nine months ended July 31,	**2023**	2022
	$	$
Cash flows used in operating activities		
Net loss for the period	**(29,378,180)**	(33,092,626)
Adjustments to reconcile net loss to net cash used in operating activities		
Unrealized foreign exchange loss	**106,128**	159,735
Amortization and depreciation	**1,730,411**	4,376,261
Share-based compensation	**2,054,308**	5,711,957
Finance expense	**3,833,207**	4,665,537
	(21,654,126)	(18,179,136)
Changes in non-cash working capital items		
Trade and other receivables	**(5,973,792)**	(1,436,966)
Prepaid expenses	**818,614**	(79,698)
Inventories	**(569,686)**	1,316,820
Trade and other payables	**3,371,061**	(4,767,081)
Deferred revenue	**161,630**	1,399,461
Cash flows used in operating activities	**(23,846,299)**	(21,746,600)
Cash flows provided by (used in) investing activities		
Purchase of property and equipment	**—**	(893,760)
Proceeds from sale of disposal group	**15,554,572**	—
Cash flows provided by (used in) investing activities	**15,554,572**	(893,760)
Cash flows provided by (used in) financing activities		
Proceeds from borrowings, net of restricted cash	**17,837,178**	1,029,485
Repayment of borrowings	**(2,287,492)**	(3,257,354)
Payment of lease obligations	**(1,964,602)**	(3,524,934)
Cash flows provided by (used in) financing activities	**13,585,084**	(5,752,803)
Net change in cash and cash equivalents during the period	**5,293,357**	(28,393,163)
Cash and cash equivalents, beginning of the period	**2,281,521**	51,566,955
Cash and cash equivalents, end of the period	**7,574,878**	23,173,792

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

1 Nature of business

Flow Beverage Corp. [the “Company” or “Flow”], formerly RG One Corp. [“RG One”] up to the completion of the Amalgamation, as defined below, is engaged in the business of extraction, value-added packaging and sale of water in Canada and the United States.

The Company was incorporated on October 30, 2014, under the *Canada Business Corporations Act* [“CBCA”]. The Company’s registered office is 155 Industrial Parkway South, Unit 7-10, Aurora, Ontario, Canada, L4G 3G6.

On April 7, 2021, Flow Water Inc. [“Flow Water”] entered into a Business Combination Agreement with RG One and RG One Subco Inc. [“RG One Subco”], a wholly owned subsidiary of RG One formed solely for the purpose of completing the Amalgamation, pursuant to which Flow Water and RG One Subco agreed to amalgamate in accordance with the provisions of the CBCA [the “Amalgamation”].

2 Basis of preparation

Statement of compliance

These unaudited condensed consolidated interim financial statements [“Financial Statements”] have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting*. The disclosures contained in these Financial Statements do not include all of the requirements of International Financial Reporting Standards [“IFRS”] as issued by the International Accounting Standards Board [“IASB”] for annual financial statements. These Financial Statements should be read in conjunction with the annual consolidated financial statements for the year ended October 31, 2022, which have been prepared in accordance with IFRS. These Financial Statements are based on accounting policies as described in Note 3 of the 2022 annual consolidated financial statements, except for the adoptions of new standards effective as of November 1, 2022.

These Financial Statements were approved and authorized for issuance by the Board of Directors of the Company on September 13, 2023.

The Financial Statements include the accounts of the Company and its wholly owned subsidiaries as of July 31, 2023: Flow Water Inc. [Canada], Flow Beverages Inc. [US], 2446692 Ontario Limited [Canada], Flow Glow Beverages Inc. [Canada] and Flow Beverages (Switzerland) SA [Switzerland].

Use of estimates and judgments

The preparation of these Financial Statements in conformity with IFRS requires management to make estimates, judgments and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities as at the date of the Financial Statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Estimates are based on management’s best knowledge of current events and actions the Company may undertake in the future. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

New standards, amendments and interpretations adopted by the Company

IAS 37, Provisions, Contingent Liabilities and Contingent Assets (“IAS 37”)

In May 2020, the IASB issued *Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37).* The amendments specify that the cost of fulfilling a contract comprises the costs that relate directly to the contract and can either be incremental costs of fulfilling that contract or an allocation of other costs that relate directly to fulfilling contracts. The amendments did not have an impact on the Financial Statements.

IAS 16, Property, Plant and Equipment (“IAS 16”)

In May 2020, the IASB issued *Property, Plant and Equipment – Proceeds before Intended Use (Amendments to IAS 16)*. The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the cost of producing those items, in profit or loss. The amendments did not have an impact on the Financial Statements.

[unaudited] [expressed in Canadian dollars, except share amounts]

IFRS 9, Financial Instruments ("IFRS 9")

As part of its 2018–2020 annual improvements to the IFRS, the IASB issued an amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment did not have an impact on the Financial Statements.

New standards, amendments and interpretations not yet adopted by the Company

The Company is assessing the impact of new standards, amendments and interpretations not yet effective on its Financial Statements.

3 Sale of assets and assets held for sale

Sale of assets

On November 8, 2022, the Company entered into an Asset Purchase Agreement to sell all of the Company's assets located at its US facility in Verona, Virginia [the "Verona Disposal Group"] for a purchase price of USD $19.5 million [$26.6 million], comprising USD $13.2 million [$18.0 million] in cash and USD $6.3 million [$8.6 million] for the repayment of debt and the retirement of lease obligations related to the Verona Disposal Group. In addition, the Company assigned to the purchaser certain lease assets and related liabilities as part of the sale.

The carrying values of the assets and liabilities included in the Verona Disposal Group are as follows:

	$
Equipment	**21,370,826**
Right-of-use assets	**11,421,330**
Lease obligations retired	**(5,028,699)**
Lease obligations assigned	**(6,281,062)**
Borrowings	**(3,737,055)**
Net book value of Disposal Group	**17,745,340**
Net consideration received	**17,711,853**
Loss on disposal	**33,487**

The disposal resulted in a loss on sale of $33,487, recognized in other (income) expense, net, in the condensed consolidated interim statements of loss and comprehensive loss. Net consideration received consisted of cash of USD $11,572,481 [$15,554,572] and holdbacks of USD $1,605,000 [$2,157,281] recognized in trade and other receivables [Note 4].

Assets held for sale

In April 2023 the Company made a strategic decision to pursue the sale of all of the Company's assets located at its Canadian facility in Aurora, Ontario [the "Aurora Disposal Group"] in order to allow the Company to focus on pursuing growth of the Flow brand and to simplify its operating structure. The Company is actively marketing the sale of the Aurora Disposal Group and expects the sale to be completed within the next twelve months.

In accordance with IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, the assets held for sale were assessed for impairment based on fair value less costs to sell. The fair value was measured using the proposed price at which the Company expects to sell the Aurora Disposal Group less estimates for the costs of disposal. The fair value less costs to sell was higher than the carrying value of the Aurora Disposal Group resulting in recognition of the resulting group at its carrying value.

[unaudited] [expressed in Canadian dollars, except share amounts]

Assets held for sale as of July 31, 2023, and October 31, 2022, consisted of the following:

	July 31, 2023	October 31, 2022
	$	$
Prepaid expenses	**82,380**	—
Property and equipment	**4,772,690**	21,701,540
Right-of-use assets	**9,342,233**	11,598,075
	14,197,303	33,299,615

Liabilities directly associated with assets held for sale as of July 31, 2023, and October 31, 2022, consisted of the following:

	July 31, 2023	October 31, 2022
	$	$
Trade and other payables	**1,956,971**	—
Lease obligations	**7,093,792**	11,484,780
Borrowings	**—**	3,794,886
	9,050,763	15,279,666

4 Trade and other receivables

	July 31, 2023	October 31, 2022
	$	$
Trade receivables, net	**14,332,603**	5,893,350
Accrued and other receivables	**1,634,440**	1,930,517
Harmonized sales tax receivables	**1,732,139**	4,077,392
Holdbacks [Note 3]	**2,114,909**	—
	19,814,091	11,901,259

5 Inventories

	July 31, 2023	October 31, 2022
	$	$
Finished goods	**4,759,064**	4,115,961
Raw materials	**6,063,271**	6,300,505
	10,822,335	10,416,466
Allowance	**(51,395)**	(355,913)
	10,770,940	10,060,553

[unaudited] [expressed in Canadian dollars, except share amounts]

6 Right-of-use assets and lease obligations

The Company's right-of-use assets by asset class are as follows:

	Equipment	Plant and warehouse	Vehicles	Premises	Total
Cost	**$**	**$**	**$**	**$**	**$**
Balance, October 31, 2021	15,348,394	15,749,334	1,436,241	637,253	33,171,222
Completed leases	(31,542)	—	(239,855)	—	(271,397)
Transfers to assets held for sale	(6,790,982)	(6,655,633)	—	—	(13,446,615)
Modifications	—	(3,237,833)	—	—	(3,237,833)
Effects of foreign exchange	629,393	809,161	—	—	1,438,554
Balance, October 31, 2022	9,155,263	6,665,029	1,196,386	637,253	17,653,931
Completed leases	—	—	(775,751)	(89,572)	(865,323)
Transfers to assets held for sale	(9,155,263)	(6,665,029)	—	—	(15,820,292)
Balance, July 31, 2023	**—**	**—**	**420,635**	**547,681**	**968,316**
Accumulated amortization					
Balance, October 31, 2021	2,109,070	4,126,143	937,655	317,927	7,490,795
Completed leases	(31,542)	—	(239,855)	—	(271,397)
Amortization	1,119,567	1,540,952	302,043	135,218	3,097,780
Transfer to assets held for sale	(589,982)	(1,258,558)	—	—	(1,848,540)
Modifications	—	(1,456,123)	—	—	(1,456,123)
Effects of foreign exchange	38,449	172,614	—	—	211,063
Balance, October 31, 2022	2,645,562	3,125,028	999,843	453,145	7,223,578
Completed leases	—	—	(775,751)	(89,572)	(865,323)
Amortization	341,249	366,220	140,579	83,927	931,975
Transfers to assets held for sale	(2,986,811)	(3,491,248)	—	—	(6,478,059)
Balance, July 31, 2023	**—**	**—**	**364,671**	**447,500**	**812,171**
Net book value					
Balance, October 31, 2022	6,509,701	3,540,001	196,543	184,108	10,430,353
Balance, July 31, 2023	**—**	**—**	**55,964**	**100,181**	**156,145**

The Company's lease obligations are as follows:

	July 31, 2023	October 31, 2022
	$	$
Balance – Beginning of period	**8,951,243**	24,226,637
Interest accretion	**292,237**	1,519,212
Lease payments	**(1,395,677)**	(4,625,670)
Classified as held for sale	**(7,662,717)**	(11,484,780)
Modifications	**—**	(1,861,138)
Effects of foreign exchange	**—**	1,176,982
Balance – End of period	**185,086**	8,951,243
Current	**106,746**	2,023,378
Non-current	**78,340**	6,927,865

[unaudited] [expressed in Canadian dollars, except share amounts]

7 Property and equipment

	Land	Equipment	Furniture and fixtures	Leasehold improvements	Construction in progress	Total
Cost	**$**	**$**	**$**	**$**	**$**	**$**
Balance, October 31, 2021	4,714,499	27,566,435	168,243	3,763,001	149,180	36,361,358
Additions	—	581,844	92,729	90,350	215,826	980,749
Transfers	—	264,384	—	5,700	(270,084)	—
Transfer to assets held for sale	—	(23,673,976)	(208,150)	(2,089,775)	—	(25,971,901)
Effects of foreign exchange	333,730	2,192,701	15,765	190,594	11,971	2,744,761
Balance, October 31, 2022	5,048,229	6,931,388	68,587	1,959,870	106,893	14,114,967
Additions	—	—	—	18,416	—	18,416
Disposals	—	—	—	—	(105,857)	(105,857)
Transfer to assets held for sale	—	(6,420,737)	(4,633)	(1,756,220)	—	(8,181,590)
Effects of foreign exchange	(124,522)	(10,738)	—	—	(1,036)	(136,296)
Balance, July 31, 2023	**4,923,707**	**499,913**	**63,954**	**222,066**	**—**	**5,709,640**
Accumulated depreciation						
Balance, October 31, 2021	—	2,685,224	48,923	670,456	—	3,404,603
Depreciation	—	3,096,073	41,279	298,161	—	3,435,513
Transfer to assets held for sale	—	(3,611,578)	(47,940)	(610,843)	—	(4,270,361)
Effects of foreign exchange	—	284,767	3,094	49,263	—	337,124
Balance, October 31, 2022	—	2,454,486	45,356	407,037	—	2,906,879
Depreciation	—	930,096	3,368	61,743	—	995,207
Transfer to assets held for sale	—	(3,021,463)	(2,533)	(384,904)	—	(3,408,900)
Effects of foreign exchange	—	(9,133)	—	—	—	(9,133)
Balance, July 31, 2023	**—**	**353,986**	**46,191**	**83,876**	**—**	**484,053**
Net book value						
Balance, October 31, 2022	5,048,229	4,476,902	23,231	1,552,833	106,893	11,208,088
Balance, July 31, 2023	**4,923,707**	**145,927**	**17,763**	**138,190**	**—**	**5,225,587**

[unaudited] [expressed in Canadian dollars, except share amounts]

8 Borrowings

The following table presents the borrowings for the Company:

	July 31, 2023 $	October 31, 2022 $
Tetra Pak Canada Loan V [a]	**—**	59,099
Tetra Pak Canada Loan VI [a]	**65,917**	99,043
Seawright Mineral Springs Loan [b]	**1,757,229**	1,851,547
Debt Round [c]	**8,850,997**	—
NFS Leasing Canada Ltd. – Senior Term Loan [d]	**947,336**	—
NFS Leasing Canada Ltd. – Delayed Draw Term Loan [d]	**399,961**	—
Total current	**12,021,440**	2,009,689
Tetra Pak Canada Loan VI [a]	**—**	43,254
Debt Round [c]	**—**	8,167,818
NFS Leasing Canada Ltd. – Senior Term Loan [d]	**12,796,337**	—
NFS Leasing Canada Ltd. – Delayed Draw Term Loan [d]	**4,453,934**	—
Total non-current	**17,250,271**	8,211,072
	29,271,711	10,220,761
Borrowings associated with sale of assets [Note 3]	**—**	3,794,886

[a] Tetra Pak Canada Loans

Tetra Pak Canada Loan V

In January 2020, the Company received USD $712,567 [$946,717] of financing with Tetra Pak Canada ["Tetra"] for the installation of equipment. The loan is secured as a first priority security interest over the equipment. The loan accrues interest at 6.82% with repayment terms consisting of 36 consecutive monthly blended instalments of interest and principal in the amount of USD $21,943 [$29,090]. The loan is recorded at amortized cost and accounted for using the effective interest rate method. The effective interest rate applicable to this loan is 6.5%. During the three and nine months ended July 31, 2023, the Company incurred $nil and $312 of interest expense, respectively, [2022 – $1,796 and $11,667] and the outstanding balance was repaid in full in December 2022.

Tetra Pak Canada Loan VI

On April 13, 2021, the Company received USD $211,047 [$265,612] of financing from Tetra in the form of a Promissory Note to cover the installation cost of equipment. The Promissory Note is secured by a first priority security interest against the equipment. The Promissory Note accrues interest at a rate of 5.50% with repayment terms consisting of 36 consecutive monthly blended instalments of interest and principal in the amount of USD $6,373 [$7,829]. The loan is recorded at amortized cost and accounted for using the effective interest rate method. The Promissory Note has a maturity date of March 1, 2024. During the three and nine months ended July 31, 2023, the Company incurred $1,099 and $4,206 of interest expense, respectively [2022 – $2,301 and $7,724].

[b] Seawright Mineral Springs Loan

In April 2019, the Company acquired a 144-acre spring in Virginia from Seawright Mineral Springs Limited ["Seawright"]. The Company obtained financing in 2019 with Seawright for the purchase of the spring. The loan accrues interest at 6.25%, maturing in October 2023 with a principal balance of USD $1,440,000 [$1,913,184] with repayment terms consisting of 60 consecutive monthly blended instalments of interest and principal in the amount of USD $9,497 [$12,590] beginning in June 2019. The loan is secured by a first lien on the spring and land. The loan is recorded at amortized cost and accounted for using the effective interest rate method. The effective interest rate applicable to this loan is 6.24%. During the three and nine months ended July 31, 2023, the Company incurred $28,386 and $84,703 of interest expense, respectively [2022 – $27,438 and $81,540].

[unaudited] [expressed in Canadian dollars, except share amounts]

[c] Debt Round

During the year ended October 31, 2020, the Company issued debt ["2020 Debt"] to individual holders along with the issuance of warrants. The Company issued $9,476,000 of debt and incurred cash transaction costs of $48,270 and finder's fees of $343,200, which were settled through the issuance of stock options. The warrants give the warrant-holder the right to purchase Subordinate Voting Shares. The Company issued 189,520 warrants at an exercise price of $6.75 per warrant ["$6.75 Warrant"] and 189,520 warrants at an exercise price of $10.00 per warrant ["$10.00 Warrant"] for up to two years from the issuance. The fair value of the $6.75 Warrant was $293,156 and the $10.00 Warrant was $162,108. The debt is accounted for at amortized cost and accounted for using the effective interest rate method. The effective interest rate applicable to this loan is approximately 13%. The debt accrued interest at a rate of 10% and matured in February 2022.

On February 29, 2022, the Company issued $9,476,000 in principal amount of debt ["2022 Debt"] and issued 8,536,942 warrants ["Series C Warrants"] in settlement of the 2020 Debt on maturity to the 2020 Debt holders.

The 2022 Debt matures on February 29, 2024 and accrues interest at 12% per annum, payable monthly. In addition, the 2022 Debt includes an interest rate adjustment clause [the "Interest Adjustment"] whereby the Company is obligated to pay additional interest, on a non-compounding basis, at the rate of 12% per annum at maturity of the 2022 Debt in the event the closing price of the Company's Subordinate Voting Shares is not equal to or greater than $1.28 for any 10 consecutive trading days between March 1, 2022 and February 29, 2024, and provided that the Series C Warrants remain unexercised.

During the three and nine months ended July 31, 2023, the Company incurred $530,643 and $1,533,682 of interest expense, respectively [2022 – $478,589 and $789,668]

The Series C Warrants have an exercise price of $1.11 with an expiration date of February 28, 2025. The expiry date of the Series C Warrants may be accelerated by the Company if, after the issue date, the volume weighted average price of the Company's Subordinate Voting Shares is at a price equal to or greater than $1.28 for a period of 10 consecutive trading days. The new expiry date would be the date that is not less than 20 days following the date upon which the Company issues notices to all holders of the Series C Warrants.

The Company determined that the Interest Adjustment meets the definition of an embedded derivative that is required to be separated as it is not closely related to the host debt instrument. Therefore, the Interest Adjustment is separated from the 2022 Debt and is accounted for as a financial liability measured at fair value through profit or loss.

The 2022 Debt is classified as a financial liability at amortized cost and is accounted for using the effective interest rate method, and the Series C Warrants are classified as equity and are not remeasured subsequent to initial recognition.

The total fair value of $9,476,000 was allocated to the Interest Adjustment embedded derivative liability, the 2022 Debt and the Series C Warrants.

On issuance, the Company recorded the following amounts:

	$
Interest Adjustment embedded derivative	550,000
2022 Debt	7,650,867
Series C Warrants	1,275,133
	9,476,000

There were no transaction costs incurred.

Interest Adjustment

The fair value of the Interest Adjustment was calculated using the Monte Carlo simulation and is classified as Level 3 in the fair value hierarchy. The fair value of the Interest Adjustment was $1,930,324 on July 31, 2023 [October 31, 2022 – $1,842,248], resulting in a loss on change in fair value of $100,706 and $88,076, respectively, recognized through finance expense on the condensed consolidated interim statements of loss and comprehensive loss for the three and nine months ended July 31, 2023.

[unaudited] [expressed in Canadian dollars, except share amounts]

The key assumptions used in the valuation were:

	July 31, 2023	October 31, 2022
Term	**0.6 years**	1.3 years
Expected volatility	**120%**	110%
Risk-free interest rate	**5.0%**	4.0%
Dividend yield	**0%**	0%

2022 Debt

The fair value of the 2022 Debt at the time of issuance was calculated as the discounted cash flows for the 2022 Debt assuming a 24% discount rate, which was the estimated rate for a similar instrument without the Interest Adjustment feature and without warrants issued as part of the transaction. The 2022 Debt as of July 31, 2023, is as follows:

	$
Balance, October 31, 2022	**8,167,818**
Add (less):	
Interest and accretion expense	**1,533,682**
Interest paid	**(850,503)**
Balance, July 31, 2023	**8,850,997**
Current	**8,850,997**
Non-current	**—**

[d] NFS Leasing Canada Ltd. Loans

Senior Term Loan

In December 2022, the Company entered into a 36-month senior secured term loan [the “Senior Term Loan”] with NFS Leasing Canada Ltd. [“NFS”] for up to $20,334,000. The Senior Term Loan is secured by a first priority lien on all Company assets. The Company has initially drawn $15,334,000 and has the ability, subject to certain conditions, to draw an additional $5,000,000 prior to the one-year anniversary of the initial draw. The Company also issued 3,066,880 warrants [“Series D Warrants”].

The Senior Term Loan bears interest at 14% per annum, payable monthly for the first six months. After the first six months, payments of $284,045 comprising principal and interest are payable monthly, with the remaining principal balance due at maturity.

The Series D Warrants have an exercise price of $0.50 with an expiration date of December 30, 2032. The expiry date of the Series D Warrants may be accelerated by the Company if, after the issue date, the volume weighted average price of the Company’s Subordinate Voting Shares is at a price equal to or greater than $1.75 for a period of 10 consecutive trading days. The new expiry date would be the date that is not less than 20 days following the date upon which the Company issues notices to all holders of the Series D Warrants.

The Senior Term Loan is classified as a financial liability at amortized cost and is accounted for using the effective interest rate method. The Series D Warrants are classified as equity and are not remeasured subsequent to initial recognition.

The fair value of the Senior Term Loan at the time of issuance was calculated as $14,629,638 based on the discounted cash flows for the Senior Term Loan assuming a 16% discount rate, which was the estimated rate for a similar instrument without warrants issued as part of the transaction. Cash transaction expenses were allocated pro-rata, $1,428,066 to the Senior Term Loan and $68,756 to the warrants.

[unaudited] [expressed in Canadian dollars, except share amounts]

The Senior Term Loan as of July 31, 2023, is as follows:

	$
Principal balance	**15,334,000**
Add (less):	
Transaction expenses	**(1,428,066)**
Series D Warrants	**(704,362)**
Interest and accretion	**1,627,381**
Payments	**(1,085,280)**
Balance, July 31, 2023	**13,743,673**
Current	**947,336**
Non-current	**12,796,337**

Delayed Draw Term Loan

On June 30, 2023, the Company drew down the remaining $5,000,000 under the Senior Term Loan [the "Delayed Draw Term Loan"]. The Company received gross proceeds of $4,000,000 and $1,000,000 was deposited into an interest reserve account [the "Reserve Account"]. The Reserve Account is for the benefit of NFS until the earlier of an event of default, the maturity date, or upon written approval from NFS for its release. The balance in the Reserve Account is presented as restricted cash on the condensed consolidated interim statement of financial position as of July 31, 2023.

The Delayed Draw Term Loan is for a 36-month term and bears interest at a rate of 14.75% per annum.

The Company also issued 1,000,000 warrants [the "Series E Warrants"] to acquire subordinate voting shares of the Company. The Series E Warrants have an exercise price of $0.50 with an expiration date of June 30, 2033. The expiry date of the Series E Warrants may be accelerated by the Company if, after the issue date, the volume weighted average price of the Company's Subordinate Voting Shares is at a price equal to or greater than $1.75 for a period of 10 consecutive trading days. The new expiry date would be the date that is not less than 20 days following the date upon which the Company issues notices to all holders of the Series E Warrants.

The fair value of the Delayed Draw Term Loan at the time of issuance was calculated as $4,783,176 based on the discounted cash flows for the Delayed Draw Term Loan assuming a 16.75% discount rate, which was the estimated rate for a similar instrument without warrants issued as part of the transaction. The Delayed Draw Term Loan was classified as a financial liability at amortized cost and is accounted for using the effective interest rate method. Cash transaction expenses were $nil.

The Senior Term Loan and the Delayed Draw Term Loan contain certain covenants, measured quarterly, based on minimum liquidity values. As of July 31, 2023, the Company is in compliance with its covenants.

The Delayed Draw Term Loan as of July 31, 2023, is as follows:

	$
Principal balance	**5,000,000**
Add (less):	
Series E Warrants	**(216,824)**
Interest and accretion	**70,719**
Payments	**—**
Balance, July 31, 2023	**4,853,895**
Current	**399,961**
Non-current	**4,453,934**

[unaudited] [expressed in Canadian dollars, except share amounts]

9 Share capital

Authorized

The Company has authorized capital of an unlimited number of Multiple Voting Shares, voting at 10 votes per share, and an unlimited number of Subordinate Voting Shares, voting at one vote per share. Prior to the Amalgamation, Flow Water completed a share consolidation on a five-to-one basis for all issued and outstanding Class A common shares and Class B common shares [the "Flow Consolidation"].

Issued and outstanding

	Multiple Voting Shares		Subordinate Voting Shares		Total
	#	$	#	$	$
Balance, October 31, 2021	6,214,566	1	47,289,961	87,026,833	87,026,834
Share issuance on RSU release	—	—	908,598	6,899,194	6,899,194
Balance, July 31, 2022	6,214,566	1	48,198,559	93,926,027	93,926,028
Balance, October 31, 2022	6,214,566	1	48,598,028	95,186,900	95,186,901
Share issuance on RSU release	—	—	397,633	2,742,792	2,742,792
Share issuance on DSU release	—	—	524,094	279,163	279,163
Balance, July 31, 2023	**6,214,566**	**1**	**49,519,755**	**98,208,855**	**98,208,856**

10 Warrants

The Company issued warrants to accompany certain Subordinate Voting Shares, debt round and convertible debt. Each warrant is exercisable at the option of the holder for one Subordinate Voting Share.

The changes in the number of warrants during the periods ended July 31, 2023 and 2022 were as follows:

	Number of warrants	Weighted average exercise price
	#	$
Balance, October 31, 2021	7,608,658	9.63
Granted during the period (Note 8)	8,536,942	1.11
Expired during the period	(814,710)	8.75
Balance, July 31, 2022	15,330,890	4.93

	Number of warrants	Weighted average exercise price
	#	$
Balance, October 31, 2022	14,846,338	4.83
Granted during the period (Note 8)	4,066,880	0.50
Expired during the period	(6,059,396)	9.98
Balance, July 31, 2023	**12,853,822**	**1.03**

The following table is a summary of the Company's warrants outstanding as at July 31, 2023:

Expiration date	Weighted average exercise price $	Instruments outstanding ##
February 28, 2025	1.11	8,536,942
January 5, 2027	6.75	250,000
December 30, 2032	0.50	3,066,880
June 30, 2033	0.50	1,000,000
	1.03	**12,853,822**

[unaudited] [expressed in Canadian dollars, except share amounts]

The following table is a summary of the Company's warrants outstanding as at July 31, 2022:

Expiration date	Weighted average exercise price $	Instruments outstanding #
September 11, 2022	8.25	484,552
December 29, 2022	8.25	64,801
June 29, 2023	10.00	5,994,595
February 28, 2025	1.11	8,536,942
January 5, 2027	6.75	250,000
	4.93	**15,330,890**

11 Share-based compensation

[i] Deferred Share Units

The Company granted Deferred Share Units ["DSUs"] to members of the Board of Directors as part of their compensation in accordance with the Company's Omnibus Incentive Plan, as defined below.

The changes in the number of DSUs during the period ended July 31, 2023 and 2022, are as follows:

	Number of DSUs #
Balance, October 31, 2021	—
Granted during the period	679,866
Balance, July 31, 2022	679,866
Balance, October 31, 2022	1,100,748
Granted during the period	153,983
Settled for cash	(64,288)
Settled through share issuance	(524,094)
Balance, July 31, 2023	**666,349**

During the nine months ended July 31, 2023, the Company settled 64,288 DSUs for cash consideration of $53,000.

The Company recognized $118,500 and $235,005 in share-based compensation expense for the three and nine months ended July 31, 2023, respectively [2022 – $651,062 and $651,062], related to DSUs issued during the period.

During the nine months ended July 31, 2023, conditional DSU grants of 293,352 were made to members of the Board of Directors. The DSUs will be granted, subject to availability under the Company's Omnibus Incentive Plan. The estimated fair value may be revised in the subsequent reporting periods based on the final grant date fair value of the equity instruments awarded

[ii] Restricted Share Units

On December 31, 2020, the Board of Directors approved a Restricted Share Unit Plan ["RSU Plan"] for the Company. The RSU Plan provides for the issuance of RSUs to retain qualified personnel, employees, advisors and contractors in order to align their interests with those of the Company's shareholders. Vested RSUs are settled with Subordinate Voting Shares.

During the nine months ended July 31, 2023, the Board of Directors approved grants of 3,356,639 [2022 – 192,195] RSUs to various members of management and the Board of Directors with a grant value of $0.23 – $0.44 [2022 – $0.62 – $1.55] per unit. The RSUs vest over various periods from immediately to pro rata over 36 months.

During the nine months ended July 31, 2023, the Board of Directors conditionally approved grants of 7,720,450 RSUs to various members of senior management. The RSUs will be unconditionally granted, subject to availability under the Company's Omnibus Incentive Plan. The estimated fair value may be revised in the subsequent reporting periods based on the final grant date fair value of the equity instruments awarded.

[unaudited] [expressed in Canadian dollars, except share amounts]

During the three and nine months ended July 31, 2023, the Company recorded share-based compensation expense of $1,524,973 and $1,753,815, respectively, for RSUs [2022 – $1,775,628 and $4,490,815].

The changes in the number of RSUs during the periods ended July 31, 2023 and 2022 are as follows:

	Number of RSUs
	#
Balance, October 31, 2021	1,932,151
Granted during the period	192,195
Forfeited during the period	(253,337)
Share issuance on RSU release	(908,598)
Balance, July 31, 2022	962,411
Balance, October 31, 2022	646,816
Granted during the period	3,356,639
Forfeited during the period	(50,837)
Share issuance on RSU release	(397,633)
Balance, July 31, 2023	**3,554,985**

[iii] Share options

In January 2017, the Company established a stock option plan [the "Legacy Option Plan"] for the Company's directors, officers, advisors, employees and contractors. The Legacy Option Plan automatically terminates 10 years after its adoption by the Board of Directors. Under the Legacy Option Plan, the options generally vest immediately or equally monthly between 12 months and 48 months from the date of grant and generally, have a maximum contractual life of 10 years or less. The exercise price of options is determined by the Board of Directors. Under the Legacy Option Plan, options are generally granted with a strike price no less than the fair value of the underlying common shares at the date of the grant.

In connection with the Amalgamation completed on June 29, 2021, the Legacy Option Plan was amended such that no further awards can be made under the Legacy Option Plan. In connection with the Amalgamation, the Company adopted an omnibus incentive plan [the "Omnibus Incentive Plan"], which allows for the Board of Directors to grant long-term equity-based awards, including Subordinate Voting Share purchase options, RSUs and DSUs to the eligible directors, officers, employees, and consultants of the Company and its subsidiaries in accordance with the terms of the Omnibus Incentive Plan. The Company's Governance, Human Resources and Compensation Committee makes recommendations to the Board of Directors in respect of matters relating the Omnibus Incentive Plan. The Board of Directors has the discretion and authority to determine, among other things, the vesting schedule of share options and the settlement periods of RSUs or DSUs issued under the Omnibus Incentive Plan.

In respect of options held by U.S. persons only, pursuant to the terms of the Legacy Option Plan, each outstanding option immediately prior to the effective time of the Amalgamation entitles each holder of an option that is a U.S. person to receive upon exercise of an option that number of Subordinate Voting Shares that such option would be entitled to had the holder of the option exercised the option [taking into account the Flow Consolidation] immediately prior to the Amalgamation.

Each option held by persons other than U.S. persons, outstanding immediately prior to the effective time of the Amalgamation was exchanged for an option issued by the Company to purchase Subordinate Voting Shares in accordance with the Omnibus Incentive Plan.

The maximum number of Subordinate Voting Shares reserved and available for grant and issuance pursuant to the Omnibus Incentive Plan shall not exceed 15% of the total issued and outstanding Subordinate Voting Shares on a non-diluted basis.

During the three and nine months ended July 31, 2023, the Company recorded $10,956 and $65,488, respectively [2022 – $100,784 and $570,080] of share-based compensation expense associated with the vested portion of the share options issued under the Legacy Option Plan and the Omnibus Incentive Plan.

[unaudited] [expressed in Canadian dollars, except share amounts]

The changes in the number of share options during the nine months ended July 31, 2023 and 2022 were as follows:

	2023		2022	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
	#	**$**	#	$
Options outstanding, beginning of period	**2,999,491**	**5.61**	3,178,358	5.59
Options forfeited	**(116,472)**	**4.87**	(93,347)	3.06
Options outstanding – July 31	**2,883,019**	**5.58**	3,085,011	5.61
Options exercisable – July 31	**2,867,966**	**5.57**	3,010,726	5.59

No options were granted during the periods ended July 31, 2023 and 2022.

The following table is a summary of the Company's share options outstanding as at July 31, 2023:

Options outstanding			**Options exercisable**	
Exercise price	**Number outstanding**	**Weighted average remaining contractual life [years]**	**Weighted average exercise price**	**Number exercisable**
$	**#**	**#**	**$**	**#**
1.50	146,001	3.44	1.50	146,001
2.50	617,200	3.44	2.50	617,200
5.00	5,000	3.44	5.00	5,000
6.55	851,619	3.44	6.55	851,619
6.60	250,099	3.44	6.60	250,099
6.65	275,624	3.44	6.65	275,624
6.70	22,742	3.44	6.70	22,742
6.75	456,307	3.44	6.75	454,588
6.85	5,000	3.44	6.85	5,000
6.95	10,000	3.44	6.95	10,000
7.00	76,000	3.44	7.00	76,000
8.25	167,427	3.44	8.25	154,093
5.58	**2,883,019**	**3.44**	**5.57**	**2,867,966**

[unaudited] [expressed in Canadian dollars, except share amounts]

The following table is a summary of the Company's share options outstanding as at July 31, 2022:

Options outstanding			**Options exercisable**	
Exercise price $	**Number outstanding #**	**Weighted average remaining contractual life [years] #**	**Weighted average exercise price $**	**Number exercisable #**
1.50	148,001	4.44	1.50	148,001
2.50	652,140	4.44	2.50	652,140
5.00	5,000	4.44	5.00	5,000
6.55	972,993	4.39	6.55	929,235
6.60	250,099	4.44	6.60	241,823
6.65	275,624	4.44	6.65	275,624
6.70	22,742	4.44	6.70	22,550
6.75	471,432	4.44	6.75	458,309
6.85	5,000	4.44	6.85	5,000
6.95	10,000	4.44	6.95	10,000
7.00	76,000	4.44	7.00	76,000
8.25	195,980	4.43	8.25	187,044
5.61	**3,085,011**	**4.42**	**5.59**	**3,010,726**

12 Loss per share

Loss per share is calculated using the weighted average number of shares outstanding. The weighted average number of shares outstanding for the three and nine months ended July 31, 2023, was 55,734,321 and 55,521,632, respectively [2022 – 54,231,978 and 53,987,324].

For all the periods presented, diluted loss per share equals basic loss per share due to the anti-dilutive effect of share options, RSUs, DSUs and warrants, given the Company was in a net loss position during those periods. The outstanding number and type of securities that could potentially dilute basic net income per share in the future but would have decreased the loss per share [anti-dilutive] for the periods ended July 31, 2023 and 2022 presented are as follows:

	2023 #	2022 #
Stock options	**2,883,019**	3,085,011
RSUs	**3,554,985**	962,411
DSUs	**666,349**	679,866
Warrants	**12,853,822**	15,330,890
	19,958,175	20,058,178

[unaudited] [expressed in Canadian dollars, except share amounts]

13 Disaggregation of revenue

The Company derives its revenue primarily from two main sources: the sale of packaged water and co-packing services.

The following table represents disaggregation of revenue for the three and nine months ended July 31, 2023 and 2022:

	Three months ended July 31,		**Nine months ended July 31,**	
	2023	2022	**2023**	2022
	$	$	**$**	$
Packaged water	**12,618,531**	10,814,271	**33,982,965**	24,487,376
Co-packing services	**3,309,896**	4,104,036	**10,426,154**	14,987,430
Gross revenue	**15,928,427**	14,918,307	**44,409,119**	39,474,806
Less:				
Discounts	**(205,149)**	(564,646)	**(1,203,707)**	(1,149,752)
Trade spend	**(1,943,036)**	(1,635,680)	**(5,598,253)**	(4,760,897)
Net revenue	**13,780,242**	12,717,981	**37,607,159**	33,564,157

14 Contingencies

In the ordinary course of business, from time to time, the Company is involved in various claims related to operations, rights, commercial, employment or other claims. Although such matters cannot be predicted with certainty, management does not consider the Company's exposure to these claims to be material to these Financial Statements.

15 Segmented information

The Company reports segment information based on internal reports used by the chief operating decision maker ["CODM"] to make operating and resource decisions, and to assess performance. The CODM is the Chief Executive Officer. The CODM makes decisions and assesses performance of the Company on a consolidated basis such that the Company is a single reportable operating segment.

The following tables present details on revenue derived from property and equipment domiciled in the following geographical locations as at July 31, 2023 and October 31, 2022 and for the three and nine months ended July 31, 2023 and 2022.

Revenue for the three and nine months ended July 31, 2023 and 2022:

	Three months ended July 31,		**Nine months ended July 31,**	
	2023	2022	**2023**	2022
	$	$	**$**	$
Canada	**8,677,875**	6,867,955	**21,998,591**	16,428,373
United States	**5,102,367**	5,850,026	**15,608,568**	17,135,784
Total	**13,780,242**	12,717,981	**37,607,159**	33,564,157

Property and equipment as at July 31, 2023 and October 31, 2022:

	July 31, 2023	October 31, 2022
	$	$
Canada	**1,710,582**	7,444,560
United States	**3,515,005**	3,763,528
Total	**5,225,587**	11,208,088

[unaudited] [expressed in Canadian dollars, except share amounts]

Right-of-use assets as at July 31, 2023 and October 31, 2022:

	July 31, 2023	October 31, 2022
	$	$
Canada	**156,145**	10,430,353
Total	**156,145**	10,430,353

Intangible assets as at July 31, 2023 and October 31, 2022:

	July 31, 2023	October 31, 2022
	$	$
Canada	**10,990**	32,085
United States	**485,063**	556,681
Total	**496,053**	588,766

16 Finance expense

Finance expense for the three and nine months ended July 31, 2023 and 2022 consists of the following:

	Three months ended July 31,		**Nine months ended July 31,**	
	2023	2022	**2023**	2022
	$	$	**$**	$
Interest on lease obligations	**134,066**	369,666	**424,128**	1,166,368
Interest on borrowings	**1,335,542**	813,066	**3,321,003**	2,289,369
Loss on change in fair value of derivative liability	**100,706**	839,905	**88,076**	1,209,800
Total	**1,570,314**	2,022,637	**3,833,207**	4,665,537

17 Subsequent events

On August 8, 2023, the Company issued 702,003 Subordinate Voting Shares for RSUs that had vested as of July 31, 2023.

Subsequent to July 31, 2023, the Company cancelled 601,380 share options. In exchange for the cancellation of the share options, the Company paid the option holders total consideration of $150,345.

Subsequent to July 31, 2023, the Company amended the terms of the Seawright Mineral Springs Loan. The amendments include:

- An extension of the maturity date from October 1, 2023, to October 1, 2026; and
- An increase to the interest rate from 6.25% per annum to 9.25% per annum.

As part of the Seawright loan amendments, the Company will issue 180,187 subordinate voting shares ("SVS") purchase warrants (the "Warrants"), each Warrant providing Seawright with the option or right to purchase one SVS at an exercise price of CAD$0.50 until September 30, 2028.

The Company also amended the terms of its amended and restated unsecured debentures issued February 28, 2022 with a par value of $9,476,000, and maturing February 29, 2024. The amendments include:

- An extension of the maturity date to February 1, 2026;
- An increase of the interest rate to 14% per annum from 12% per annum previously;
- Cancelling the 8,536,942 Series "C" Warrants previously issued to the holders of Debentures; and
- Issuing a fixed number of Series "D" Warrants for every $1,000 principal amount of Debentures at an exercise price of $0.50 such that the number of Series "D" Warrants issued equals 20% warrant coverage. Each Series "D" Warrant will expire February 1, 2026.