

**KONA BAY TECHNOLOGIES INC.**

to be renamed

**YERBAÉ BRANDS CORP.**

Suite 250 – 750 West Pender Street  
Vancouver, British Columbia, V6C 2T7  
Telephone: 604.685.7450

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**NOTICE OF ANNUAL GENERAL AND SPECIAL  
MEETING OF SHAREHOLDERS TO BE HELD ON  
WEDNESDAY, DECEMBER 21, 2022**

**AND**

**INFORMATION CIRCULAR**

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**Dated as at November 13, 2022**

*Neither the TSX Venture Exchange Inc. nor any securities regulatory authority has in any way passed upon the merits of the reverse takeover described in this Information Circular.*

**KONA BAY TECHNOLOGIES INC.**

Suite 250 – 750 West Pender Street  
Vancouver, British Columbia, V6C 2T7  
Telephone: 604.685.7450

**NOTICE OF ANNUAL GENERAL AND SPECIAL MEETING**

**TO THE SHAREHOLDERS:**

**NOTICE IS HEREBY GIVEN** that the annual general and special meeting (the “**Meeting**”) of shareholders of Kona Bay Technologies Inc. (the “**Company**”) will be held via teleconference only, on Wednesday, December 21, 2022, at the hour of 10:00 a.m. (Vancouver time) for the following purposes:

- (1) to receive the audited financial statements of the Company for the fiscal year ended September 30, 2021;
- (2) to set the number of directors of the Company at four;
- (3) to elect Ron Schmitz, Rose Zanic, Scott Davis, and Gurdeep Phachu as directors of the Company;
- (4) to appoint Charlton & Company, Chartered Professional Accountants, as the auditors of the Company for the fiscal year ending September 30, 2022 and to authorize the directors of the Company to fix the remuneration to be paid to the auditors for the fiscal year ending September 30, 2022;
- (5) to consider and if thought fit, to pass, with or without variation, a special resolution of disinterested shareholders to approve the arrangement agreement and plan of merger dated May 19, 2022 among Yerbaé, Kona Bay, Merger Sub, FinCo, Todd Gibson and Karrie Gibson (the “**Arrangement Agreement**”) and all of the transactions contemplated by the Arrangement Agreement (collectively, the “**Transaction**”), as more particularly described in the accompanying information circular (the “**Information Circular**”);
- (6) to consider and, if thought fit, to pass an ordinary resolution to approve the adoption of a new equity incentive plan for the Company (the “**New Equity Incentive Plan**”) upon closing of the Transaction, as more particularly described in the Information Circular;
- (7) to consider and if thought fit, to pass, an ordinary resolution of disinterested shareholders to authorize and approve the issuance of an aggregate of 8,000,000 performance-based common shares of the Company to an arm’s length party and certain shareholders of Yerbaé outside the limitations of the New Equity Incentive Plan, as and when approved; and
- (8) to transact such further or other business as may properly come before the Meeting and any adjournment or postponement thereof.

The accompanying Information Circular provides additional information relating to the matters to be dealt with at the Meeting and is supplemental to, and expressly made a part of, this notice of Meeting (the “**Notice of Meeting**”).

The board of directors of the Company has fixed November 14, 2022 as the record date for the determination of shareholders entitled to notice of and to vote at the Meeting and at any adjournment or postponement thereof. Each registered shareholder at the close of business on that date is entitled to such notice and to vote at the Meeting in the circumstances set out in the accompanying Information Circular.

The Company will not be providing a physical location for shareholders to attend the Meeting in person. As always, the Company encourages shareholders to vote prior to the Meeting. Shareholders are encouraged to vote on the matters before the Meeting by proxy and to join the Meeting by teleconference. To access the Meeting by

teleconference, dial toll free at: +1 (866) 633-0846, local dial-in number: (604) 639-5229, conference number: 6356874#.

If you are a registered shareholder of the Company and unable to attend the Meeting in person, please vote by proxy by following the instructions provided in the form of proxy at least 48 hours (excluding Saturdays, Sundays and holidays recognized in the Province of British Columbia) before the time and date of the Meeting or any adjournment or postponement thereof.

If you are a non-registered shareholder of the Company and received this Notice of Meeting and accompanying materials through a broker, a financial institution, a participant, or a trustee or administrator of a retirement savings plan, retirement income fund, education savings plan or other similar savings or investment plan registered under the *Income Tax Act* (Canada), or a nominee of any of the foregoing that holds your securities on your behalf (each, an “**Intermediary**”), please complete and return the materials in accordance with the instructions provided to you by your Intermediary.

**DATED** at Vancouver, British Columbia, this 13<sup>th</sup> day of November, 2022.

By Order of the Board of Directors of

**KONA BAY TECHNOLOGIES INC.**

“Ron Schmitz”

Ron Schmitz

Chief Executive Officer and Director

**PLEASE VOTE. YOUR VOTE IS IMPORTANT. WHETHER OR NOT YOU EXPECT TO ATTEND THE MEETING PLEASE VOTE BY PROXY BY FOLLOWING THE INSTRUCTIONS PROVIDED IN THE ENCLOSED PROXY.**

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## GLOSSARY OF TERMS

The following is a glossary of certain defined terms used throughout this Information Circular. This is not an exhaustive list of defined terms used in this Information Circular and additional terms are defined throughout. Terms and abbreviations used in the financial statements and MD&A of Kona Bay and Yerbaé and in the pro forma consolidated financial statements of the Resulting Issuer are defined separately and the terms and abbreviations defined below are not used therein, except where otherwise indicated. Words importing the singular, where the context requires, include the plural and vice versa, and words importing any gender include all genders.

**“Administrator”** means the administrator of the Yerbaé Brands Co. 2022 Stock Option Plan;

**“Affiliate”** means a company that is affiliated with another company as described below.

A company is an “Affiliate” of another company if:

- (a) one of them is the subsidiary of the other, or
- (b) each of them is controlled by the same Person.

A company is **“controlled”** by a Person if:

- (a) voting securities of the company are held, other than by way of security only, by or for the benefit of that Person, and
- (b) the voting securities, if voted, entitle the Person to elect a majority of the directors of the company.

A Person beneficially owns securities that are beneficially owned by:

- (a) a company controlled by that Person, or
- (b) an Affiliate of that Person or an Affiliate of any company controlled by that Person;

**“Aggregate Existing Stockholders Unreturned Contribution Amount”** has the meaning ascribed to that term under *“Schedule “C” – Information Concerning Yerbaé Brands Co. – Description of the Securities – Common Stock”*;

**“Aggregate Unreturned Contribution Amount”** has the meaning ascribed to that term under *“Schedule “C” – Information Concerning Yerbaé Brands Co. – Description of the Securities – Common Stock”*;

**“Aggregate Later Stockholder Unreturned Contribution Amount”** has the meaning ascribed to that term under *“Schedule “C” – Information Concerning Yerbaé Brands Co. – Description of the Securities – Common Stock”*;

**“allowable capital loss”** has the meaning ascribed to that term under *“Particulars of Matters to be Acted Upon – Approval of the Transaction – Certain Canadian Federal Income Tax Considerations – Taxation of Capital Gains and Capital Losses”*;

**“AmalCo”** has the meaning ascribed to that term under *“Particulars of Matters to be Acted Upon – Approval of the Transaction – Concurrent Financing and Amalgamation”*;

**“AmalCo Shares”** has the meaning ascribed to that term under *“Particulars of Matters to be Acted Upon – Approval of the Transaction – Principal Steps of the Arrangement”*;

**“Amalgamation”** has the meaning ascribed to that term under *“Particulars of Matters to be Acted Upon – Approval of the Transaction – Concurrent Financing and Amalgamation”*;

**“Arm’s Length Transaction”** means a transaction which is not a Related Party Transaction.

**“Arrangement”** means the arrangement under Part 9, Division 5 of the BCBCA as described in the Plan of Arrangement, subject to any amendments or supplements thereto made in accordance with the Arrangement Agreement and the provisions of the Plan of Arrangement or made at the direction of the Court in the Final Order;

**“Arrangement Agreement”** means the arrangement agreement and plan of merger dated May 19, 2022 among Yerbaé, Kona Bay, Merger Sub, FinCo, Todd Gibson and Karrie Gibson;

**“Arrangement Resolution”** has the meaning given to such term under *“Particulars of Matters to be Acted Upon – Approval of the Transaction”*;

**“ASC”** means the Alberta Securities Commission;

**“ASI Accounting”** means ASI Accounting Services Inc.;

**“Associate”** when used to indicate a relationship with a Person, means: (a) an issuer of which the Person beneficially owns or controls, directly or indirectly, voting securities entitling him to more than 10% of the voting rights attached to outstanding securities of the issuer, (b) any partner of the Person, (c) any trust or estate in which the Person has a substantial beneficial interest or in respect of which a Person serves as trustee or in a similar capacity, or (d) in the case of an individual, a relative of that individual, including: (i) that individual’s spouse or child, or (ii) any relative of the individual or of his spouse who has the same residence as that individual;

**“Audit Committee”** means the Audit Committee of Kona Bay;

**“Award”** has the meaning ascribed to that term under *“Schedule “C” – Information Concerning Yerbaé Brands Co. – Description of Securities – Terms of the Yerbaé Brands Co. 2022 Stock Option Plan”*;

**“BCBCA”** means the *Business Corporations Act* (British Columbia) and the regulations thereunder, as amended from time to time;

**“BCSC”** means the British Columbia Securities Commission;

**“Beneficial Shareholders”** has the meaning ascribed to that term under *“Advice to Beneficial Shareholders”*;

**“Board”** means the board of directors of Kona Bay;

**“Bridge Loan”** means a bridge loan advanced by Klutch, in the minimum amount of US\$2,000,000 to Yerbaé and on closing, it will convert into Kona Bay Units at a conversion price of US\$0.68 per Kona Bay Unit;

**“Broadridge”** means Broadridge Financial Solutions, Inc.;

**“CAGR”** means compound annual growth rate;

**“Capital Asset”** means Capital Asset Investments LLC;

**“Cartograph Agreement”** means the consulting agreement dated April 28, 2022 between Yerbaé LLC and Cartograph LLC;

**“Cashless Exercise Right”** has the meaning ascribed to that term under *“Particulars of Matters to be Acted Upon – Adoption of New Equity Incentive Plan – Eligible Persons under the New Equity Incentive Plan – Types of Awards – Kona Bay Options”*;

**“CEO”** means chief executive officer;

“**CFO**” means chief financial officer;

“**Clinton Agreement**” means the contract manufacturing agreement dated February 1, 2020 between Clinton’s Ditch Cooperative Company Inc. and Yerbaé LLC;

“**Closing**” means the closing of the Merger;

“**Closing Date**” means the date of the Closing;

“**CMO**” means chief marketing officer;

“**Code**” means the United States *Internal Revenue Code of 1986*, as amended, and the applicable U.S. Treasury Regulations;

“**Company**” or “**Kona Bay**” means Kona Bay Technologies Inc.;

“**Compensation Securities**” includes stock options, convertible securities, exchangeable securities and similar instruments including stock appreciation rights, deferred share units and restricted stock units granted or issued by the Company or one of its subsidiaries for services provided or to be provided, directly or indirectly, to the Company or any of its subsidiaries;

“**Control Person**” means any Person that holds, or is one of a combination of Persons that holds, a sufficient number of any of the securities of an issuer so as to affect materially the control of that issuer, or that holds more than 20% of the outstanding voting securities of an issuer except where there is evidence showing that the holder of those securities does not materially affect the control of the issuer;

“**Concurrent Financing**” means the non-brokered private placement of FinCo to raise minimum gross proceeds of US\$5,000,000 (less any amounts raised by Kona Bay, Yerbaé or any Affiliate thereof concurrent to the Transaction, excluding the Bridge Loan) by way of issuance of FinCo Subscription Receipts at a price of US\$1.23 per FinCo Subscription Receipt;

“**Consolidation**” has the meaning ascribed to that term under “*Particulars of Matters to be Acted Upon – Approval of the Transaction – Share Consolidation*”;

“**Convertible Promissory Notes**” means, collectively, the convertible promissory notes in the respective principal amounts of US\$1,000,000 and US\$2,000,000 issued by Yerbaé to Klutch;

“**COO**” means chief operating officer;

“**Court**” means the Supreme Court of British Columbia;

“**CRA**” means the Canada Revenue Agency;

“**CTO**” means cease trade order;

“**Current Stock Option Plan**” means Kona Bay’s current 10% rolling stock option plan, last ratified by the Kona Bay Shareholders at the Company’s annual general and special meeting held on December 11, 2020;

“**DGCL**” means the Delaware *General Corporation Law*;

“**Debt**” has the meaning ascribed to that term under “*Schedule “C” – Information Concerning Yerbaé Brands Co. – General Development of the Business – History – Promissory Note*”;

“**Deemed Dividend Election**” has the meaning ascribed to that term under “*Particulars of Matters to be Acted Upon – Approval of the Transaction – Certain United States Federal Income Tax Considerations – U.S. Federal Tax Consequences to U.S. Holders Effect of Code Section 367*”;

**“Designated Persons”** has the meaning ascribed to that term under *“Proxies and Voting Rights – Appointment of Proxy”*;

**“Director of Finance Agreement”** means employment letter agreement dated January 1, 2022 between Yerbaé and Nicholas Cranny;

**“Dissent Rights”** means the rights of dissent exercisable by the Yerbaé Shareholders in respect of the Arrangement described in Article 5 of the Plan of Arrangement;

**“Dissenting Shares”** means the Yerbaé Shares in respect to which the Yerbaé Shareholders duly and validly exercise Dissent Rights;

**“EAR Plan”** means Yerbaé’s Equity Appreciation Rights Plan dated May 1, 2017;

**“Effective Date”** has the meaning ascribed to that term under the Plan of Arrangement;

**“Effective Time”** has the meaning ascribed to that term under the Plan of Arrangement;

**“Elective Deferral Contributions”** has the meaning ascribed to that term under *“Schedule “C” – Information Concerning Yerbaé Brands Co. – Executive Compensation – Defined Benefit Plans”*;

**“End Date”** means September 30, 2022, unless otherwise extended by the Parties;

**“E.S.I. Environmental”** has the meaning ascribed to that term under *“Election of Directors – Orders”*;

**“Existing Stockholders”** has the meaning ascribed to that term under *“Schedule “C” – Information Concerning Yerbaé Brands Co. – Description of the Securities – Common Stock”*;

**“Exchange”** means the TSX Venture Exchange;

**“Exchange Act”** means the United States *Securities Exchange Act of 1934*, as amended and the rules and regulations promulgated thereunder;

**“Exchange Ratio”** means one post-Consolidation Kona Bay Share for each one Yerbaé Share;

**“FATCA”** means the *Foreign Account Tax Compliance Act* (United States) and the regulations thereunder, as amended from time to time;

**“Fairness Opinion”** means the opinion on the fairness on the terms and conditions of the Transaction by Evans & Evans, Inc. dated September 29, 2022, a copy of which is attached as Schedule “N” to this Information Circular;

**“Final Exchange Bulletin”** means the TSXV bulletin which is issued following closing of the RTO and the submission of all required documentation which evidences the final TSXV acceptance of the RTO;

**“Final Order”** means the final order of the Court providing advice and directions in connection with the Meeting and the Arrangement;

**“FinCo”** means 1362283 B.C. Ltd.;

**“FinCo Shares”** means common shares in the capital of the FinCo;

**“FinCo Subscription Receipt”** has the meaning ascribed to that term under *“Particulars of Matters to be Acted Upon – Approval of the Transaction – Concurrent Financing and Amalgamation”*;

**“FinCo Subscription Receipt Certificate”** has the meaning ascribed to that term under *“Particulars of Matters to be Acted Upon – Approval of the Transaction – Concurrent Financing and Amalgamation”*;

“**FIRPTA**” means *Foreign Investment in Real Property Tax Act* of 1980 (United States) and the regulations thereunder, as amended from time to time;

“**Form 51-102F6**” means Form 51-102F6 – *Statement of Executive Compensation*;

“**Form 51-102F6V**” means Form 51-102F6V – *Statement of Executive Compensation – Venture Issuers*;

“**Future Farm**” has the meaning ascribed to that term under “*Election of Directors – Orders*”;

“**General Business Security Agreement**” has the meaning ascribed to that term under “*Schedule “C” – Information Concerning Yerbaé Brands Co. – General Development of the Business – History – Capital Asset Promissory Note*”;

“**Globalization Partners**” means Globalization Partners ULC;

“**Growth Line of Credit Agreement**” has the meaning ascribed to that term under “*Schedule “C” – Information Concerning Yerbaé Brands Co. – General Development of the Business – History – Growth Line of Credit Agreement*”;

“**HSR Act**” means the *Hart-Scott-Rodino Antitrust Improvements Act* of 1976, as amended;

“**IFRS**” means International Financial Reporting Standards as issued by the International Accounting Standards Board;

“**Incentive Stock Option**” or “**ISO**” means options that qualify as an incentive stock option within the meaning of Section 422 of the Code;

“**Information Circular**” means this information circular dated November 13, 2022, together with all schedules hereto;

“**Insider**” if used in relation to an issuer, means:

- (a) a director or senior officer of the issuer,
- (b) a director or senior officer of a company that is an Insider or subsidiary of the issuer,
- (c) a Person that beneficially owns or controls, directly or indirectly, voting shares carrying more than 10% of the voting rights attached to all outstanding voting shares of the issuer, or
- (d) the issuer itself if it holds any of its own securities;

“**Interim Order**” means the interim order of the Court providing advice and directions in connection with the Meeting and the Arrangement;

“**Intermediary**” means a broker, a financial institution, a participant, or a trustee or administrator of a retirement savings plan, retirement income fund, education savings plan or other similar savings or investment plan registered under the Tax Act, or a nominee of any of the foregoing that holds your securities on behalf of a non-registered shareholder of the Company;

“**IRS**” means the United States Internal Revenue Service;

“**Klutch**” means Klutch Financial Corp.;

“**Kona Bay Change of Name**” means the change of name of Kona Bay to “Yerbaé Brands Corp.”, which name change is expected to occur concurrently with the Closing;



**“Kona Bay Exchange Options”** means options to purchase Kona Bay Shares issued in exchange for Yerbaé Options pursuant to the Arrangement;

**“Kona Bay Exchange Warrants”** means share purchase warrants to purchase Kona Bay Shares issued in exchange for Yerbaé Warrants pursuant to the Arrangement;

**“Kona Bay Financial Statements”** means, collectively, the financial statements of Kona Bay for the fiscal years ended September 30, 2021 and September 30, 2020 and the nine month period ended June 30, 2022;

**“Kona Bay Preferred Shares”** means preferred shares in the capital of Kona Bay;

**“Kona Bay Shares”** means common shares in the capital of Kona Bay;

**“Kona Bay Shareholders”** means, collectively, the holders of Kona Bay Shares, from time to time;

**“Kona Bay-US”** has the meaning ascribed to that term under *“Particulars of Matters to be Acted Upon – Approval of the Transaction – Certain United States Federal Income Tax Considerations – Tax Classification of the Resulting Issuer as a U.S. Domestic Corporation”*;

**“Kona Bay Warrants”** means share purchase warrants of Kona Bay;

**“Later Stockholders”** has the meaning ascribed to that term under *“Schedule “C” – Information Concerning Yerbaé Brands Co. – Description of the Securities – Common Stock”*;

**“Listing Date”** means the date on which the Resulting Issuer Shares commence trading on the TSXV;

**“Mark-to-Market Election”** has the meaning ascribed to that term under *“Particulars of Matters to be Acted Upon – Approval of the Transaction – Certain United States Federal Income Tax Considerations – Tax Consequences of the U.S. Tax Reorganization if Kona Bay is Classified as a PFIC”*;

**“MD&A”** means Management’s Discussion and Analysis;

**“Meeting”** means the annual general and special meeting of Kona Bay Shareholders scheduled to be held at 10:00 a.m. (Vancouver time) on December 21, 2022 and any adjournment(s) or postponement(s) thereof, to be called and held in accordance with the Interim Order to consider and to vote on the Arrangement Resolution and any other matters set out in the Notice of Meeting;

**“Merger”** means the merger whereby Merger Sub will merge with and into Yerbaé, the separate corporate existence of Merger Sub will cease, and Yerbaé will continue its corporate existence under the DGCL as the surviving corporation in the Merger and a subsidiary of Kona Bay;

**“Merger Sub”** means Kona Bay Technologies (Delaware) Inc.;

**“Named Executive Officers”** or **“NEO”** means, in relation to a company, each of the following individuals:

- (a) any individual who acted as CEO of the company, or acted in a similar capacity, for any part of the most recently completed financial year,
- (b) any individual who acted as CFO of the company, or acted in a similar capacity, for any part of the most recently completed financial year,
- (c) the most highly compensated executive officer, other than the CEO and CFO, at the end of the most recently completed financial year whose total compensation was more than \$150,000, as determined in accordance with subsection 1.3(5) of Form 51-102F6V, for that financial year, and

- (d) each individual who would be a NEO under paragraph (c) but for the fact that the individual was neither an executive officer of the company, nor acting in a similar capacity, at the end of that financial year;

**“New Equity Incentive Plan”** has the meaning ascribed to that term under *“Particulars of Matters to be Acted Upon – Adoption of New Equity Incentive Plan”*;

**“NEX”** means the NEX Board of the TSXV;

**“NI 54-101”** means National Instrument 54-101 – *Communication with Beneficial Owners of Securities of a Reporting Issuer*;

**“NI 52-110”** means National Instrument 52-110 – *Audit Committees*;

**“NOBO”** has the meaning ascribed to that term under *“Advice to Beneficial Shareholders”*;

**“Notice”** means the notice of annual general and special meeting of Kona Bay Shareholders which accompanies this Information Circular;

**“Non-Electing Shareholder”** means a shareholder of PFIC stock who does not make a timely QEF Election;

**“Non-GMO Project”** means the project trademark license agreement between the Non-GMO Project and Yerbaé LLC dated May 4, 2017;

**“Non-Resident Shareholder”** has the meaning ascribed to that term under *“Particulars of Matters to be Acted Upon – Approval of the Transaction – Certain Canadian Federal Income Tax Considerations – Shareholders Resident in Canada – Non-Residents of Canada”*;

**“Non-statutory Stock Option”** has the meaning ascribed to that term under *“Schedule “C” – Information Concerning Yerbaé Brands Co. – Description of Securities – Terms of the Yerbaé Brands Co. 2022 Stock Option Plan”*;

**“Non U.S. Holder”** has the meaning ascribed to that term under *“Particulars of Matters to be Acted Upon – Approval of the Transaction – Tax Considerations for Non U.S. Holders Regarding Holding and Disposing of Resulting Issuer Shares – Definition of a Non U.S. Holder”*;

**“Non-Voting Common Stockholders”** means the shareholders of Yerbaé that hold non-voting Yerbaé Shares;

**“Non-Voting Stockholders Agreement”** means the non-voting stockholders agreement between Yerbaé and the Non-Voting Common Stockholders dated September 14, 2020;

**“OBO”** has the meaning ascribed to that term under *“Advice to Beneficial Shareholders”*;

**“Operating Subsidiary”** has the meaning ascribed to that term under *“Particulars of Matters to be Acted Upon – Approval of the Transaction – The Merger”*;

**“Option Agreement”** means the document reflecting the terms of any Yerbaé Option granted under the Yerbaé Brands Co. 2022 Stock Option Plan;

**“Participant”** has the meaning ascribed to that term under *“Particulars of Matters to be Acted Upon – Adoption of New Equity Incentive Plan – Eligible Persons under the New Equity Incentive Plan”*;

**“Party”** means any of Kona Bay, Merger Sub, FinCo, Yerbaé, Todd Gibson or Karrie Gibson and **“Parties”** means all of them;

**“Performance-Based Awards”** means, collectively, DSUs, PSUs and RSUs;

**“Performance Share”** has the meaning ascribed to that term under *“Particulars of Matters to be Acted Upon – Approval of the Transaction – Performance Shares”*;

**“Person”** is to be construed broadly and includes any individual, company, partnership, joint venture, association, trust, trustee, executor, administrator, unincorporated association, governmental entity or other entity, whether or not having legal status;

**“PFIC”** has the meaning ascribed to that term under *“Particulars of Matters to be Acted Upon – Approval of the Transaction – Certain United States Federal Income Tax Considerations – Tax Consequences of the U.S. Tax Reorganization if Kona Bay is Classified as a PFIC”*;

**“Plan”** includes any plan, contract, authorization or arrangement, whether or not set out in any formal document, where cash, Compensation Securities or any other property may be received, whether for one or more persons;

**“Plan of Arrangement”** means the plan of arrangement, substantially in the form of attached as Schedule M hereto, and any amendments or variations thereto made in accordance with such plan of arrangement upon the direction of the Court in the Final Order with the consent of Yerbaé and Kona Bay, each acting reasonably;

**“Policy 2.2”** means TSXV Policy 2.2 – *Sponsorship and Sponsorship Requirements*;

**“Policy 4.4”** means TSXV Policy 4.4 – *Security Based Compensation*;

**“Policy 5.2”** means TSXV Policy 5.2 – *Change of Business and Reverse Takeovers*;

**“Policy 5.9”** means TSXV Policy 5.9 – *Protection of Minority Security Holders in Special Transactions*;

**“Pro Forma Financial Statements”** means the unaudited pro forma financial statements for the Resulting Issuer as at June 30, 2022, to give effect to the Transaction as if it had taken place as of June 30, 2022, which are attached as Schedule “I” to this Information Circular;

**“PSU Deferral Notice”** has the meaning ascribed to that term under *“Particulars of Matters to be Acted Upon – Adoption of New Equity Incentive Plan – Eligible Persons under the New Equity Incentive Plan – Types of Awards – Performance Share Units”*;

**“PSUs”** means performance share units;

**“QEF”** and **“QEF Election”** have the meanings ascribed to those terms under *“Particulars of Matters to be Acted Upon – Approval of the Transaction – Certain United States Federal Income Tax Considerations – Tax Consequences of the U.S. Tax Reorganization if Kona Bay is Classified as a PFIC”*;

**“Related Party Transaction”** has the meaning ascribed to that term in Policy 5.9, and includes a related party transaction that is determined by the TSXV, to be a Related Party Transaction;

**“Resident Shareholder”** has the meaning ascribed to that term under *“Particulars of Matters to be Acted Upon – Approval of the Transaction – Certain Canadian Federal Income Tax Considerations – Shareholders Resident in Canada – Shareholders Resident in Canada”*;

**“Restricted Stock”** has the meaning ascribed to that term under *“Schedule “C” – Information Concerning Yerbaé Brands Co. – Description of Securities – Terms of the Yerbaé Brands Co. 2022 Stock Option Plan”*;

**“Resulting Issuer”** means Kona Bay following the date of issuance of the Final Exchange Bulletin, anticipated to carry on under the name “Yerbaé Brands Corp.” following the Kona Bay Change of Name;

**“Resulting Issuer Board”** means the board of directors of the Resulting Issuer;

**“Resulting Issuer Options”** means options to acquire Resulting Issuer Shares;

**“Resulting Issuer Preferred Shares”** means preferred shares in the capital of the Resulting Issuer;

**“Resulting Issuer Shares”** means the Kona Bay Shares following the date of issuance of the Final Exchange Bulletin;

**“Resulting Issuer Warrants”** means the Kona Bay Warrants following the date of issuance of the Final Exchange Bulletin;

**“Retirement Plan”** has the meaning ascribed to that term under *“Schedule “C” – Information Concerning Yerbaé Brands Co. – Executive Compensation – Defined Benefit Plans”*;

**“Retirement Plan Contribution”** has the meaning ascribed to that term under *“Schedule “C” – Information Concerning Yerbaé Brands Co. – Executive Compensation – Defined Benefit Plans”*;

**“Roth Canada”** means Roth Canada, ULC, an arm’s length party to each of Kona Bay and Yerbaé;

**“Roth Contributions”** has the meaning ascribed to that term under *“Schedule “C” – Information Concerning Yerbaé Brands Co. – Executive Compensation – Defined Benefit Plans”*;

**“Roth Engagement Agreement”** means the engagement agreement dated September 27, 2021 between Yerbaé and Roth Canada;

**“RSU Deferral Notice”** has the meaning ascribed to that term under *“Particulars of Matters to be Acted Upon – Adoption of New Equity Incentive Plan – Eligible Persons under the New Equity Incentive Plan – Types of Awards – Restricted Share Units”*;

**“RSUs”** means restricted share units;

**“RTO”** has the meaning ascribed to that term in the policies of the TSXV;

**“SBA”** means small business administration;

**“SEC”** means the U.S. Securities and Exchange Commission;

**“SEDAR”** means the System for Electronic Document Analysis and Retrieval;

**“Settlement Agreement”** means the settlement and release agreement dated April 11, 2022 (the **“Settlement Agreement”**) among Yerbaé, Todd Gibson, Karrie Gibson, Capital Asset, Canal Yerbaé LLC, Krey Investments LLC, Harbor Investments LLC, BEA Investments LLC, Voting Common Stock – Class B Yerbaé Shares, and certain shareholders holding certain classes of Class D non-voting Yerbaé Shares;

**“SmartRent Sublease”** means the sublease agreement dated February 10, 2022 between SmartRent Technologies Inc., as sublandlord and Yerbaé, LLC as subtenant for office premises in Scottsdale, Arizona;

**“Subsidiary”** has the meaning ascribed to that term under *“Particulars of Matters to be Acted Upon – Approval of the Transaction – Concurrent Financing and Amalgamation”*;

**“Superior Proposal”** means a bona fide takeover proposal with respect to the applicable Party that such Party’s board determines in good faith is more favourable from a financial point of view to the holders of such Party’s common shares than the Arrangement Agreement;

**“Tax Act”** means the *Income Tax Act* (Canada) and the regulations thereunder, as amended from time to time;

**“taxable capital gain”** has the meaning ascribed to that term under *“Particulars of Matters to be Acted Upon – Approval of the Transaction – Certain Canadian Federal Income Tax Considerations – Taxation of Capital Gains and Capital Losses”*;

**“Tax Proposals”** has the meaning ascribed to that term under *“Particulars of Matters to be Acted Upon – Approval of the Transaction – Certain Canadian Federal Income Tax Considerations”*;

**“Transaction”** means, collectively: (a) the acquisition by Kona Bay of all of the issued and outstanding securities of Yerbaé from the Yerbaé securityholders; (b) the Concurrent Financing; (c) the Arrangement; and (d) all other transactions contemplated by the Arrangement Agreement;

**“Transfer Agent”** means Odyssey Trust Company;

**“TSXV”** means the TSX Venture Exchange;

**“Upcountry Agreement”** means a digital marketing services agreement dated September 2, 2021 between Yerbaé LLC and Upcountry Strategy Ltd.;

**“U.S.”, “USA” or “United States”** means the United States of America, its territories and possessions;

**“USRPI”** means U.S. real property interest;

**“USRPHC”** means a U.S. real property holding corporation;

**“U.S. Holder”** has the meaning ascribed to that term under *“Particulars of Matters to be Acted Upon – Approval of the Transaction – Certain United States Federal Income Tax Considerations”*;

**“U.S. Securities Act”** means the United States *Securities Act of 1933*, as amended and the rules and regulations promulgated thereunder;

**“U.S. Tax Reorganization”** means the treatment of Kona Bay as converting into a U.S. domestic corporation pursuant to a reorganization under Section 368(a)(1)(F) of the Code;

**“U.S. Treasury Regulations”** means the regulations promulgated by the U.S. Treasury Department under the Code;

**“Value Security Escrow Agreement”** means the escrow agreement in Form 5D – *Escrow Agreement* to be entered into by and among the Escrow Agent, the Resulting Issuer and certain of the former Yerbaé Shareholders concurrently with or prior to the Closing;

**“Voluntary Escrowed Securities”** has the meaning ascribed to that term under *“Schedule “D” – Information Concerning the Resulting Issuer – Escrowed Securities”*;

**“Voting Common Stockholders”** means the shareholders of Yerbaé that hold voting Yerbaé Shares;

**“Voting Stockholders Agreement”** means the voting stockholders agreement between Yerbaé and the Voting Common Stockholders dated September 14, 2020;

**“VP”** means vice president;

**“Yerbaé”** means Yerbaé Brands Co.;

**“Yerbaé Adverse Recommendation Change”** means the Yerbaé Board:

- (a) failing to make, withdraw, amend, modify, or materially qualify, in a manner adverse to Kona Bay, the recommendation of the Yerbaé Board;
- (b) failing to include the recommendation of the Yerbaé Board in the materials mailed to the Yerbaé Shareholders in connection with the meeting;
- (c) recommending a takeover proposal;
- (d) failing to recommend against acceptance of any tender offer or exchange offer for the Yerbaé Shares within ten business days after the commencement of such offer;
- (e) failing to reaffirm the recommendation of the Yerbaé Board within ten business days after the date any takeover proposal is first publicly disclosed;
- (f) making any public statement inconsistent with the recommendation of the Yerbaé Board; or
- (g) resolving or agreeing to take any of the foregoing action;

**“Yerbaé Board”** means the board of directors of Yerbaé;

**“Yerbaé Brands Co. 2022 Stock Option Plan”** means Yerbaé’s current 10% rolling stock option plan, as originally adopted by the Yerbaé Board on April 1, 2022;

**“Yerbaé CEO Agreement”** means the employment letter agreement dated January 1, 2022 between Yerbaé and Todd Gibson;

**“Yerbaé COO Agreement”** means the employment letter agreement dated January 1, 2022 between Yerbaé and Karrie Gibson;

**“Yerbaé CMO Agreement”** means the employment letter agreement dated October 15, 2021 between Yerbaé and Brian Neumann through Globalization Partners;

**“Yerbaé Financial Statements”** means, collectively, the financial statements of Yerbaé for the fiscal years ended December 31, 2021 and December 31, 2020 and the six month period ended June 30, 2022;

**“Yerbaé LLC”** means a Delaware limited liability company and Yerbaé’s wholly owned subsidiary;

**“Yerbaé Options”** means outstanding options to purchase Yerbaé Shares issued pursuant to the Yerbaé Brands Co. 2022 Stock Option Plan;

**“Yerbaé Preferred Shares”** means first preferred shares in the capital of Yerbaé;

**“Yerbaé Restricted Shares”** means the outstanding Yerbaé Shares subject to vesting, repurchase or other restrictions;

**“Yerbaé Shares”** means common shares in the capital of Yerbaé;

**“Yerbaé Shareholders”** means, collectively, the holders of Yerbaé Shares, from time to time;

**“Yerbaé Stock Split”** has the meaning ascribed to that term under *“Schedule ‘C’ – Information Concerning Yerbaé Brands Co. – Corporate Structure – Name and Incorporation”*;

**“Yerbaé Units”** means units of Yerbaé, each exercisable at a conversion price of US\$0.68 per unit into one Voting Common Stock – Class A Yerbaé Share and one Yerbaé Warrant, in connection with the Convertible Promissory

Notes, with each Yerbaé Warrant entitling the holder thereof to purchase one additional Yerbaé Share at a price of US\$0.85 per Yerbaé Share for a period of 3 years;

**“Yerbaé VP Agreement”** means the employment letter agreement dated July 10, 2018 between Yerbaé and Seth Smith; and

**“Yerbaé Warrants”** means share purchase warrants of Yerbaé providing the holder thereof with the right to purchase Yerbaé Shares.

**KONA BAY TECHNOLOGIES INC.**

Suite 250 – 750 West Pender Street  
Vancouver, British Columbia, V6C 2T7  
Telephone: 604.685.7450

**INFORMATION CIRCULAR  
NOVEMBER 13, 2022**

**INTRODUCTION**

This Information Circular accompanies the Notice and is furnished to Kona Bay Shareholders holding Kona Bay Shares as at the record date of November 14, 2022 in connection with the solicitation by the management of the Company of proxies to be voted at the Meeting, which is to be held via teleconference only, at 10:00 a.m. on Wednesday, December 21, 2022, or at any adjournment or postponement thereof. To access the Meeting by teleconference, dial toll free at: +1 (866) 633-0846, local dial-in number: (604) 639-5229, conference number: 6356874#.

**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

Certain statements and information contained in this Information Circular constitute forward-looking statements or forward-looking information (collectively “**forward-looking statements**”) within the meaning of applicable Securities Laws. All statements other than statements of historical fact are forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words or phrases such as “may”, “is expected to”, “anticipates”, “estimates”, “intends”, “plans”, “projection”, “could”, “vision”, “goals”, “objective”, “outlook” or similar words suggesting future outcomes or language suggesting an outlook. In particular, this Information Circular contains forward-looking statements with respect to:

- completion of the Transaction;
- timing of completion of the Transaction;
- the Resulting Issuer’s proposed business model;
- the composition of the management of the Resulting Issuer and the Resulting Issuer Board;
- the listing of the Resulting Issuer Shares on the TSXV;
- the business of Yerbaé and the Resulting Issuer, including;
- the adequacy of financial resources and requirements for additional capital;
- the adoption of corporate governance policies by the Resulting Issuer;
- the ability and method of funding the Resulting Issuer’s operations;
- the ability of Yerbaé or the Resulting Issuer to commercialize its operations;
- political, social, competitive and economic conditions affecting Yerbaé and the Resulting Issuer;
- the compensation plans and objectives of the Resulting Issuer’s management and the Resulting Issuer Board;
- the Resulting Issuer’s proposed equity compensation plan;



- the Resulting Issuer's share capital and corporate capitalization;
- future expenditures to be incurred by the Resulting Issuer;
- the Resulting Issuer's ability to meet current and future obligations;
- the Resulting Issuer's adequacy of insurance coverage;
- conflicts of interest with respect to the Resulting Issuer's management and the Resulting Issuer Board;
- the Resulting Issuer's intentions to pay dividends; and
- the intended use of proceeds by the Resulting Issuer following the Closing.

Forward-looking statements in this Information Circular are based on the current beliefs of management of Kona Bay and Yerbaé, as well as assumptions made by, and information currently available to, Kona Bay and Yerbaé, as applicable, regarding, among other things:

- the completion of the Transaction and related matters;
- the completion of the Kona Bay Change of Name;
- the listing of the Resulting Issuer Shares on the TSXV;
- the success of the operations of the Resulting Issuer;
- Kona Bay, Yerbaé and the Resulting Issuer's ability to obtain all required approvals in connection with the Transaction;
- the impact of competition and the competitive response to the Resulting Issuer's business strategy;
- the timing and amount of capital and other expenditures;
- product prices;
- the ability to find suitable industry partners, customers and suppliers;
- the ability to attract and retain qualified management and personnel;
- the conditions in financial markets and the economy generally; and
- the ability of the Resulting Issuer to obtain additional financing on satisfactory terms or at all.

The actual results, performance or achievements of the Resulting Issuer could differ materially from those anticipated in the forward-looking statements contained in this Information Circular as a result of the risk factors set forth below and in "*Schedule "A" – Risk Factors*", including, but not limited to:

- the failure of Kona Bay and Yerbaé to complete the Transaction in all material respects in accordance with the Arrangement Agreement or at all;
- the failure of the Resulting Issuer to realize the anticipated benefits of the Transaction;

- the failure of the Resulting Issuer to operate and grow Yerbaé's business effectively;
- the availability of financial resources to fund the Resulting Issuer's expenditures;
- competition for, among other things, capital reserves and skilled personnel;
- the adverse effect of competitors on Yerbaé's operation, strategies and profitability;
- the impact of negative cash flows on Yerbaé operations and how, if Yerbaé is unable to obtain further financing, Yerbaé's business operations may fail;
- the Resulting Issuer's ability to protect its intellectual property;
- prevailing regulatory, tax and other applicable laws and regulations;
- risks associated with being a publicly-traded company, including financial reporting and other public company requirements;
- legal proceedings and the enforceability of judgments against the Resulting Issuer;
- stock market volatility and market valuations;
- the uncertainty of global financial markets; and
- the COVID-19 pandemic or any other pandemic and its effects on the global economy.

Readers are cautioned that these factors and risks are difficult to predict and that the assumptions used in the preparation of such information, although considered reasonably accurate at the time of preparation, may prove to be incorrect. Accordingly, readers are cautioned that the actual results achieved will vary from the information provided herein and the variations may be material. Readers are also cautioned that the foregoing list of factors is not exhaustive. Consequently, there is no representation by Kona Bay and Yerbaé that actual results achieved will be the same in whole or in part as those set out in the forward-looking statements. Furthermore, the forward-looking statements contained in this Information Circular are made as of the date hereof, and neither Kona Bay and Yerbaé undertakes any obligation, except as required by applicable Securities Laws, to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise. The forward-looking statements contained in this Information Circular and the documents referred to herein are expressly qualified by this cautionary statement.

#### **YERBAÉ INFORMATION**

The information contained or referred to in this Information Circular relating to Yerbaé has been furnished by Yerbaé. In preparing this Information Circular, Kona Bay has relied upon Yerbaé to ensure that the Information Circular contains full, true and plain disclosure of all material facts relating to Yerbaé. Although Kona Bay has no knowledge that would indicate that any statements contained herein concerning Yerbaé are untrue or incomplete, neither Kona Bay nor any of its directors or officers assumes any responsibility for the accuracy or completeness of such information or for any failure by Yerbaé to ensure disclosure of events or facts that may have occurred which may affect the significance or accuracy of any such information.

#### **DATE OF INFORMATION**

Except as otherwise indicated in this Information Circular, all information disclosed in this Information Circular is as of November 13, 2022, and the phrase "as of the date hereof" and equivalent phrases refer to such date.

**CURRENCY**

In this Information Circular, references to “\$” or “dollars” are to the lawful currency of Canada, unless otherwise stated.

## TRANSACTION SUMMARY

*The following is a summary of information relating to Kona Bay, Yerbaé and the Resulting Issuer (assuming completion of the Transaction) and should be read together with the more detailed information and financial data and statements contained elsewhere in this Information Circular. This summary is provided for convenience only and is qualified in its entirety by the more detailed information appearing or referred to elsewhere in this Information Circular, including the schedules hereto. Terms with initial capital letters in this summary are defined in the Glossary of Terms or elsewhere in this Information Circular.*

### **Kona Bay Technologies Inc.**

Kona Bay Technologies Inc. was formed by way of an amalgamation. On June 30, 2003, Nova Canada Enterprises Ltd. and Stepstone Enterprises Ltd. amalgamated as one company under the name "Stepstone Enterprises Ltd." On August 31, 2004, the Company filed articles of amendment changing its name from "Stepstone Enterprises Ltd." to "ACT360 Solutions Ltd." Effective June 2, 2016, the Company filed articles of amendment changing its name from "ACT360 Solutions Ltd." to "Kona Bay Technologies Inc."

The Company's head office and principal address is 250 – 750 West Pender Street, Vancouver, BC, V6C 2T7, and its registered and records office is located at 800 – 885 West Georgia Street, Vancouver, British Columbia, V6C 3H1. For a more detailed description of Kona Bay, see "*Schedule "B" – Information Concerning Kona Bay Technologies Inc.*".

### **Yerbaé Brands Co.**

Yerbaé was incorporated on August 21, 2020 under the laws of the state of Delaware. Yerbaé's head office and principal address is 18801 N Thompson Peak Parkway, Suite D-380, Scottsdale, AZ 85255 and its registered office is located at Corporation Trust Center, 1209 Orange Street, Wilmington, County of New Castle, Delaware, 19801.

The principal business carried on by Yerbaé and intended to be carried on by the Resulting Issuer is to develop, market, sell, and distribute naturally caffeinated plant-based energy drinks. See "*Schedule "C" – Information Concerning Yerbaé*" for further particulars.

### **The Transaction**

On May 19, 2022, Kona Bay entered into the Arrangement Agreement related to the Transaction with Yerbaé, a Delaware incorporated naturally caffeinated, zero calorie, plant-based energy beverage company operating out of Scottsdale, Arizona, pursuant to which Kona Bay proposed to acquire all of the issued and outstanding Yerbaé Shares (including any restricted Yerbaé Shares, as applicable) in exchange for the right to receive Kona Bay Shares at the Exchange Ratio. The Transaction is to be completed by way of a reverse triangular merger conducted pursuant to (i) the provisions of DGCL in which Merger Sub, a newly incorporated wholly-owned Subsidiary of Kona Bay, will merge with and into Yerbaé, and (ii) the Arrangement conducted pursuant to the BCBCA. In connection with the Transaction, FinCo, a wholly-owned British Columbia subsidiary of the Company, is conducting the Concurrent Financing; a non-brokered private placement to raise minimum gross proceeds of US\$5,000,000 (less any amounts raised by Kona Bay, Yerbaé or any Affiliate thereof concurrent to the Transaction, excluding the Bridge Loan) by way of issuance of FinCo Subscription Receipts at a price of US\$1.23 per FinCo Subscription Receipt.

The Transaction is subject to the approval of the TSXV and is intended to constitute a RTO of Kona Bay by Yerbaé as defined in Policy 5.2. The combined company that will result from the completion of the Transaction will be renamed "Yerbaé Brands Corp." or such other name as agreed to by Kona Bay and Yerbaé. Subject to TSXV approval, the common shares of the Resulting Issuer will trade on the TSXV under the trading symbol "YERB.U" and the Resulting Issuer will continue to be listed on Tier 2 of the TSXV as an industrial issuer.

In addition to any escrow required by the policies of the TSXV or applicable Securities Laws, all of the Kona Bay Shares issued to the former Yerbaé Shareholders are expected to be subject to a contractual lock-up pursuant to the terms and conditions of the Arrangement Agreement. See “*Schedule “D” – Information Concerning the Resulting Issuer – Escrowed Securities*” for more information.

**Directors and Officers of the Resulting Issuer**

In connection with the Closing, certain of the officers and directors of Kona Bay are expected to resign such that, upon completion of the Transaction, the directors and officers of the Resulting Issuer are expected to be as follows:

Name	Proposed Position(s)
Todd Gibson	CEO and Director
Karrie Gibson	COO and Director
William Finn	CFO
Renata Kubicek	Corporate Secretary
Brian Neumann	CMO
Seth Smith	VP of Sales
Carl Sweat	Director
Andy Dratt	Director
Rose Zanic	Director

For more information on the proposed directors and officers of the Resulting Issuer, see “*Schedule “D” – Information Concerning the Resulting Issuer – Directors, Officers and Promoters*”.

**Interests of Insiders**

Anne Keay, an Insider of the Company, as defined in the policies of the TSXV, currently holds 4,485,000 pre-Consolidation Kona Bay Shares representing 15.56% of the issued and outstanding pre-Consolidation Kona Bay Shares and 36,496 Yerbaé Shares. At Closing, it is anticipated that Ms. Keay will, following the issuance of 593,103 post-Consolidation Kona Bay Shares issuable upon conversion of 593,103 post-Consolidation Kona Bay Warrants held by Ms. Keay, hold 1,402,875 Resulting Issuer Shares, representing 2.74% of the Resulting Issuer’s issued and outstanding Resulting Issuer Shares. Frank Keay, the spouse of Ms. Keay, currently holds 36,496 Yerbaé Shares, which following Closing will represent 0.07% of the issued and outstanding Resulting Issuer Shares.

Mae Suffron, an Insider of the Company, as defined in the policies of the TSXV, currently holds 5,601,500 pre-Consolidation Kona Bay Shares representing 19.44% of the issued and outstanding pre-Consolidation Kona Bay Shares and 36,496 Yerbaé Shares. At Closing, it is anticipated that Ms. Suffron will, following the issuance of 2,794,117 Resulting Issuer Shares issuable upon conversion of the Convertible Promissory Notes held by Ms. Suffron, hold 3,796,389 Resulting Issuer Shares, representing 7.40% of the Resulting Issuer’s issued and outstanding Resulting Issuer Shares.

Klutch, a former Insider of Kona Bay, currently holds 900,000 pre-Consolidation Kona Bay Shares representing 3.12% of the issued and outstanding pre-Consolidation Kona Bay Shares and nil Yerbaé Shares. Pursuant to the terms of the Arrangement Agreement, Klutch, on or before the Closing, is entitled to the issuance of 3,000,000 Performance Shares, which Performance Shares are to be held in escrow and released upon the completion of certain performance-based incentives. At Closing, it is anticipated that Klutch, following the issuances of 1,617,647 Resulting Issuer Shares issuable upon conversion of the Convertible Promissory Notes held by Klutch and the 3,000,000 Performance Shares, will hold 4,772,820 Resulting Issuer Shares, representing approximately 9.31% of the Resulting

Issuer's issued and outstanding Resulting Issuer Shares. For more information on the Performance Shares, see "Particulars of Matters to be Acted Upon – Approval of the Transaction – Performance Shares".

### Arm's Length Transaction

The TSXV has deemed the Transaction a non-Arm's Length Transaction, as defined in the policies of the TSXV. In connection with the announcement of the Transaction, trading in the Kona Bay Shares were halted on May 20, 2022 and are expected to remain halted until the Closing. For more information, see "Interests of Insiders" above.

### Estimated Funds Available

The following table sets out information in respect of the Resulting Issuer's expected sources of cash following the completion of the Transaction. The amounts shown in the table are estimates only and are based upon the information available to Kona Bay and Yerbaé as of the date hereof:

Sources	(US\$)
Estimated working capital deficit of Kona Bay as at October 31, 2022 (unaudited) <sup>(1)</sup>	(118,080)
Estimated working capital deficit of Yerbaé as at October 31, 2022 (unaudited) <sup>(2)</sup>	(1,434,444)
Gross proceeds from the Concurrent Financing <sup>(3)</sup>	3,970,561
Gross proceeds from the exercise of Kona Bay Warrants <sup>(4)</sup>	815,495
<b>Estimated funds available to the Resulting Issuer upon completion of the Transaction<sup>(1)(5)</sup></b>	<b>3,233,532</b>

<sup>(1)</sup> Based on the Bank of Canada exchange rate dated September 12, 2022.

<sup>(2)</sup> Calculated by removing the \$3,000,000 in principal amount owing under the Convertible Promissory Notes payable to Klutch, as such notes are to be effectively eliminated as a liability upon their conversion concurrent with the Closing, and including an aggregate of US\$1,029,438 raised by Yerbaé through a financing of Non-Voting Common Stock – Class D-1 Yerbaé Shares, Non-Voting Common Stock – Class D-2 Yerbaé Shares and Non-Voting Common Stock – Class D-3 Yerbaé Shares to accredited investors, and its crowdfunding financing completed prior to the Closing.

<sup>(3)</sup> Represents subscription proceeds to be received under the Concurrent Financing, calculated without deducting any cash commissions potentially payable in connection with the Concurrent Financing, less an aggregate of US\$1,029,438 raised by Yerbaé through a financing of Non-Voting Common Stock – Class D-1 Yerbaé Shares, Non-Voting Common Stock – Class D-2 Yerbaé Shares and Non-Voting Common Stock – Class D-3 Yerbaé Shares to accredited investors, and its crowdfunding financing completed prior to the Closing. For more information on Yerbaé's concurrent financing, see "Schedule "B" – Information Concerning Kona Bay Technologies Inc. – General Development of the Business – Concurrent Financing and Amalgamation".

<sup>(4)</sup> The 3,277,294 outstanding post-Consolidation Kona Bay Warrants as at the date of this Information Circular, if exercised in full, would generate aggregate proceeds of US\$905,495. Kona Bay anticipates all of the outstanding Kona Bay Warrants will be exercised on or before Closing except for an aggregate of 123,562 Kona Bay Warrants held by Kona Bay Warrant holders who are unfamiliar to current Kona Bay management, reducing the anticipated exercise proceeds available at Closing to US\$815,495. Kona Bay will use its best efforts to obtain the requisite exercise notices and proceeds from those Kona Bay Warrant holders holding the 123,562 Kona Bay Warrants, however Kona Bay cannot guarantee each respective Kona Bay Warrants' due exercise prior to Closing.

<sup>(5)</sup> The Resulting Issuer anticipates sufficient revenue from sales to maintain its operating costs for the 12 month period following the completion of the Transaction as set out in this table.

### Principal Purposes

The following table sets out information respecting the Resulting Issuer's intended principal uses of funds for the 12 months following the completion of the Transaction. The intended uses of funds may vary based upon a number of factors and variances may be material. The amounts shown in the table are estimates only and are based upon the information available to Kona Bay and Yerbaé as of the date hereof:

Use of Funds	(US\$)
Payments related to the completion of the Transaction <sup>(1)</sup>	390,000
Sales and Marketing	1,070,000
Innovation and Research and Development	80,000
Market Expansion	800,000
General and Administrative Expenses and Payroll <sup>(2)</sup>	800,000
Unallocated working capital <sup>(3)</sup>	93,532
<b>Total:</b>	<b>3,233,532</b>

<sup>(1)</sup> Includes legal fees, auditor review fees, TSXV filing fees, transfer agent fees and other expenses incurred or expected to be incurred in connection with the Transaction, including approximately US\$42,625 payable to Klutch for its reasonable expenses incurred in connection with the negotiation of the Arrangement Agreement and the consummation of the Merger. See “Particulars of Matters to be Acted Upon – Approval of the Transaction – Fees and Expenses” for more information.

<sup>(2)</sup> Includes US\$18,750 per month payable to the Resulting Issuer’s CEO, US\$10,416 per month payable to the Resulting Issuer’s CFO, US\$15,000 per month payable to the Resulting Issuer’s VP of Sales; US\$14,175 per month payable to the Resulting Issuer’s CMO; and US\$16,666 per month for the Resulting Issuer’s COO.

<sup>(3)</sup> Unallocated working capital may be allocated to corporate expenses, business development, potential future acquisitions, inventory, general administrative expenses, and other purposes.

There may be circumstances where, for sound business reasons, a reallocation of funds may be necessary. For additional information regarding the funds available to the Resulting Issuer and the proposed use of those funds, see “Schedule “D” – Information Concerning the Resulting Issuer – Available Funds and Principal Purposes”.

#### Selected Pro-Forma Consolidated Financial Information

The following table summarizes selected pro-forma consolidated financial information for the Resulting Issuer as at June 30, 2022. The information should be read in conjunction with the Pro Forma Financial Statements, which are attached hereto as Schedule “I”.

	Kona Bay (unaudited) as at June 30, 2022 (\$)	Yerbaé (unaudited) as at June 30, 2022 <sup>(1)</sup> (\$)	Pro Forma Adjustments (unaudited) (\$)	Resulting Issuer Pro Forma (unaudited) as at June 30, 2022 (\$)
Current assets	11,673	3,529,676	7,718,333	11,259,682
Total assets	11,673	3,867,173	7,718,333	11,597,179
Current liabilities	67,666	8,273,252	(3,865,800)	4,475,118
Total liabilities	67,666	8,660,802	(3,865,800)	4,862,668
Liabilities and shareholders’ equity (deficit)	11,673	3,867,173	7,718,333	11,597,179

<sup>(1)</sup> The figures of Yerbaé above were taken from the Yerbaé Financial Statements, which were originally denominated in US dollars and were translated to Canadian dollars at the following foreign exchange rates: 1.2886 as at June 30, 2022 for assets and liabilities, the average exchange rate of 1.2715 for the operating results for the six months ended June 30, 2022, and historical average exchange rates for shareholders’ equity.

### **Stock Exchange Listing**

The Kona Bay Shares are currently listed on the NEX Board of the TSXV under the symbol “KBY.H”. The Yerbaé Shares are not listed on any Canadian or foreign stock exchange or traded on a Canadian or foreign market.

Trading in the Kona Bay Shares was halted on the NEX on May 20, 2022 at a trading price of \$0.25 per Kona Bay Share, pending the public announcement of the Transaction.

### **Conflicts of Interest**

Directors or officers of the Resulting Issuer may, from time to time, serve as directors or officers of, or participate in ventures with, other companies. Accordingly, conflicts of interest may arise which could influence these individuals in evaluating possible business opportunities or generally when acting on behalf of the Resulting Issuer, notwithstanding that they will be bound by the provisions of the BCBCA, to act at all times in good faith in the interests of the Resulting Issuer and to disclose such conflicts to the Resulting Issuer if and when they arise. Conflicts, if any, will be subject to the procedures and remedies prescribed by the BCBCA, the TSXV and applicable Securities Laws.

### **Interests of Experts**

To the knowledge of Kona Bay, no Person whose profession or business gives authority to a statement made by the Person and who is named as having prepared or certified a part of this Information Circular or prepared or certified a report or valuation described or included in this Information Circular has a direct or indirect material interest in the property of Kona Bay and Yerbaé, or in any Associate or Affiliate thereof.

Charlton & Company, Chartered Professional Accountants, the auditors of Kona Bay, are independent of Kona Bay in accordance with the Code of Professional Conduct for British Columbia Chartered Professional Accountants.

Sikich LLP, Certified Public Accountants and Advisors, the auditors of Yerbaé, are independent of Yerbaé in accordance with the Code of Professional Conduct for Members of American Institute of Certified Public Accountants.

### **Risk Factors**

The securities of Kona Bay (and correspondingly those of the Resulting Issuer) should be considered highly speculative due to the nature of the Resulting Issuer’s proposed business and the current stage of Yerbaé’s development. Such investment will be subject to certain material risks and investors should not invest in securities of Kona Bay or the Resulting Issuer unless they can afford to lose their entire investment. Kona Bay Shareholders must rely on the ability, expertise, judgment, discretion, integrity and good faith of the management of the Resulting Issuer. The business of the Resulting Issuer will be subject to risks and hazards, some of which are beyond its control.

Risk factors include, but are not limited to: general economic conditions; litigation; unprofitable operations; dilution risks; changes in the business environment; intense competition; the Resulting Issuer’s need for additional financing in the future; negative operating cash flow; risks related to generating profits; dependence on third parties; management of growth; the fact that the Resulting Issuer does not anticipate paying any dividends on the Resulting Issuer Shares in the foreseeable future; conflicts of interest; internal controls; limited market for the Resulting Issuer Shares; and risks related to government regulation.

**For a description of certain risks and uncertainties that may affect the business of the Resulting Issuer, see “Schedule “A” – Risk Factors”.** Readers should note that such list is not a definitive list of all risk factors associated with an investment in Kona Bay or the Resulting Issuer or in connection with the Resulting Issuer’s proposed operations upon completion of the Transaction, and other events could arise that have a material adverse effect on the business of Kona Bay or the Resulting Issuer.



**Conditional Listing Approval**

**Kona Bay received conditional approval of the TSXV for the Transaction on October 31, 2022.** Completion of the Transaction is subject to receipt of final approval of the TSXV, among other conditions as provided in the Amalgamation Agreement. There is no assurance Kona Bay will receive final approval from the TSXV for the Transaction.

## PROXIES AND VOTING RIGHTS

### Management Solicitation

The solicitation of proxies by management of the Company will be conducted by mail and may be supplemented by telephone or other personal contact to be made without special compensation to any of the directors, officers and employees of the Company. The Company does not reimburse Kona Bay Shareholders, nominees or agents for costs incurred in obtaining from their principals authorization to execute forms of proxy, except that the Company has requested brokers and nominees who hold stock in their respective names to furnish this proxy material to their customers, and the Company will reimburse such brokers and nominees for their related out of pocket expenses. No solicitation will be made by specifically engaged employees or soliciting agents. The cost of solicitation will be borne by the Company.

No person has been authorized to give any information or to make any representation other than as contained in this Information Circular in connection with the solicitation of proxies. If given or made, such information or representations must not be relied upon as having been authorized by the Company. The delivery of this Information Circular shall not create, under any circumstances, any implication that there has been no change in the information set forth herein since the date of this Information Circular. This Information Circular does not constitute the solicitation of a proxy by anyone in any jurisdiction in which such solicitation is not authorized, or in which the person making such solicitation is not qualified to do so, or to anyone to whom it is unlawful to make such an offer of solicitation.

### Appointment of Proxy

Registered Kona Bay Shareholders are entitled to vote at the Meeting. A Kona Bay Shareholder is entitled to one vote for each Kona Bay Share that such Kona Bay Shareholder holds on the record date of November 14, 2022 on the resolutions to be voted upon at the Meeting, and any other matter to come before the Meeting.

The persons named as proxyholders (the “**Designated Persons**”) in the enclosed form of proxy are directors and/or officers of the Company.

**A SHAREHOLDER HAS THE RIGHT TO APPOINT A PERSON OR COMPANY (WHO NEED NOT BE A SHAREHOLDER) OTHER THAN THE DESIGNATED PERSONS NAMED IN THE ENCLOSED FORM OF PROXY TO ATTEND AND ACT FOR OR ON BEHALF OF THAT SHAREHOLDER AT THE MEETING.**

**A SHAREHOLDER MAY EXERCISE THIS RIGHT BY INSERTING THE NAME OF SUCH OTHER PERSON IN THE BLANK SPACE PROVIDED ON THE FORM OF PROXY. SUCH SHAREHOLDER SHOULD NOTIFY THE NOMINEE OF THE APPOINTMENT, OBTAIN THE NOMINEE’S CONSENT TO ACT AS PROXY AND SHOULD PROVIDE INSTRUCTION TO THE NOMINEE ON HOW THE SHAREHOLDER’S SHARES SHOULD BE VOTED. THE NOMINEE SHOULD BRING PERSONAL IDENTIFICATION TO THE MEETING.**

Each Kona Bay Shareholder may vote by mail, by telephone or via the internet by following instructions provided in the form of proxy at least 48 hours (excluding Saturdays, Sundays and holidays recognized in the Province of British Columbia) prior to the scheduled time of the Meeting, or any adjournment or postponement thereof. The Chairman of the Meeting, in his sole discretion, may accept completed forms of proxy on the day of the Meeting or any adjournment or postponement thereof.

A proxy may not be valid unless it is dated and signed by the Kona Bay Shareholder who is giving it or by that Kona Bay Shareholder’s attorney-in-fact duly authorized by that Kona Bay Shareholder in writing or, in the case of a corporation, dated and executed by a duly authorized officer or attorney-in-fact for the corporation. If a form of proxy is executed by an attorney-in-fact for an individual Kona Bay Shareholder or joint Kona Bay Shareholders, or

by an officer or attorney-in-fact for a corporate Kona Bay Shareholder, the instrument so empowering the officer or attorney-in-fact, as the case may be, or a notarially certified copy thereof, must accompany the form of proxy.

### **Revocation of Proxies**

A Kona Bay Shareholder who has given a proxy may revoke it at any time before it is exercised by an instrument in writing: (a) executed by that Kona Bay Shareholder or by that Kona Bay Shareholder's attorney-in-fact authorized in writing or, where the Kona Bay Shareholder is a corporation, by a duly authorized officer of, or attorney-in-fact for, the corporation; and (b) delivered either: (i) to the Company at the address set forth above, at any time up to and including the last business day preceding the day of the Meeting or, if adjourned or postponed, any reconvening thereof, (ii) to the Chairman of the Meeting prior to the vote on matters covered by the proxy on the day of the Meeting or, if adjourned or postponed, any reconvening thereof, or (iii) in any other manner provided by law.

Also, a proxy will automatically be revoked by either: (i) attendance at the Meeting and participation in a poll (ballot) by a Kona Bay Shareholder, or (ii) submission of a subsequent proxy in accordance with the foregoing procedures. A revocation of a proxy does not affect any matter on which a vote has been taken prior to any such revocation.

### **Voting of Kona Bay Shares and Proxies and Exercise of Discretion by Designated Persons**

A Kona Bay Shareholder may indicate the manner in which the Designated Persons are to vote with respect to a matter to be voted upon at the Meeting by marking the appropriate space on the proxy. **The Kona Bay Shares represented by a proxy will be voted or withheld from voting in accordance with the instructions of the Kona Bay Shareholder on any ballot that may be called for and if the Kona Bay Shareholder specifies a choice with respect to any matter to be acted upon, the Kona Bay Shares will be voted accordingly.**

**IF NO CHOICE IS SPECIFIED IN THE PROXY WITH RESPECT TO A MATTER TO BE ACTED UPON, THE PROXY CONFERS DISCRETIONARY AUTHORITY WITH RESPECT TO THAT MATTER UPON THE DESIGNATED PERSONS NAMED IN THE FORM OF PROXY. IT IS INTENDED THAT THE DESIGNATED PERSONS WILL VOTE THE KONA BAY SHARES REPRESENTED BY THE PROXY IN FAVOUR OF EACH MATTER IDENTIFIED IN THE PROXY.**

The enclosed form of proxy confers discretionary authority upon the persons named therein with respect to other matters which may properly come before the Meeting, including any amendments or variations to any matters identified in the Notice. At the date of this Information Circular, management of the Company is not aware of any such amendments, variations or other matters to come before the Meeting.

In the case of abstentions from, or withholding of, the voting of the Kona Bay Shares of a Kona Bay Shareholder on any matter, the Kona Bay Shares that are the subject of the abstention or withholding will be counted for determination of a quorum, but will not be counted as affirmative or negative on the matter to be voted upon.

### **ADVICE TO BENEFICIAL SHAREHOLDERS**

**The information set out in this section is of significant importance to those Kona Bay Shareholders who do not hold Kona Bay Shares in their own name. Kona Bay Shareholders who do not hold their Kona Bay Shares in their own name (referred to in this Information Circular as "Beneficial Shareholders") should note that only proxies deposited by Kona Bay Shareholders whose names appear on the records of the Company as the registered holders of Kona Bay Shares can be recognized and acted upon at the Meeting.** If Kona Bay Shares are listed in an account statement provided by a broker, then in almost all cases those Kona Bay Shares will not be registered in the Beneficial Shareholder's name on the records of the Company. Such Kona Bay Shares will more likely be registered under the names of the Beneficial Shareholder's broker or an agent of that broker. In Canada, the vast majority of such Kona Bay Shares are registered under the name of CDS & Co. (the registration name for The Canadian Depository for Securities Limited, which acts as nominee for many Canadian brokerage firms). **Beneficial Shareholders should ensure that instructions respecting the voting of their Kona Bay Shares are communicated to the appropriate person well in advance of the Meeting.**

The Company does not have access to the names of all Beneficial Shareholders. Applicable regulatory policy requires intermediaries/brokers to seek voting instructions from Beneficial Shareholders in advance of Kona Bay Shareholders' meetings. Every Intermediary/broker has its own mailing procedures and provides its own return instructions to clients, which should be carefully followed by Beneficial Shareholders in order to ensure that their Kona Bay Shares are voted at the Meeting. The form of proxy supplied to a Beneficial Shareholder by their or its broker (or the agent of the broker) is similar to the form of proxy provided to registered Kona Bay Shareholders by the Company. However, its purpose is limited to instructing the registered Kona Bay Shareholder (the broker or agent of the broker) how to vote on behalf of the Beneficial Shareholder. The majority of brokers now delegate responsibility for obtaining instructions from clients to Broadridge Financial Solutions, Inc. ("**Broadridge**") in the United States and in Canada. Broadridge typically prepares a special voting instruction form, mails this form to the Beneficial Shareholders and asks for appropriate instructions regarding the voting of Kona Bay Shares to be voted at the Meeting. If Beneficial Shareholders receive the voting instruction forms from Broadridge, they are requested to complete and return the voting instruction forms to Broadridge by mail or facsimile. Alternatively, Beneficial Shareholders can call a toll-free number and access Broadridge's dedicated voting website (each as noted on the voting instruction form) to deliver their voting instructions and to vote the Kona Bay Shares held by them. Broadridge then tabulates the results of all instructions received and provides appropriate instructions respecting the voting of Kona Bay Shares to be represented at the Meeting. **A Beneficial Shareholder receiving a Broadridge voting instruction form cannot use that form as a proxy to vote Kona Bay Shares directly at the Meeting – the voting instruction form must be returned to Broadridge well in advance of the Meeting in order to have the applicable Kona Bay Shares voted at the Meeting.**

Although a Beneficial Shareholder may not be recognized directly at the Meeting for the purposes of voting Kona Bay Shares registered in the name of their or its broker (or agent of the broker), a Beneficial Shareholder may attend at the Meeting as proxyholder for the registered Kona Bay Shareholder and vote the Kona Bay Shares in that capacity. Beneficial Shareholders who wish to attend at the Meeting and indirectly vote their Kona Bay Shares as proxyholder for the registered Kona Bay Shareholder should enter their own names in the blank space on the instrument of proxy provided to them and return the same to their broker (or the broker's agent) in accordance with the instructions provided by such broker (or agent), well in advance of the Meeting.

Alternatively, a Beneficial Shareholder may request in writing that their or its broker send to the Beneficial Shareholder a legal proxy which would enable the Beneficial Shareholder to attend at the Meeting and vote their or its Kona Bay Shares.

Beneficial Shareholders consist of non-objecting beneficial owners (each, a "**NOBO**") and objecting beneficial owners (each, an "**OBO**"). A NOBO is a beneficial owner of securities that has provided instructions to an Intermediary holding the securities in an account on behalf of the beneficial owner that the beneficial owner does not object, for that account, to the Intermediary disclosing ownership information about the beneficial owner under NI 54-101 of the Canadian Securities Administrators. An OBO means a beneficial owner of securities that has provided instructions to an Intermediary holding the securities in an account on behalf of the beneficial owner that the beneficial owner objects, for that account, to the Intermediary disclosing ownership information about the beneficial owner under NI 54-101.

The Company is sending proxy-related materials directly to NOBOs of the Kona Bay Shares. The Company will pay for the delivery of proxy-related materials to OBOs of the Kona Bay Shares by their intermediaries.

All references to Kona Bay Shareholders in this Information Circular are to registered Kona Bay Shareholders, unless specifically stated otherwise.

#### **VOTING SECURITIES AND PRINCIPAL HOLDERS OF VOTING SECURITIES**

The record date for the determination of Kona Bay Shareholders entitled to receive notice of and vote at the Meeting has been fixed as at November 14, 2022. The authorized capital of the Company consists of an unlimited number of Kona Bay Shares and 100,000,000 Kona Bay Preferred Shares without par value, of which, as of the record date,

there were 28,820,633 pre-Consolidation Kona Bay Shares outstanding and Nil Kona Bay Preferred Shares outstanding. Each Kona Bay Share carries the right to one vote on any matter properly coming before the Meeting.

To the knowledge of the directors and executive officers of the Company, as of the date hereof, no person or company beneficially owns, controls or directs, directly or indirectly, voting securities of the corporation carrying 10% or more of the voting rights attached to all outstanding Kona Bay Shares, except the following:

Name	Number of Kona Bay Shares Owned or Controlled <sup>(1)</sup>	Percentage of Outstanding Shares <sup>(1)</sup>
Anne Keay	4,485,000	15.56%
Mae Suffron	5,601,500	19.44%

<sup>(1)</sup> Calculated based on 28,820,633 pre-Consolidation Kona Bay Shares issued and outstanding.

### FINANCIAL STATEMENTS

The audited financial statements of the Company for the year ended September 30, 2021, together with the auditor's report thereon, will be presented to the Kona Bay Shareholders at the Meeting. The Company's financial statements and management discussion and analysis are available under the Company's profile on SEDAR.

### NUMBER OF DIRECTORS

At the Meeting, Kona Bay Shareholders will be asked to pass an ordinary resolution to set the number of directors of the Company at four (4). An ordinary resolution needs to be passed by a simple majority of the votes cast by the Kona Bay Shareholders present in person or represented by proxy and entitled to vote at the Meeting.

**Management recommends the approval of the resolution to set the number of directors of the Company at four (4).**

### ELECTION OF DIRECTORS

The directors of the Company are elected at each annual general meeting and hold office until the next annual general meeting or until their successors are appointed. In the absence of instructions to the contrary, the enclosed proxy will be voted for the nominees herein listed.

Management of the Company proposes to nominate each of the following persons for election as a director. Information concerning such persons, as furnished by the individual nominees, is as follows:

Name, Place of Residence and Position(s) with the Company	Principal Occupation, Business or Employment for Last Five Years	Periods During which Nominee has served as a Director and/or Officer	No. of Kona Bay Shares <sup>(1)</sup>
Ron Schmitz <sup>(2)(3)</sup> British Columbia, Canada <i>CEO, Corporate Secretary and Director</i>	Mr. Schmitz is the principal and president of ASI Accounting, which has provided administrative, accounting and office services to public and private companies since July 1995. Mr. Schmitz has been a director or CFO of numerous public companies since 1997 and currently holds those roles with several public companies.	Director since December 17, 2020 CEO as of March 22, 2021	730,000 <sup>(4)</sup>

Name, Place of Residence and Position(s) with the Company	Principal Occupation, Business or Employment for Last Five Years	Periods During which Nominee has served as a Director and/or Officer	No. of Kona Bay Shares <sup>(1)</sup>
Rose Zanic <sup>(2)</sup> British Columbia, Canada <i>Director</i>	Ms. Zanic has over 24 years' experience in capital markets. Since 2016, she has been self-employed as president of RCF Advisors Ltd., a private company that provides corporate finance consulting services to public and private companies. From January 1997 until July 2016, Ms. Zanic worked with Wolverton Securities Ltd. where she was Senior VP, Corporate Finance in charge of the firm's corporate finance and syndication department. Since 2016, Ms. Zanic has been a director or CFO of several public companies.	March 22, 2021	Nil
Scott Davis <sup>(2)</sup> British Columbia, Canada <i>Director</i>	Mr. Davis is Chartered Professional Accountant and a partner of Cross Davis & Company LLP Chartered Professional Accountants, a firm focused on providing accounting and management services for publicly listed companies. His experience includes CFO positions of several companies listed on the TSXV and Canadian Securities Exchange, and his past experience consists of senior management positions. Mr. Davis obtained his CPA, CGA in 2003.	April 9, 2021	Nil
Gurdeep Phachu British Columbia, Canada <i>CFO and Director</i>	Mr. Phachu is a member of the Institute of Chartered Professional Accountants of British Columbia. He has over 20 years of experience working in the areas of accounting and administration for publicly listed companies on the TSXV.	September 28, 2022	Nil

(1) Information has been furnished by the respective nominees individually.

(2) A member of the Audit Committee.

(3) Chair of the Audit Committee.

(4) Ron Schmitz holds 500,000 Kona Bay Shares directly and 230,000 Kona Bay Shares indirectly through by RAS Capital Corp., a private company controlled by Mr. Schmitz.

**Management recommends the approval of each of the nominees listed above for election as directors of the Company.**

Management does not contemplate that any of its nominees will be unable to serve as directors. If any vacancies occur in the slate of the nominees listed above before the Meeting, then the Designated Persons intend to exercise discretionary authority to vote the common shares represented by proxy for the election of any other persons as directors.

**Orders**

Except as set forth below, to the best of management's knowledge, no proposed director of the Company or the Resulting Issuer, as applicable, is, or has been within the 10 years before the date of this Information Circular, a director, CEO or CFO of any company that:

- (a) was subject to a CTO, an order similar to a CTO, or an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than

30 consecutive days that was issued while the proposed director was acting in the capacity as director, CEO or CFO; or

- (b) was subject to a CTO, an order similar to a CTO, or an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days that was issued after the proposed director ceased to be a director, CEO or CFO and which resulted from an event that occurred while that person was acting in the capacity as director, CEO or CFO.

Ron Schmitz was appointed as a Director of Winfield Resources Limited on February 2, 2022. Winfield Resources Limited was issued a CTO by the BCSC on September 29, 2009, and amended on October 15, 2009. The ASC issued a CTO against the Company on December 29, 2009. The CTO's were issued for failure to file its annual audited financial statements for the year ended March 31, 2009, its annual management's discussion and analysis for the year ended March 31, 2009 and related documents. Mr. Schmitz has assisted Winfield Resources Limited with its filings and submissions to the BCSC and ASC and both CTO's were revoked on June 24, 2022 to bring Winfield Resources Limited into good standing.

Scott Davis was the CFO of Future Farm Technologies Inc. ("**Future Farm**") when on June 29, 2017 the BCSC issued a CTO against Future Farm and management as a result of the company not having filed the annual audited financial statements and management discussion and analysis within the prescribed period of time. The CTO was subsequently revoked on August 2, 2017 in connection with the filing of the annual audited financial statements and management discussion and analysis.

Mr. Davis was the CFO of E.S.I. Environmental Sensors Inc. ("**E.S.I. Environmental**"), when on August 3, 2018 the BCSC issued a CTO against E.S.I. Environmental as a result of the company not having filed the annual audited financial statements and management discussion and analysis within the prescribed period of time. The CTO was subsequently revoked on October 12, 2018 in connection with the filing of the annual audited financial statements and management discussion and analysis. Mr. Scott Davis resigned as CFO of E.S.I. Environmental in July 2018.

### **Penalties or Sanctions**

To the best of management's knowledge, no proposed director, officer or promoter of the Company or the Resulting Issuer, as applicable, or a securityholder anticipated to hold a sufficient number of securities of the Resulting Issuer to materially affect control of the Resulting Issuer, has been subject to:

- (a) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or
- (b) any other penalties or sanctions imposed by a court or regulatory body, including a self-regulatory body, that would be likely to be considered important to a reasonable securityholder making a decision about the Transaction.

### **Bankruptcies**

To the best of management's knowledge, no proposed director of the Company or the Resulting Issuer, as applicable, is, or within 10 years before the date of this Information Circular, has been, a director or an executive officer of any company that, while the person was acting in that capacity, or within a year of that person ceasing to act in the capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or was subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold its assets or made a proposal under any legislation relating to bankruptcies or insolvency.

**STATEMENT OF EXECUTIVE COMPENSATION**

The following information is presented by the management of the Company in accordance with Form 51-102F6V, and sets forth compensation as at September 30, 2021. An ordinary resolution needs to be passed by a simple majority of the votes cast by the Kona Bay Shareholders present in person or represented by proxy and entitled to vote at the Meeting.

**Director and Named Executive Officer Compensation, Excluding Compensation Securities**

The following table sets forth all direct and indirect compensation paid, payable, awarded, granted, given or otherwise provided, directly or indirectly, by the Company or any Subsidiary thereof to each NEO and each director of the Company, in any capacity, including, for greater certainty, all plan and non-plan compensation, direct and indirect pay, remuneration, economic or financial award, reward, benefit, gift or perquisite paid, payable, awarded, granted, given or otherwise provided to the NEO or director for services provided and for services to be provided, directly or indirectly, to the Company or any Subsidiary thereof for each of the two most recently completed financial years, other than stock options and other Compensation Securities:

<b>Name and Position</b>	<b>Year</b>	<b>Salary, Consulting Fee, Retainer or Commission (\$)</b>	<b>Bonus (\$)</b>	<b>Committee or Meeting Fees (\$)</b>	<b>Value of Perquisites<sup>(1)</sup> (\$)</b>	<b>Value of All Other Compensation (\$)</b>	<b>Total Compensation (\$)</b>
Ron Schmitz <sup>(2)</sup> <i>CEO, Corporate Secretary and Director</i>	2021	55,458 <sup>(3)</sup>	Nil	Nil	Nil	Nil	55,458
	2020	Nil	Nil	Nil	Nil	Nil	Nil
Gurdeep Phachu <sup>(4)</sup> <i>CFO and Director</i>	2021	3,000	Nil	Nil	Nil	Nil	3,000
	2020	N/A	N/A	N/A	N/A	N/A	N/A
Vincent Wong <sup>(5)</sup> <i>Former President</i>	2021	12,000	Nil	Nil	Nil	Nil	12,000
	2020	94,000	Nil	Nil	Nil	Nil	94,000
Dickson Hall <sup>(6)</sup> <i>Former Chairman</i>	2021	Nil	Nil	Nil	Nil	Nil	Nil
	2020	10,000	Nil	Nil	Nil	Nil	10,000
Charles E. Jenkins <sup>(7)</sup> <i>Former CFO and Corporate Secretary</i>	2021	15,000	Nil	Nil	Nil	Nil	15,000
	2020	36,000	Nil	Nil	Nil	Nil	36,000
Rose Zanic <sup>(8)</sup> <i>Director</i>	2021	3,500	Nil	Nil	Nil	Nil	3,500
	2020	N/A	N/A	N/A	N/A	N/A	N/A
Scott Davis <sup>(9)</sup> <i>Director</i>	2021	3,000	Nil	Nil	Nil	Nil	3,000
	2020	N/A	N/A	N/A	N/A	N/A	N/A
Robert Goehring <sup>(10)</sup> <i>Former Director</i>	2021	N/A	N/A	N/A	N/A	N/A	N/A
	2020	Nil	Nil	Nil	Nil	Nil	Nil
Howard Louie <sup>(11)</sup> <i>Former Director</i>	2021	Nil	Nil	Nil	Nil	Nil	Nil
	2020	82,000	Nil	Nil	Nil	Nil	82,000



- (1) "Perquisites" include perquisites provided to an NEO or director that are not generally available to all employees and that, in aggregate, are: (a) \$15,000, if the NEO or director's total salary for the financial year is \$150,000 or less, (b) 10% of the NEO or director's salary for the financial year if the NEO or director's total salary for the financial year is greater than \$150,000 but less than \$500,000, or (c) \$50,000 if the NEO or director's total salary for the financial year is \$500,000 or greater.
- (2) Ron Schmitz has been a director of the Company since December 17, 2020 and the CEO and corporate secretary of the Company since March 22, 2021.
- (3) Paid to ASI Accounting, a company that Mr. Schmitz is the President.
- (4) Gurdeep Phachu has been the CFO of the Company since April 9, 2021 and a director of the Company from September 28, 2022.
- (5) Vincent Wong was the president of the Company from August 31, 2004 to March 15, 2021 and a director of the Company from June 29, 2004 to March 15, 2021.
- (6) Dickson Hall was the Chairman and a director of the Company from August 31, 2004 to April 15, 2020 and a director of the Company from June 30, 2003 to April 15, 2020.
- (7) Charles E. Jenkins was the CFO of the Company from December 1, 2014 to April 9, 2021, the corporate secretary of the Company from February 9, 2017 to March 22, 2021 and a director of the Company from May 27, 2020 to April 9, 2021.
- (8) Rose Zanic has been a director of the Company since March 22, 2021.
- (9) Scott Davis has been a director of the Company since April 9, 2021.
- (10) Robert Goehring was a director of the Company from June 5, 2020 to March 22, 2021.
- (11) Howard Louie was a director of the Company from May 6, 2013 to April 15, 2020.

### **Stock Options and Other Compensation Securities**

The Company did not grant or issue any Compensation Securities to any director or NEO in the financial year ended September 30, 2021. As at September 30, 2021, no director or NEO held any Compensation Securities.

### **Stock Option Plans and Other Incentive Plans**

The Company's current stock option plan is the Current Stock Option Plan; a "rolling" stock option plan, whereby the aggregate number of Kona Bay Shares reserved for issuance, together with any other Kona Bay Shares reserved for issuance under any other plan or agreement of the Company, shall not exceed ten (10%) percent of the total number of issued Kona Bay Shares (calculated on a non-diluted basis) at the time an option is granted. The Current Stock Option Plan provides that the Board may, from time to time, in its discretion, grant to directors, officers, employees, consultants and other personnel of the Company and its subsidiaries or affiliates, options to purchase Kona Bay Shares. As at March 25, 2022, there were no stock options outstanding under the Current Stock Option Plan. The Company's shareholders ratified the Current Stock Option Plan at the Company's annual general and special meeting held on December 11, 2020.

The following is a summary of the other material terms of the Current Stock Option Plan:

- The aggregate number of Kona Bay Shares that may be reserved for issuance pursuant to options shall not exceed 10% of the outstanding Kona Bay Shares at the time of the granting of an option, less the aggregate number of Kona Bay Shares then reserved for issuance pursuant to any other share compensation arrangement. For greater certainty, if an option is surrendered, terminated or expires without being exercised, the Kona Bay Shares reserved for issuance pursuant to such option shall be available for new options granted under the Current Stock Option Plan.
- The exercise price per Kona Bay Share for an option shall be determined by the directors or their delegates if any, but will in no event be less than the permitted discount to the Market Price for the Kona Bay Shares (as defined by the policies of the TSXV at the date of grant).

- If options are granted within ninety days of a distribution by the Company by prospectus, then the exercise price per Kona Bay Share for such option shall not be less than the greater of the minimum exercise price calculated pursuant to subsection 5.1(a) of the Current Stock Option Plan and the price per Kona Bay Share paid by the public investors for Kona Bay Shares acquired pursuant to such distribution. Such ninety-day period shall begin:
  - (a) on the date the final receipt is issued for the final prospectus in respect of such distribution; or
  - (b) in the case of an initial public offering, on the date of listing.
- The number of Kona Bay Shares reserved for issuance in any 12 month period under the Current Stock Option Plan and any other share compensation arrangement to (a) any one person, shall not exceed 5% of the outstanding Kona Bay Shares at the time of the grant (unless the Company has obtained disinterested shareholder approval to exceed such limit); (b) any one consultant or person employed to provide investor relations activities, shall not exceed 2% of the outstanding Kona Bay Shares at the time of the grant; and (c) to insiders, shall not exceed 10% of the outstanding Kona Bay Shares at the time of the grant.
- Unless the Company has received disinterested shareholder approval to do so, the number of Kona Bay Shares issued to any person within a 12-month period pursuant to the exercise of options granted under the Current Stock Option Plan and any other share compensation arrangement shall not exceed 5% of the outstanding Kona Bay Shares at the time of the grant.
- Upon expiry of an option, or in the event an option is otherwise terminated for any reason, the number of Kona Bay Shares in respect of the expired or terminated option shall again be available for the purposes of the Current Stock Option Plan. All options granted under the Current Stock Option Plan, unless sooner terminated, have a term not exceeding and shall therefore expire no later than 10 years after the date of the grant.
- If a participant who is an officer, employee or consultant is terminated for cause, each option held by such participant shall terminate and shall therefore cease to be exercisable upon such termination for cause.
- If a participant dies or suffers a disability prior to otherwise ceasing to be an eligible person, each option held by such participant shall terminate and shall therefore cease to be exercisable no later than the earlier of the expiry date and the date which is 12 months after the date of the participant's death or disability.

Unless an option agreement specifies otherwise, if a participant ceases to be an eligible person for any reason other than death or disability, each option held by the participant other than a participant who is involved in investor relations activities will cease to be exercisable 90 days after the termination date or for a "reasonable period" after the participant ceases to serve in such capacity, as determined by the Board. For participants involved in investor relations activities, options shall cease to be exercisable 30 days after the termination date or for a "reasonable period" after the participant ceases to serve in such capacity, as determined by the Board.

For greater certainty, if a participant dies, each option held by such participant shall be exercisable by the legal representative of such participant until such option terminates and therefore ceases to be exercisable pursuant to the terms of the Current Stock Option Plan.

If any portion of an option is not vested at the time a participant ceases, for any reason whatsoever, to be an eligible person, such unvested portion of the option may not be thereafter exercised by the participant or its legal

representative, as the case may be, always provided that the Board may, in its discretion and in the case of options relating to investor relations, subject to the approval of the TSXV, thereafter permit the participant or its legal representative, as the case may be, to exercise all or any part of such unvested portion of the option that would have vested prior to the time such option otherwise terminates and therefore ceases to be exercisable pursuant to the terms of the Current Stock Option Plan. For greater certainty, and without limitation, this provision will apply regardless of whether the participant ceased to be an eligible person voluntarily or involuntarily, was dismissed with or without cause, and regardless of whether the participant received compensation in respect of dismissal or was entitled to a notice of termination for a period which would otherwise have permitted a greater portion of an option to vest.

The Board retains the discretion to impose vesting periods on any options granted. In accordance with the policies of the TSXV, stock options granted to consultants performing investor relations services must vest in stages over a minimum of 12 months with no more than one-quarter of the stock options vesting in any three-month period.

### **Employment, Consulting and Management Agreements**

The Company entered into a services agreement with Ron Schmitz and ASI Accounting effective March 22, 2021, whereby in consideration for Ron Schmitz acting as the CEO of the Company and ASI Accounting providing accounting and financial consulting services to the Company, the Company pays ASI Accounting a fee of \$125 per hour for services provided by Mr. Schmitz. The term of the agreement is for a period of one year and either party may terminate the agreement: (a) at any time in the event of the failure of the other party to comply with any of the provisions under the agreement upon such other party being notified in writing by the party alleging such failure and failing to remedy such failure within 15 days of receiving such notice, (b) upon giving 30 days' notice to the other party and (c) upon the death of Mr. Schmitz.

The Company entered into a services agreement with Gurdeep Phachu effective April 9, 2021, whereby in consideration for Mr. Phachu acting as the CFO of the Company and providing accounting and financial consulting services to the Company, the Company pays Mr. Phachu a fee of \$500 per month. The term of the agreement is for a period of one year and either party may terminate the agreement: (a) at any time in the event of the failure of the other party to comply with any of the provisions under the agreement upon such other party being notified in writing by the party alleging such failure and failing to remedy such failure within 15 days of receiving such notice, (b) upon giving 30 days' notice to the other party and (c) upon the death of Mr. Phachu.

The Company entered into a director services agreement with Rose Zanic effective March 22, 2021, whereby in consideration for Ms. Zanic acting as a director of the Company, the Company pays Ms. Zanic a director's fee of \$500 per month and verbally agreed to \$250 per hour for other services. These fees are paid to RCF Advisors Ltd., a company controlled by Ms. Zanic. The term of the agreement will continue until Ms. Zanic ceases to be a director of the Company. The Company may terminate the agreement for convenience by providing no less than 10 days' written notice to Ms. Zanic.

The Company entered into a director services agreement with Scott Davis effective April 9, 2021, whereby in consideration for Mr. Davis acting as a director of the Company, the Company pays Mr. Davis a director's fee of \$500 per month. The term of the agreement will continue until Mr. Davis ceases to be a director of the Company. The Company may terminate the agreement for convenience by providing no less than 10 days' written notice to Mr. Davis.

For 2020, the Company had in place a management consulting agreement with Vincent Wong pursuant to which Mr. Wong provided management services to the Company. The Company paid or accrued \$84,000 in fees to Mr. Wong in 2020. The agreement with Mr. Wong contains no provisions with respect change of control or severance, and was terminated on November 16, 2020.

The Company had in place a consulting agreement with a private company controlled by Charles Jenkins which the Company paid \$3,000 per month for providing administrative support to the Company and Charles Jenkins services

as CFO. The agreement with Mr. Jenkins contains no provisions with respect to change of control or severance, and was terminated on April 9, 2021.

In 2020, the Company had in place a corporate development consulting agreement with Howard Louie, a former director, pursuant to which Mr. Louie provided capital markets advisory services to the Company. The Company paid or accrued \$72,000 in fees to Mr. Louie in 2020. The agreement with Mr. Louie contains no provisions with respect to change of control or severance, and was terminated on November 16, 2020.

### **Oversight and Description of Director and NEO Compensation**

The objective of the Company's compensation program is to compensate the directors and executive officers for their services to the Company at a level that is both in line with the Company's fiscal resources and competitive with companies at a similar stage of development. The primary goal of the Company's executive compensation program is to:

- (a) attract and retain the qualified key executives necessary for the Company's long term success;
- (b) motivate the short term and long term performance of those executives; and
- (c) align the executives interests with the Company's shareholders.

The Company's compensation strategy is focused on a performance based incentive reward package, using certain critical measurements that management is able to influence toward the short-term and long-term objectives of the Company.

The significant elements of compensation awarded to, earned by, paid or payable to the NEOs for the most recently completed financial year were: (i) base salary; (ii) bonus and other annual incentive awards; and (iii) other compensations, perquisites. No compensation is directly tied to a specific performance goal such as a milestone or the completion of a transaction. No peer group is formally used to determine compensation.

Cash bonuses are structured to reward business excellence and operation outperformance, based on objective and subjective performance assessments and performance benchmark ratings assessed and approved by the Board. The assessment is focused on the key performance indicators both for overall performance of the Company and for individual performance. The key indicators for determining the Company's performance included improvement of retailer product distribution, geographic expansion and product development, which are primary factors leading to steady growth of the Company's assets and shareholders' value. The measurements for individuals' performance were focused on (1) leadership, including five areas: vision, initiatives, creativity, flexibility and supervision skills; and (2) deliverables, including the team, products, communication and reporting and documentation.

### **Pension Plan Benefits**

The Company does not have any pension, defined benefit, defined contribution or deferred compensation plans in place.

### **APPOINTMENT OF AUDITOR**

At the Meeting, Kona Bay Shareholders will be asked to pass an ordinary resolution to appoint Charlton & Company, Chartered Professional Accountants, as auditors of the Company for the fiscal year ending September 30, 2022, and to authorize the directors of the Company to fix the remuneration to be paid to the auditors for the fiscal year ending September 30, 2022. An ordinary resolution needs to be passed by a simple majority of the votes cast by the Kona Bay Shareholders present in person or represented by proxy and entitled to vote at the Meeting.

It is the intention of the Designated Persons named in the enclosed form of proxy, if not expressly directed otherwise in such form of proxy, to vote such proxy for the appointment of Charlton & Company, Chartered Professional Accountants, as the Company's auditors for the Company's fiscal year ending September 30, 2022 and the authorization of the directors of the Company to fix the remuneration to be paid to the auditors for the fiscal year ending September 30, 2022.

**Management recommends that Kona Bay Shareholders vote for the appointment of Charlton & Company, Chartered Professional Accountants, as the Company's auditors for the Company's fiscal year ending September 30, 2022 and the authorization of the directors of the Company to fix the remuneration to be paid to the auditors for the fiscal year ending September 30, 2022.**

#### **AUDIT COMMITTEE DISCLOSURE**

The Company is required to have an audit committee comprised of not less than three directors, a majority of whom are not officers, Control Persons or employees of the Company or an Affiliate of the Company.

#### **The Audit Committee Charter**

The full text of the Company's Audit Committee charter is attached hereto as Schedule "J".

#### **Composition of the Audit Committee**

The Company's Audit Committee is comprised of three directors consisting of Rose Zanic, Ron Schmitz and Scott Davis. As defined in NI 52-110, Mr. Schmitz, the Company's director, CEO, and Corporate Secretary, is not "independent", as he is an executive officer of the Company, and Ms. Zanic and Mr. Davis are independent. All of the Audit Committee members are "financially literate", as defined in NI 52-110, as all have the industry experience necessary to understand and analyze financial statements of the Company, as well as the understanding of internal controls and procedures necessary for financial reporting.

The Audit Committee is responsible for review of both interim and annual financial statements for the Company. For the purposes of performing their duties, the members of the Audit Committee have the right, at all times, to inspect all the books and financial records of the Company and any subsidiaries and to discuss with management and the external auditors of the Company any accounts, records and matters relating to the financial statements of the Company. The Audit Committee members meet periodically with management and annually with the external auditors.

#### **Relevant Education and Experience**

The following sets out the education and experience of each Audit Committee member that is relevant to the performance of his responsibilities as an Audit Committee member and that provides each member with: (i) an understanding of the accounting principles used by the Company to prepare its financial statements; (ii) the ability to assess the general application of such accounting principles in connection with the accounting for estimates, accruals and provisions, (iii) experience preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the Company's financial statements, or experience actively supervising one or more individuals engaged in such activities; and (iv) an understanding of internal controls and procedures for financial reporting:

Ron Schmitz is the principal and president of ASI Accounting Services Inc., which has provided administrative, accounting and office services to public and private companies since July 1995. Mr. Schmitz has been a director or CFO of numerous public companies since 1997 and currently holds those roles with several public companies. See "*Corporate Governance – Directorships*" for more details.

Rose Zanic has over 24 years' experience in the capital markets. She is self-employed as president of RCF Advisors Ltd., a private company that provides corporate finance consulting services to public and private companies. From January 1997 until July 2016, Ms. Zanic worked with Wolverton Securities Ltd. where she was Senior VP, Corporate Finance in charge of the firm's corporate finance and syndication department. She is currently a director or officer of several public and private companies. Ms. Zanic holds a Chartered Professional Accountant designation from the Chartered Professional Accountants of British Columbia in 1991. Since September 2016, Ms. Zanic has been a member of the TSXV's Vancouver Local Advisory Committee. See "*Corporate Governance – Directorships*" for more details.

Scott Davis is a Chartered Professional Accountant and a partner of Cross Davis & Company LLP Chartered Professional Accountants, a firm focused on providing accounting and management services for publicly listed companies. Mr. Davis' experience includes CFO positions of several companies listed on the TSXV and Canadian Securities Exchange, and his past experience consists of senior management positions. Mr. Davis obtained his CPA, CGA in 2003. See "*Corporate Governance – Directorships*" for more details.

### **Audit Committee Oversight**

Since the commencement of the Company's most recently completed financial year, the Board has not failed to adopt a recommendation of the Audit Committee to nominate or compensate an external auditor.

### **Reliance on Certain Exemptions**

Since the commencement of the Company's most recently completed financial year, the Company has not relied on the exemptions in sections 2.4, 6.1.1(4), 6.1.1(5), 6.1.1(6) or Part 8 of NI 52-110. Section 2.4 (*De Minimis Non-Audit Services*) provides an exemption from the requirement that the Audit Committee must pre-approve all non-audit services to be provided by the auditor, where the total amount of fees related to the non-audit services are not expected to exceed 5% of the total fees payable to the auditor in the financial year in which the non-audit services were provided. Sections 6.1.1(4) (*Circumstance Affecting the Business or Operations of the Venture Issuer*), 6.1.1(5) (*Events Outside Control of Member*) and 6.1.1(6) (*Death, Incapacity or Resignation*) provide exemptions from the requirement that a majority of the members of the Company's Audit Committee must not be executive officers, employees or control persons of the Company or of an Affiliate of the Company. Part 8 (*Exemptions*) permits a company to apply to a securities regulatory authority or regulator for an exemption from the requirements of NI 52-110 in whole or in part.

### **Pre-Approval Policies and Procedures**

The Audit Committee has not adopted any specific policies and procedures for the engagement of non-audit services.

### **External Auditor Service Fees**

In the following table, "audit fees" are fees billed by the Company's external auditor for services provided in auditing the Company's annual financial statements for the subject year. "Audit-related fees" are fees not included in audit fees that are billed by the auditor for assurance and related services that are reasonably related to the performance of the audit review of the Company's financial statements. "Tax fees" are fees billed by the auditor for professional services rendered for tax compliance, tax advice and tax planning. "All other fees" are fees billed by the auditor for products and services not included in the foregoing categories.

The aggregate fees billed by the Company's external auditor in the last two fiscal years, by category, are as follows:

Year Ended September 30	Audit Fees	Audit Related Fees	Tax Fees	All Other Fees
2021	22,775	Nil	2,500	Nil
2020	16,195	Nil	6,000	Nil

### Exemption

Kona Bay is relying on the exemption provided by section 6.1 of NI 52-110 which provides that the Company, as a venture issuer, is not required to comply with Part 3 (*Composition of the Audit Committee*) and Part 5 (*Reporting Obligations*) of NI 52-110.

### INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS

No current or former director, executive officer, proposed nominee for election to the Board, or Associate of such persons is, or at any time since the beginning of the Company's most recently completed financial year has been, indebted to the Company or any of its subsidiaries.

No indebtedness of current or former director, executive officer, proposed nominee for election to the Board, or Associate of such person is, or at any time since the beginning of the most recently completed financial year has been, the subject of a guarantee, support agreement, letter of credit or other similar arrangement or understanding provided by the Company or any of its subsidiaries.

### INTEREST OF INFORMED PERSONS IN MATERIAL TRANSACTIONS

Except as otherwise disclosed herein, no: (a) Insider; (b) director or executive officer of an Insider; or (d) Associate or Affiliate of any Insider, has had any material interest, direct or indirect, in any transaction since the commencement of the Company's most recently completed financial year or in any proposed transaction which has materially affected or would materially affect the Company, except with an interest arising from the ownership of Kona Bay Shares where such person or company will receive no extra or special benefit or advantage not shared on a pro rata basis by all holders of the same class of shares.

### MANAGEMENT CONTRACTS

There were no management functions of the Company, which were, to any substantial degree, performed by a person other than the directors or executive officers of the Company, except as otherwise described in this Information Circular.

### CORPORATE GOVERNANCE

#### Board of Directors

The Board presently has four directors, two of whom are independent. The definition of independence used by the Company is that used by the Canadian Securities Administrators, which is set out in Section 1.4 of NI 52-110. A director is independent if he has no direct or indirect material relationship to the Company. A "material relationship" is a relationship which could, in the view of the Board, be reasonably expected to interfere with the exercise of the director's independent judgment. Certain types of relationships are by their nature considered to be material relationships and are specified in Section 1.4 of NI 52-110.

Rose Zanic and Scott Davis are considered to be independent directors. Ron Schmitz and Gurdeep Phachu are not considered to be independent as Mr. Schmitz acts the CEO and the Corporate Secretary of the Company and Mr. Phachu acts as the CFO of the Company.

## Directorships

Certain directors of the Company are currently also directors of other reporting issuers, as described in the table below:

Name of Director of the Company	Names of Other Reporting Issuers	Securities Exchange
Ron Schmitz	Ocean Shore Capital Corp.	TSXV
	Newrange Gold Corp.	TSXV
	Stage Capital Corp.	N/A
	Winfield Resources Limited	N/A
Rose Zanic	Clarity Gold Corp	CSE
	Sanibel Ventures Corp.	NEX
	Sanatana Resources Inc.	TSXV
	Winfield Resources Limited	N/A
Scott Davis	Aardvark Ventures Inc.	N/A
	Calibri Resources Inc.	N/A
	Freeport Resources Inc.	TSXV
	Glacier Lake Resources Inc.	TSXV
	Global Carbon Credit Corp.	N/A
	Guyana Goldstrike Inc.	TSXV
	iMetal Resources Inc.	TSXV
	Sombra Capital Corp.	N/A
	Springbok Ventures Inc.	N/A
	Sunspot Capital Inc.	N/A
	Trench Metals Corp.	TSXV
	Vega Mining Inc.	N/A
	Victory Mountain Ventures Ltd.	N/A

## Orientation and Continuing Education

The Board briefs all new directors with respect to the policies of the Board and other relevant corporate and business information. The Board does not provide any continuing education.

## Ethical Business Conduct

The Board has found that the fiduciary duties placed on individual directors by the Company's governing corporate legislation and the common law and the restrictions placed by applicable corporate legislation on an individual director's participation in decisions of the Board in which the director has an interest have been sufficient to ensure that the Board operates independently of management and in the best interests of the Company.



### **Nomination of Directors**

The Company does not have a formal process or committee for proposing new nominees for election to the Board. The nominees proposed are generally the result of recruitment efforts by the members of the Board, including both formal and informal discussions among the members of the Board.

### **Compensation**

The Board has not created or appointed a compensation committee given the Company's current size and stage of development. All tasks related to developing and monitoring the Company's approach to the compensation of the Company's NEOs and directors are performed by the members of the Board. The compensation of the NEOs, directors and the Company's employees or consultants, if any, is reviewed, recommended and approved by the Board without reference to any specific formula or criteria.

### **Other Board Committees**

The Board has no other committees other than the Audit Committee.

### **Assessments**

The Board regularly monitors the adequacy of information given to directors, communications between the Board and management and the strategic direction and processes of the Board and its committees.

## **INTEREST OF CERTAIN PERSONS OR COMPANIES IN MATTERS TO BE ACTED UPON**

Except as disclosed elsewhere in this Information Circular, no director or executive officer of the Company who was a director or executive officer since the beginning of the Company's last financial year, no proposed nominee for election as a director of the Company, nor any Associate or Affiliate of any such directors, officers or nominees, has any material interest, direct or indirect, by way of beneficial ownership of Kona Bay Shares or other securities in the Company or otherwise, in any matter to be acted upon at the Meeting, other than the election of directors.

Directors, executive officers, proposed nominees for election as director of the Company or the Resulting Issuer, as applicable, may be interested in the approval of the New Stock Option Plan, pursuant to which they may be granted stock options. See "*Particulars of Matters to be Acted Upon – Adoption of New Equity Incentive Plan*" for more information.

## **PARTICULARS OF MATTERS TO BE ACTED UPON**

### **Approval of the Transaction**

At the Meeting, disinterested Kona Bay Shareholders will be asked to consider and, if thought fit, to pass, the Arrangement Resolution to approve the Arrangement Agreement and the Transaction, including the Plan of Arrangement, under the BCBCA pursuant to the terms of the Arrangement Agreement. The Transaction, the Plan of Arrangement and the terms of the Arrangement Agreement are summarized below. This summary does not purport to be complete and is qualified in its entirety by reference to the Arrangement Agreement, which has been filed by Kona Bay under its profile on SEDAR at [www.sedar.com](http://www.sedar.com), and the Plan of Arrangement, which is attached to this Information Circular as Schedule "M".

In order to become effective, the Transaction must be approved by the Arrangement Resolution passed by two-thirds of the votes cast on the Arrangement Resolution by disinterested Kona Bay Shareholders present in person or represented by proxy at the Meeting. Accordingly, an aggregate of 10,986,500 pre-Consolidation Kona Bay Shares held collectively by Anne Keay, Mae Suffron and Klutch will be excluded in the calculation of the votes approving the Arrangement Resolution. See "*Particulars of Matters to be Acted Upon – Approval of the Transaction – Regulatory*"

*Law Matters and Securities Law Matters – Canadian Securities Law Matters*". A copy of the Arrangement Resolution is set out in Schedule "L" of this Information Circular.

**Management recommends the approval of the Arrangement Resolution at the Meeting. It is the intention of the Designated Persons named in the enclosed form of proxy, if not expressly directed otherwise in such form of proxy, to vote such proxy for the adoption of the Arrangement Resolution.**

If the Arrangement Resolution is approved at the Meeting and the Final Order approving the Arrangement is issued by the Court and the applicable conditions to the completion of the Transaction are satisfied or waived, the Arrangement will take effect at the Effective Time (anticipated to be 10:00 a.m. (Vancouver time) on the Effective Date, or such other time on the Effective Date as is agreed to by Kona Bay, Yerbaé and Merger Sub). The Effective Date is expected to occur on or before January 13, 2023, or such later date as is agreed to by the parties to the Arrangement Agreement.

### **The Transaction**

On May 19, 2022, Kona Bay entered into the Arrangement Agreement related to the Transaction with Yerbaé, a Delaware incorporated naturally caffeinated, zero calorie, plant-based energy beverage company operating out of Scottsdale, Arizona, pursuant to which Kona Bay proposed to acquire all of the issued and outstanding Yerbaé Shares (including any restricted Yerbaé Shares, as applicable) in exchange for the right to receive Kona Bay Shares at the Exchange Ratio. In connection with the Transaction, FinCo, a wholly-owned British Columbia subsidiary of the Company, is conducting the Concurrent Financing; a non-brokered private placement to raise minimum gross proceeds of US\$5,000,000 (less any amounts raised by Kona Bay, Yerbaé or any Affiliate thereof concurrent to the Transaction, excluding the Bridge Loan).

The Transaction is subject to the approval of the TSXV and is intended to constitute a RTO of Kona Bay by Yerbaé as defined in Policy 5.2. The combined company that will result from the completion of the Transaction will be renamed "Yerbaé Brands Corp." or such other name as agreed to by Kona Bay and Yerbaé. Subject to TSXV approval, the common shares of the Resulting Issuer will trade on the TSXV under the trading symbol "YERB.U" and the Resulting Issuer will continue to be listed on Tier 2 of the TSXV as an industrial issuer.

The TSXV has deemed the Transaction a non-Arm's Length Transaction and, in connection with the announcement of the Transaction, trading in the Kona Bay Shares were halted on May 20, 2022 and are expected to remain halted until the Closing. For more information, see "*Transaction Summary – Interests of Insiders*".

### **Arrangement Agreement**

Pursuant to the terms of the Arrangement Agreement, Kona Bay proposes to acquire all of the issued and outstanding Yerbaé Shares (including any restricted Yerbaé Shares, as applicable) in exchange for the right to receive Kona Bay Shares at the Exchange Ratio. Accordingly, the Transaction is to be completed by way of a reverse triangular merger conducted pursuant to (i) the provisions of DGCL in which Merger Sub, a newly incorporated wholly-owned Subsidiary of Kona Bay, will merge with and into Yerbaé, and (ii) the Arrangement conducted pursuant to the BCBCA.

### **Concurrent Financing and Amalgamation**

In connection with, and prior to the Closing, FinCo intends to conduct the Concurrent Financing; a non-brokered private placement to raise minimum gross proceeds of US\$5,000,000 (less any amounts raised by Kona Bay, Yerbaé or any Affiliate thereof concurrent to the Transaction, excluding the Bridge Loan) by way of issuance of FinCo Subscription Receipts at a price of US\$1.23 per FinCo Subscription Receipt. Each FinCo Subscription Receipt sold by FinCo will, in accordance with the terms of the certificate representing the FinCo Subscription Receipt (each, a "**FinCo Subscription Receipt Certificate**"), entitle the holder thereof to receive, without payment of any additional consideration and without further action on the part of the holder thereof, one FinCo Share. Yerbaé has, as of the date of this Information Circular, raised an aggregate of US\$499,995.16 through a financing via the issuance of an

aggregate of 291,968 Non-Voting Common Stock – Class D-3 Yerbaé Shares at a price of US\$1.37 per Yerbaé Share on September 1, 2022, US\$274,997.36 through a financing via the issuance of an aggregate of 200,728 Non-Voting Common Stock – Class D-3 Yerbaé Shares at a price of US\$1.37 per Yerbaé Share on September 8, 2022, US\$24,999.76 through a financing via the issuance of 18,248 Non-Voting Common Stock – Class D-3 Yerbaé Shares at a price of US\$1.37 per Yerbaé Share on September 13, 2022, US\$18,542.95 through a financing via the issuance of 13,535 Non-Voting Common Stock – Class D-3 Yerbaé Shares at a price of US\$1.37 per Yerbaé Share on September 15, 2022, US\$24,999.75 through a financing via the issuance of 20,325 Non-Voting Common Stock – Class D-1 Yerbaé Shares at a price of US\$1.23 per Yerbaé Share on September 19, 2022, US\$49,999.50 through a financing via the issuance of 40,650 Non-Voting Common Stock – Class D-1 Yerbaé Shares at a price of US\$1.23 per Yerbaé Share on September 23, 2022, and US\$99,999 through a financing via the issuance of 81,300 Non-Voting Common Stock – Class D-2 Yerbaé Shares at a price of US\$1.23 per Yerbaé Share on October 19, 2022. In addition, Yerbaé has raised a total of US\$135,903.83 through the issuance of an aggregate of 105,771 Non-Voting Common Stock – Class 2022-1 Yerbaé Shares through crowdfunding concurrent to the Transaction as to (i) 11,028 Non-Voting Common Stock – Class 2022-1 Yerbaé Shares at a price of US\$1.14 per Yerbaé Share for aggregate proceeds of US\$12,571.92, (ii) 1,048 Non-Voting Common Stock – Class 2022-1 Yerbaé Shares at a price of US\$1.15 per Yerbaé Share for aggregate proceeds of US\$1,205.20, (iii) 50,286 Non-Voting Common Stock – Class 2022-1 Yerbaé Shares at a price of US\$1.25 per Yerbaé Share for aggregate proceeds of US\$62,857.50, (iv) 2,514 Non-Voting Common Stock – Class 2022-1 Yerbaé Shares at a price of US\$1.29 per Yerbaé Share for aggregate proceeds of US\$3,243.06, and (v) 40,895 Non-Voting Common Stock – Class 2022-1 Yerbaé Shares at a price of US\$1.37 per Yerbaé Share for aggregate proceeds of US\$56,026.15. See “Schedule ‘C’ – Information Concerning Yerbaé Brands Co. – Prior Sales” below for more details.

Pursuant to the terms of the Roth Engagement Agreement, Yerbaé will issue an aggregate of 308,823 Yerbaé Warrants to Roth Canada, to be converted to Resulting Issuer Warrants immediately on closing of the Transaction. The warrants issued to Roth Canada will be exercisable into one Resulting Issuer Share at an exercise price of US\$1.37 for a period of two years after Closing. Aside from any further fees payable to Roth Canada pursuant to the terms of the Roth Engagement Agreement, the parties may pay customary finder’s fees to other eligible arm’s length finders in connection with the Concurrent Financing. Accordingly, the payment of any finder’s fees will be subject to the approval of the TSXV.

After the conversion of all the FinCo Subscription Receipts, in accordance with the terms and conditions of the Arrangement Agreement, and in accordance with the BCBCA, FinCo and Kona Bay or newly formed subsidiary thereof will amalgamate and continue as one corporation (“**AmalCo**”). In connection with and as a result of the Amalgamation: (a) each FinCo Share (other than any FinCo Shares held by Kona Bay) will be exchanged into one Kona Bay Share and (b) each FinCo Share held by Kona Bay will be automatically cancelled without any payment of capital in respect thereof.

In connection with the closing of the Transaction, the parties expect to pay customary advisory fees to Roth Canada, an eligible arm’s length third party to both Kona Bay and Yerbaé, in accordance with the terms of the Roth Engagement Agreement. Under the terms of the Roth Engagement Agreement, Yerbaé shall pay Roth Canada a one-time advisory fee for Roth Canada’s services in facilitating the identification, negotiation and implementation of the Transaction between Kona Bay and Yerbaé equal to 1% of the total resulting public entity, the Resulting Issuer, payable by way of issuance of Resulting Issuer Shares. The payment of any finder’s fees to Roth Canada are subject to the approval of the TSXV. All Yerbaé Shares or securities exercisable into Yerbaé Shares payable as compensation to Roth Canada, shall be subject to a contractual lock-up which shall restrict all trading in the Yerbaé Shares or underlying Yerbaé Shares following a payable event for not less than 180 days, at which time 50% of the securities shall be free of the lock-up, with the remaining securities remaining subject to the lock-up for an additional 180 days thereafter.

### ***The Merger***

Following the completion of the Amalgamation, Merger Sub and Yerbaé will complete the Merger pursuant to which, in accordance with the DGCL, Merger Sub will merge with and into Yerbaé. Accordingly, the separate corporate

existence of Merger Sub will cease and, as a result thereof, Yerbaé will continue its corporate existence under the DGCL as the sole surviving corporation of the Merger (the “**Operating Subsidiary**”), a subsidiary of Kona Bay. Immediately following the completion of the Merger, each Yerbaé Share outstanding held by a Yerbaé Shareholder will be deemed to have been transferred to, and acquired by Kona Bay in exchange for such number of Kona Bay Shares as is equal to the number of Yerbaé Shares multiplied by the Exchange Ratio. Following this, each issued Yerbaé Share that is owned by Kona Bay or Yerbaé will automatically be cancelled without any payment of capital in respect thereof and each common stock of Merger Sub will be converted into and become one newly issued, fully paid, and non-assessable share of common stock of the Operating Subsidiary.

In connection with the Merger, each stock option and stock purchase warrant of Yerbaé outstanding immediately prior to the Merger will be exchanged for an equivalent number stock options or share purchase warrants of Kona Bay, each on the same terms based on the Exchange Ratio.

### ***The Arrangement***

The Transaction will be effected by way of a court-approved arrangement pursuant to the BCBCA.

### ***Share Consolidation***

In connection with closing of the Transaction, the Company intends to consolidate its outstanding Kona Bay Shares on the basis of 5.8 pre-consolidation Kona Bay Shares for every one post-consolidation Kona Bay Share prior to the completion of the Amalgamation (the “**Consolidation**”).

### ***Performance Shares***

Concurrent with the closing of the Transaction, Kona Bay has agreed to issue an aggregate of 8,000,000 performance Kona Bay Shares (each, a “**Performance Share**”) to certain Persons, as to 3,000,000 Performance Shares to Klutch, a former Insider of Kona Bay and arm’s length party to Yerbaé, and 2,500,000 Performance Shares to each of Todd Gibson and Karrie Gibson, which Performance Shares are to be held in escrow and released upon the completion of certain performance-based incentives related to the listing of the Resulting Issuer Shares on the TSXV, future equity financings, and certain trailing gross revenue targets.

### ***Principal Steps of the Arrangement***

Under the Plan of Arrangement, on the Effective Date, the following will occur and will be deemed to occur in the following sequence without any further authorization, act or formality:

- (a) with respect to the Subscription Receipts:
  - (i) each Subscription Receipt will, without payment of any additional consideration and without further action on the part of the holder thereof, be deemed to be converted into one FinCo Share in accordance with the FinCo Subscription Receipt Certificate; and
  - (ii) the holder of a Subscription Receipt will cease to be the holder thereof or to have any rights as a holder in respect of such Subscription Receipt or under the FinCo Subscription Receipt Certificate in accordance with the FinCo Subscription Receipt Certificate;
- (b) FinCo and Kona Bay, or at Kona Bay’s option, a Subsidiary of Kona Bay, will be amalgamated and continued as one corporation under the BCBCA in accordance with the following:
  - (i) FinCo and Kona Bay, or at Kona Bay’s option, a Subsidiary of Kona Bay, will amalgamate and continue as one corporation, in accordance with the following:

- A. the property of each amalgamating corporation shall continue to be the property of the AmalCo;
  - B. the AmalCo shall continue to be liable for the obligations of each amalgamating corporation;
  - C. any existing cause of action, claim or liability to prosecution of an amalgamating corporation shall be unaffected;
  - D. any civil, criminal or administrative action or proceeding pending by or against an amalgamating corporation may be continued to be prosecuted by or against the AmalCo;
  - E. a conviction against, or ruling, order or judgment in favour of or against, an amalgamating corporation may be enforced by or against the AmalCo; and
  - F. the Notice of Articles and Articles of Kona Bay will remain the Notice of Articles and Articles of the AmalCo;
- (ii) on the Amalgamation:
- A. each FinCo Share (other than FinCo Shares held by Kona Bay) will be converted, without any act or formality on the part of the holder thereof, into one Kona Bay Share, and the name of each such holder will be removed from the register of holders of FinCo Shares and added to the register of holders of Kona Bay Shares;
  - B. each FinCo Share held by Kona Bay will be cancelled without any payment of capital in respect thereof; and
  - C. each Kona Bay Share, or common share of the Subsidiary of Kona Bay, if applicable, will be converted, without any act or formality on the part of the holder thereof, into one fully paid and non-assessable common share of the AmalCo (each, an “**AmalCo Share**”), and the name of each such holder will be removed from the register of holders of Kona Bay Shares, or register of holders of common shares of the Subsidiary of Kona Bay, if applicable, and added to the register of holders of the AmalCo Shares;
- (c) on the terms and subject to the conditions set forth in the Arrangement Agreement, and in accordance with the DGCL, at the Effective Time:
- (i) Merger Sub will merge with and into Yerbaé;
  - (ii) the separate corporate existence of Merger Sub will cease;
  - (iii) Yerbaé will continue its corporate existence under the DGCL as the surviving corporation in the Merger and a subsidiary of Kona Bay;
  - (iv) all property, rights, privileges, immunities, powers, franchises, licenses, and authority of Yerbaé and Merger Sub will vest in the Operating Subsidiary, and all debts, liabilities, obligations, restrictions, and duties of each of Yerbaé and Merger Sub will become the debts, liabilities, obligations, restrictions, and duties of the Operating Subsidiary;

- (v) the certificate of incorporation of the Operating Subsidiary will be amended and restated so as to read in its entirety as set forth in to the Arrangement Agreement and the name of the Operating Subsidiary may be amended to be "Yerbaé U.S." or some other name acceptable to Yerbaé, and, as so amended and restated, will be the certificate of incorporation of the Operating Subsidiary until thereafter amended in accordance with the terms thereof and applicable law; and
  - (vi) the by-laws of Merger Sub as in effect immediately prior to the Effective Time will be the by-laws of the Operating Subsidiary, except that references to Merger Sub's name shall be replaced with references to the Operating Subsidiary's name until thereafter amended in accordance with the terms thereof, the certificate of incorporation of the Operating Subsidiary, and applicable law;
- (d) immediately thereafter and pursuant to the Merger, each issued Yerbaé Share outstanding immediately prior to the Effective Time held by a Yerbaé Shareholder in respect of which Dissent Rights have been validly exercised will be deemed to have been transferred without any further act or formality, to Kona Bay, free and clear of any liens, claims and encumbrances in consideration for the right to receive the consideration in the amount and payable in accordance with Article 5 of the Plan of Arrangement, and:
- (i) such Yerbaé Shareholder will cease to be the registered holder of such Dissenting Shares and will cease to have any rights as registered holders of such Yerbaé Shares other than the right to be paid fair value for such Dissenting Shares;
  - (ii) such Yerbaé Shareholder's name will be removed as the registered holder of such Dissenting Shares from the registers of the Yerbaé Shares maintained by or on behalf of the Company; and
  - (iii) Kona Bay will be deemed to be the transferee of such Dissenting Shares, free and clear of any liens, claims and encumbrances;
- (e) immediately thereafter and pursuant to the Merger, each issued and outstanding Yerbaé Share (other than (i) any Yerbaé Share in respect of which a registered Yerbaé Shareholder has validly exercised his, her or its Dissent Right and (ii) any Yerbaé Shares held by Kona Bay or Yerbaé) will be deemed to have been transferred to, and acquired by Kona Bay, without any act or formality on the part of the holder of such Yerbaé Share or Kona Bay, free and clear of all liens, claims and encumbrances, in exchange for such number of Kona Bay Shares equal to the product of: (A) the number of Yerbaé Shares multiplied by (B) the Exchange Ratio, provided that the aggregate number of Kona Bay Shares payable to any Yerbaé Shareholder, if calculated to include a fraction of a Kona Bay Share, will be rounded down to the nearest whole Kona Bay Share, with no consideration being paid for the fractional share, and the name of each such Yerbaé Shareholder will be removed from the register of holders of Yerbaé Shares and added to the register of holders of Kona Bay Shares, and Kona Bay will be recorded as the registered holder of such Yerbaé Shares so exchanged and will be deemed to be the legal and beneficial owner thereof;
- (f) immediately thereafter and pursuant to the Merger, each issued Yerbaé Share that is owned by Kona Bay or Yerbaé (as treasury stock or otherwise) or any of their respective direct or indirect wholly-owned subsidiaries as of immediately prior to the Effective Time will automatically be cancelled and retired and will cease to exist, and no consideration will be delivered in exchange therefor;
- (g) immediately thereafter and pursuant to the Merger, each share of common stock of Merger Sub issued and outstanding immediately prior to the Effective Time will be converted into and become

one newly issued, fully paid, and non-assessable share of common stock of the Operating Subsidiary with the same rights, powers, and privileges as the shares so converted and will constitute the only outstanding shares of capital stock of the Operating Subsidiary;

- (h) immediately thereafter and pursuant to the Merger, each holder of Yerbaé Options will be deemed to have exchanged such Yerbaé Options for Kona Bay Exchange Options to acquire from Kona Bay the number of Kona Bay Shares equal to the product of: (A) the number of Yerbaé Shares subject to such Yerbaé Options immediately prior to the Effective Time multiplied by (B) the Exchange Ratio, provided that, if the foregoing would result in the issuance of a fraction of a Kona Bay Share on any particular exercise of Kona Bay Exchange Options, then the number of Kona Bay Shares otherwise issued will be rounded down to the nearest whole number of Kona Bay Shares. The exercise price per Kona Bay Share subject to a Kona Bay Exchange Option will be an amount equal to the quotient of: (A) the exercise price per Yerbaé Share subject to each such Yerbaé Option immediately before the Effective Time divided by (B) the Exchange Ratio, provided that the aggregate exercise price payable on any particular exercise of Kona Bay Exchange Options will be rounded up to the nearest whole cent. provided, that the exercise price and the number of Kona Bay Shares subject to the Kona Bay Exchange Option will be determined in a manner consistent with the requirements of Section 409A of the Code, and, in the case of Yerbaé Options that are intended to qualify as incentive stock options within the meaning of Section 422 of the Code, consistent with the requirements of Section 424(a) of the Code;
- (i) immediately thereafter and pursuant to the Merger, each holder of Yerbaé Restricted Shares will be deemed to have exchanged such Yerbaé Restricted Shares for the number of Kona Shares equal to the product of: (A) the number of Yerbaé Restricted Shares immediately prior to the Effective Time; multiplied by (B) the Exchange Ratio, provided that, if the foregoing would result in the issuance of a fraction of a Kona Bay Share, then the number of Kona Bay Shares otherwise issued will be rounded down to the nearest whole number of Kona Bay Shares; and
- (j) immediately thereafter and pursuant to the Merger, each holder of Yerbaé Warrants will be deemed to have exchanged such Yerbaé Warrants for share purchase warrants of Kona Bay permitting the holder thereof to acquire from Kona Bay the number of Kona Bay Shares equal to the product of: (A) the number of Yerbaé Shares subject to such Yerbaé Warrants immediately prior to the Effective Time multiplied by (B) the Exchange Ratio, provided that, if the foregoing would result in the issuance of a fraction of a Kona Bay Share on any particular exercise of Kona Bay Warrants, then the number of Kona Bay Shares otherwise issued will be rounded down to the nearest whole number of Kona Bay Shares. The exercise price per share purchase warrant of Kona Bay will be an amount equal to the quotient of: (A) the exercise price per Yerbaé Share subject to each such Yerbaé Warrant immediately before the Effective Time divided by (B) the Exchange Ratio.

### ***Reasons for the Transaction***

The Board, in determining that the Transaction is in the best interests of Kona Bay and is fair to Kona Bay Shareholders, and recommending that Kona Bay Shareholders vote in favor of the Arrangement Resolution considered and relied upon a number of factors, including, among others, the following:

- (a) that the Resulting Issuer would be able to operate as one single business unit and thereby more easily give effect to the business plans of both Kona Bay and Yerbaé;
- (b) Kona Bay's independent financial advisor, Evans & Evans, Inc., provided its opinion to the Board to the effect that, as of September 29, 2022, and subject to the assumptions, limitations and qualifications set out in the Fairness Opinion, the terms and conditions of the Arrangement are

fair, from a financial point of view, to the Persons to whom the Resulting Issuer Shares will be issued under the Arrangement;

- (c) the fact that Kona Bay's and Yerbaé's respective representations, warranties and covenants and the conditions to their respective obligations set forth in the Arrangement Agreement are reasonable in the judgment of the Board following consultations with its advisors;
- (d) the likelihood of the Transaction being completed is considered by the Board to be high, in light of several factors including the financial capability of Yerbaé and the absence of significant closing conditions outside the control of Kona Bay, other than the Kona Bay Shareholder approval, the approval by the Court of the Arrangement, the conditional approval of the Transaction by the TSXV and other customary closing conditions;
- (e) the fact that the Arrangement Resolution must be approved by 66⅔% of the votes cast at the Meeting by holders of Kona Bay Shares present in person or by proxy at the Meeting; and
- (f) the fact that the Transaction must also be approved by the Court, which will consider the substantive and procedural fairness of the Arrangement.

In the course of its deliberations, the Board also identified and considered a variety of risks, including, but not limited to:

- (a) concerns about Kona Bay Shareholders being diluted and the uncertainty of the value of Resulting Issuer Shares; and
- (b) the risk to Kona Bay if the Transaction is not completed, including the cost incurred by Kona Bay in pursuing the Transaction and the diversion of management attention away from the conduct of Kona Bay's business in the ordinary course.

The foregoing summary of the information and factors considered by the Board is not, and is not intended to be, exhaustive. In view of the wide variety of factors and information considered in connection with their evaluation of the Transaction, the Board did not find it practicable to, and therefore did not, quantify or otherwise attempt to assign any relative weight to each specific factor or item of information considered in reaching its conclusion and recommendation. Individual members of the Board may have given different weight to different factors or items of information.

### ***Fairness Opinion***

Kona Bay retained Evans & Evans, Inc. to provide an opinion on the fairness on the terms and conditions of the Transaction from a financial point of view.

On October 11, 2022, the Board received the Fairness Opinion, which concluded that, as of the date of the Fairness Opinion, and subject to the assumptions, limitations and qualifications set out therein, the terms and conditions of the Arrangement were fair, from a financial point of view, to the Persons to whom the Resulting Issuer Shares will be issued under the Arrangement.

The full text of the Fairness Opinion, which sets out, among other things, the assumptions made, information received and matters considered by Evans & Evans, Inc. in rendering the Fairness Opinion, as well as the limitations and qualifications the opinion is subject to, is attached as Schedule "N" to this Information Circular. Kona Bay Shareholders are urged to read the Fairness Opinion in its entirety. The summary of the Fairness Opinion described in this Information Circular is qualified in its entirety by reference to the full text of the Fairness Opinion.



Evans & Evans, Inc. was formally engaged by Kona Bay pursuant to an engagement letter signed by Kona Bay on June 24, 2022. Evans & Evans, Inc. is to be paid a flat professional fee for its services, including providing the Fairness Opinion, plus out-of-pocket disbursements. Evans & Evans, Inc.'s compensation is not contingent on the completion of the Transaction, or the conclusions expressed in the Fairness Opinion.

Evans & Evans, Inc. has consented to the inclusion in this Information Circular of the Fairness Opinion in its entirety, together with the summary herein and other information relating to Evans & Evans, Inc. and the Fairness Opinion. The Fairness Opinion addresses only the fairness of the Resulting Issuer Shares to be issued under the Transaction from a financial point of view and does not and should not be construed as a valuation of Kona Bay, Yerbaé or the Resulting Issuer or their respective assets or securities and does not constitute a recommendation to any Kona Bay Shareholder as to whether to vote in favour of the Arrangement Resolution. The Fairness Opinion may not be used by any other Person or relied upon by any other Person other than the Board.

### ***Effectiveness of the Arrangement***

Subject to the provisions of the Arrangement Agreement and the Plan of Arrangement, the Arrangement will become effective at the Effective Time (anticipated to be 10:00 a.m. (Vancouver time) on the Effective Date, or such other time on the Effective Date as is agreed to by Kona Bay, FinCo, Merger Sub and Yerbaé). The Effective Date is expected to occur on or before January 13, 2023, or such later date as is agreed to by Yerbaé and Kona Bay.

### **Court Approval of the Transaction**

The Transaction under the BCBCA such as the Merger and the Arrangement being proposed pursuant to the Arrangement Agreement requires Court approval.

### **Interim Order**

On October 13, 2022, Kona Bay obtained the Interim Order providing for the calling and holding of the Meeting and certain other procedural matters. The text of the Interim Order is set out in Schedule "O" of this Information Circular.

### **Final Order**

Subject to the terms of the Arrangement Agreement, if the Arrangement Resolution is approved at the Meeting by the Kona Bay Shareholders, as provided for in the Interim Order and as required by applicable Law, then as soon as reasonably practicable thereafter, Kona Bay will diligently pursue and take all steps necessary or desirable to have the hearing before the Court of the application for the Final Order pursuant to the BCBCA.

The application for the Final Order approving the Arrangement is anticipated to be scheduled for January 4, 2023 at 10:00 a.m. (Vancouver time), or soon thereafter as counsel may be heard, at 800 Smithe St, Vancouver British Columbia, Canada V6Z 2E1 or at any other date and time as the Court may direct. Any Kona Bay Shareholder or any other interested party who wishes to appear or be represented and to present evidence or arguments at that hearing of the application for the Final Order must file and serve a notice of appearance no later than 5:00 p.m. (Vancouver time) two business days prior to the date of the application of the Final Order, along with any other documents required, all as set out in the Interim Order, the text of which are set out in Schedule "O" to this Information Circular, and satisfy any other requirements of the Court. Such persons should consult with their legal advisors as to the necessary requirements. In the event that the hearing is adjourned then, subject to further order of the Court, only those persons having previously filed and served a notice of appearance will be given notice of the adjournment.

Kona Bay has been advised by its counsel, Clark Wilson LLP, that the Court has broad discretion under the BCBCA when making orders with respect to the Plan of Arrangement and that the Court will consider, among other things, the fairness and reasonableness of the Arrangement, both from a substantive and a procedural point of view. The Court may approve the Arrangement, either as proposed or as amended, on the terms presented or substantially on

those terms. Depending upon the nature of any required amendments, Kona Bay and/or Yerbaé may determine not to proceed with the Transaction.

The Resulting Issuer Shares to be issued under the Arrangement have not been and will not be registered under the U.S. Securities Act or the Securities Laws of any state of the United States in reliance upon the exemption from registration under the U.S. Securities Act provided by Section 3(a)(10) thereof. However, Section 3(a)(10) of the U.S. Securities Act does not exempt securities issued in connection with the exercise of convertible or derivative securities that were originally exempt from the registration requirements the U.S. Securities Act pursuant to Section 3(a)(10) of the U.S. Securities Act or under applicable Securities Laws of any state of the United States. The Court will be advised at the hearing of the application for the Final Order that if the terms and conditions of the Transaction, and the fairness thereof, are approved by the Court, pursuant to Section 3(a)(10) of the U.S. Securities Act, the Resulting Issuer Shares to be issued under the Arrangement will not require registration under the U.S. Securities Act. Accordingly, we expect that the Final Order of the Court will, if granted, constitute a basis for the exemption from the registration requirements of the U.S. Securities Act with respect to the distribution of Resulting Issuer Shares in connection with the Arrangement. See below "*United States Securities Law Matters*" for more information.

For further information regarding the Court hearing and your rights in connection with the Court hearing, see the Interim Order attached at Schedule "O" to this Information Circular. If you would like any additional information with respect to the Interim Order or final petition for the hearing of the Final Order, please contact the Company.

#### **Regulatory Law Matters and Securities Law Matters**

Other than the Final Order and the necessary conditional approvals of the TSXV having been obtained (including approval of the listing and posting for trading on the TSXV of the Resulting Issuer Shares to be issued pursuant to the Transaction), Kona Bay is not aware of any material approval, consent or other action by any federal, provincial, state or foreign government or any administrative or regulatory agency that would be required to be obtained in order to complete the Transaction. In the event that any such approvals or consents are determined to be required, such approvals or consents will be sought, although any such additional requirements could delay the Effective Date or prevent the completion of the Transaction. While there can be no assurance that any regulatory consents or approvals that are determined to be required will be obtained, Kona Bay currently anticipates that any such consents and approvals that are determined to be required will have been obtained or otherwise resolved by the Effective Date, which, subject to receipt of the approval of the Arrangement Resolutions by the Kona Bay Shareholders, receipt of the Final Order and the satisfaction or waiver of all other conditions specified in the Arrangement Agreement, is expected to occur on or before January 4, 2023.

#### **Canadian Securities Law Matters**

Each Kona Bay Shareholder is urged to consult such Kona Bay Shareholder's professional advisors to determine the Canadian conditions and restrictions applicable to trades in Resulting Issuer Shares.

#### ***Status under Canadian Securities Laws***

Kona Bay is a reporting issuer in British Columbia and Alberta. The Kona Bay Shares currently trade on the NEX Board of the TSXV but are subject to a trading halt as a result of the announcement of the Transaction.

#### ***Distribution and Resale of Resulting Issuer Shares under Canadian Securities Laws***

The distribution of the Resulting Issuer Shares will constitute a distribution of securities which is exempt from the prospectus requirements of Canadian Securities Laws and is exempt from or otherwise is not subject to the registration requirements under applicable Securities Laws. The Resulting Issuer Shares received pursuant to the Transaction will not be legended under Canadian Securities Laws and may be resold through registered dealers in each of the provinces of Canada provided that (i) the trade is not a "control distribution" as defined in National Instrument 45-102 – *Resale of Securities*, (ii) no unusual effort is made to prepare the market or to create a demand

for the Resulting Issuer Shares, (iii) no extraordinary commission or consideration is paid to a Person in respect of such trade, and (iv) if the selling security holder is an insider or officer of the Resulting Issuer, the selling security holder has no reasonable grounds to believe that the Resulting Issuer is in default of applicable Canadian Securities Laws.

Each Kona Bay Shareholder is urged to consult such Kona Bay Shareholder's professional advisors to determine the Canadian conditions and restrictions applicable to trades in the Resulting Issuer Shares.

### **United States Securities Law Matters**

The following discussion is a general overview of certain requirements of federal United States Securities Laws that may be applicable to U.S. Kona Bay Shareholders. The discussion is based in part of non-binding interpretations and no-action letters provided by the staff of the SEC, which do not have the force of law. **All U.S. Kona Bay Shareholders are urged to consult with their own legal counsel to ensure that any subsequent resale of securities complies with applicable United States Securities Laws.**

**The following discussion does not address the Canadian Securities Laws that will apply to the issue or resale of Resulting Issuer Shares within Canada. Kona Bay Shareholders reselling their securities in Canada must comply with Canadian Securities Laws, as outlined elsewhere in this Information Circular.**

#### ***Status under U.S. Securities Laws***

The Resulting Issuer will apply to have the Resulting Issuer Shares listed on the TSXV.

#### ***Exemption Relied Upon from the Registration Requirements of the U.S. Securities Act***

The Resulting Issuer Shares to be issued pursuant to the Arrangement will not be registered under the provisions of the U.S. Securities Act or the Securities Laws of any state of the United States in reliance upon the exemption from the registration requirements of the U.S. Securities Act provided by Section 3(a)(10) thereof. Section 3(a)(10) of the U.S. Securities Act exempts securities issued in exchange for one or more outstanding securities from the general requirement of registration where the terms and conditions of the issuance and exchange of such securities have been approved by a court or authorized governmental entity, after a hearing upon the fairness of the terms and conditions of the issuance and exchange at which all persons to whom the securities will be issued have the right to appear and receive timely notice thereof. Section 3(a)(10) of the U.S. Securities Act does not exempt securities issued in connection with the exercise of convertible or derivative securities that were originally exempt from the registration requirements the U.S. Securities Act pursuant to Section 3(a)(10) of the U.S. Securities Act or under applicable Securities Laws of any state of the United States.

#### ***Resales of the Resulting Issuer Shares after the Effective Date***

The Resulting Issuer Shares to be held by former Kona Bay Shareholders following completion of the Transaction and full satisfaction of the conditions set forth by the SEC with respect to an exemption under Section 3(a)(10) will be freely tradable in the U.S. under federal United States Securities Laws, except by persons who are Affiliates of Kona Bay or who have been Affiliates of Kona Bay within 90 days of the Effective Date (and any party to the Transaction Agreement (other than Kona Bay) and to any person who is an Affiliate of such party at the time the Transaction is submitted for vote, if any party to the Transaction is a shell company, as contemplated under the United States Securities Laws). Persons who may be deemed to be Affiliates of an issuer include individuals or entities that control, are controlled by, or are under common control with, the issuer, and generally include executive officers and directors of the issuer as well as principal shareholders of the issuer. Any resale of such Resulting Issuer Shares by such an affiliate may be subject to the registration requirements of the U.S. Securities Act and applicable state Securities Laws, absent an exemption therefrom (including the exemption provided by Rule 144, discussed below).

***Resales by Affiliates of the Resulting Issuer outside the U.S. under Regulation S***

Under Rule 904 of Regulation S under the U.S. Securities Act, persons who are deemed Affiliates of the Resulting Issuer following the Effective Date solely by virtue of their status as an officer or director of the Resulting Issuer may resell their Resulting Issuer Shares, as applicable, outside the United States in an “offshore transaction” (which would include a sale through the physical trading floor of an established non-U.S. stock exchange or through the facilities of certain specified non-U.S. stock exchanges (including the TSXV); provided that neither the seller (nor any Person acting on behalf of the seller) knows that the transaction has been prearranged with a buyer in the United States) if neither the seller, an Affiliate nor any Person acting on behalf of the seller engages in “directed selling efforts,” in the United States, including any activity undertaken for the purpose of, or that could reasonably be expected to have the effect of, conditioning the market in the United States for the securities being offered, and no selling commission, fee or other remuneration is paid in connection with such sale other than a usual and customary broker’s commission. In addition, with respect to any holder of Resulting Issuer Shares who is an Affiliate of such entity upon completion of the Arrangement other than by virtue of such Person’s status as an officer or director of such entity, additional restrictions apply.

***Resales by Affiliates of the Resulting Issuer in the U.S.***

Persons who are Affiliates of Kona Bay or who have been Affiliates of Kona Bay within 90 days of the Effective Date, and who wish to sell their Resulting Issuer Shares in the United States, will need to avail themselves of an exemption from registration under the U.S. Securities Act, if any (absent an effective resale registration statement filed under the U.S. Securities Act).

***Exercise of the Resulting Issuer Options and the Resulting Issuer Warrants***

The Resulting Issuer Options and the Resulting Issuer Warrants may not be exercised in the United States or by or on behalf of a “U.S. person” (as defined in Rule 902(k) of Regulation S under the U.S. Securities Act), unless an exemption from registration under the U.S. Securities Act is available. Prior to the issuance of any shares pursuant to any such exercise, the Resulting Issuer may require the delivery of an opinion of counsel or other evidence or certifications reasonably satisfactory to the Resulting Issuer to the effect that the issuance of such shares does not require registration under the U.S. Securities Act. Any such exercise must also comply with applicable state Securities Laws.

**The foregoing discussion is only a general overview of certain requirements of United States Securities Laws applicable to the securities received upon completion of the Transaction. All holders of such securities are urged to consult with counsel to ensure that the resale of their securities complies with applicable United States Securities Laws.**

**Fees and Expenses**

The aggregate expenses of Kona Bay incurred or to be incurred relating to the Transaction, including, without limitation, contractual severance obligations, legal, accounting, audit, financial advisory, printing and other administrative and professional fees, the preparation and printing of this Information Circular, and other out-of-pocket costs associated with the Meeting are estimated to be approximately \$200,000 in the aggregate.

At Closing, Kona Bay has agreed to reimburse Klutch for its reasonable expenses incurred in connection with the negotiation of the Arrangement Agreement and the consummation of the Merger, up to a maximum of \$150,000.

All other expenses incurred in connection with the Transaction and the transactions contemplated thereby will be paid by the Party incurring such expenses.

### Interests of Certain Persons in the Transaction

In considering the recommendation of the Board with respect to the Transaction, Kona Bay Shareholders should be aware that certain members of Kona Bay’s management and the Board have certain interests in connection with the Transaction that may present them with actual or potential conflicts of interest in connection with the Transaction.

The table below sets forth the number and percentage of Kona Bay Shares, Kona Bay Options and Kona Bay Warrants that the directors and officers of Kona Bay, and any of their respective Affiliates or Associates since the beginning of the last completed financial year of Kona Bay, beneficially own or exercise control or direction over, directly or indirectly, as of the date hereof.

Name and Position	No. of Kona Bay Beneficially Owned <sup>(1)</sup>	Percentage of Kona Bay Shares <sup>(1)</sup>	No. of Kona Bay Options Beneficially Owned	Percentage of Kona Bay Options	No. of Kona Bay Warrants Beneficially Owned	Percentage of Kona Bay Warrants
Ron Schmitz <i>CEO, Corporate Secretary and Director</i>	730,000 <sup>(2)</sup>	2.53%	Nil	N/A	Nil	N/A

<sup>(1)</sup> Calculated on a pre-Consolidation basis based on 28,820,633 Kona Bay Shares issued and outstanding.

<sup>(2)</sup> Ron Schmitz holds 500,000 Kona Bay Shares directly and 230,000 Kona Bay Shares indirectly through by RAS Capital Corp., a private company controlled by Mr. Schmitz.

Other than the interests and benefits described above, none of the directors or officers of Kona Bay or, to the knowledge of the directors and officers of Kona Bay, any of their respective Associates, Affiliates of the issuer, insiders of the issuer (other than a director or officer) or any Person acting jointly or in concert with the issuer has any material interest, direct or indirect, as a director, officer, shareholder, security holder or creditor of Kona Bay or otherwise in any matter to be acted upon in connection with the Transaction or that would materially affect the Transaction.

### Directors

Other than the interests and benefits described above under the heading “*Interests of Certain Persons in the Transaction*”, no Kona Bay director other than Ron Schmitz holds any Kona Bay Shares, Kona Bay Options or Kona Bay Warrants outstanding as of the Record Date.

All of the Kona Bay Shares, Kona Bay Options and Kona Bay Warrants held by the Kona Bay directors, if any, will be treated in the same fashion under the Transaction as Kona Bay Shares, Kona Bay Options and Kona Bay Warrants held by every other Kona Bay Shareholder, Kona Bay Optionholder and Kona Bay Warranholder, respectively.

### Executive Officers

The current responsibility for the general management of Kona Bay is held and discharged by Ron Schmitz. The executive officers of Kona Bay, hold 730,000 Kona Bay Shares, representing approximately 2.53% of the Kona Bay Shares on a pre-Consolidation basis outstanding on the Record Date. The executive officers of Kona Bay, in the aggregate, hold no Kona Bay Options or Kona Bay Warrants as of the Record Date. See the table above under the heading “*Interests of Certain Persons in the Transaction*” for more information.

### The Arrangement Agreement

The description of the Arrangement Agreement, both below and elsewhere in this Information Circular, is a summary only, is not exhaustive and is qualified in its entirety by reference to the terms of the Arrangement Agreement, a copy

of which is attached to this Information Circular as Schedule “M” and may also be found under Kona Bay’s profile on [SEDAR](#). Prior to Closing, the terms of the Arrangement Agreement will have to be amended to agree to the rights, privileges, restrictions and conditions attached to the re-designated Resulting Issuer Shares as set out in Appendix A of the Plan of Arrangement, which amendment will be filed under Kona Bay’s profile on [SEDAR](#).

### ***Representations and Warranties***

The Arrangement Agreement contains customary representations and warranties made by the Parties. Those representations and warranties were made solely for purposes of the Arrangement Agreement and may be subject to important qualifications, limitations and exceptions agreed to by the Parties in connection with negotiating its terms. In particular, some of the representations and warranties are subject to a contractual standard of materiality or material adverse effect different from that generally applicable to public disclosure to Kona Bay Shareholders, or are used for the purpose of allocating risk between the Parties to the Arrangement Agreement. For the foregoing reasons, you should not rely on the representations and warranties contained in the Arrangement Agreement as statements of factual information at the time they were made or otherwise.

Kona Bay and Merger Sub have provided representations and warranties to Yerbaé, including representations and warranties regarding the following: Kona Bay’s organization and qualification, Kona Bay’s authority relative to the Arrangement Agreement, the Arrangement not conflicting with legal obligations of Kona Bay, compliance with Laws, capitalization and listing, shareholder and similar agreements, financial statements, undisclosed liabilities, employment matters, the absence of certain changes or events, litigation and taxes.

Yerbaé has provided representations and warranties to Kona Bay, including representations and warranties regarding the following: Yerbaé’s organization and qualification, Yerbaé’s authority relative to the Arrangement Agreement, the Arrangement not conflicting with legal obligations of Yerbaé, the non-existence of subsidiaries, compliance with Laws, capitalization, taxes and anti-corruption matters.

### **Effective Date and Conditions of Transaction**

If the Arrangement Resolution is passed, the Final Order of the Court is obtained approving the Plan of Arrangement and all other conditions to the Transaction becoming effective are satisfied or waived, the Arrangement will become effective at the Effective Time (anticipated to be 10:00 a.m. (Vancouver time) on the Effective Date), or such other time on the Effective Date as is agreed to by Kona Bay, FinCo and Merger Sub). It is currently expected that the Effective Date will be on or before January 13, 2023, or such later date as is agreed to by the parties to the Arrangement Agreement.

### ***Conditions to the Transaction Becoming Effective***

#### ***Mutual Conditions***

The respective obligations of each Party to the Arrangement Agreement to effect the Merger is subject to the satisfaction or waiver on or prior to the Closing of each of the following conditions:

- The Arrangement Agreement and the Transaction will have been duly adopted and approved by the affirmative vote or consent of the holders of a majority of the outstanding the Yerbaé Shares entitled to vote;
- The Arrangement Agreement and the Transaction will have been duly adopted and approved by the Kona Bay Shareholders at the Meeting;
- The Court will have issued the Final Order;

- The Kona Bay Shares will have been approved for listing on the TSXV subject to official notice of issuance;
- FinCo will have completed the Concurrent Financing;
- The number of Dissenting Shares that are subject of appraisal demand notices that have not been withdrawn will not exceed 5% of the total number of shares of the Yerbaé Shares issued and outstanding prior to the Effective Time;
- All waiting periods applicable to the consummation of the Merger under the HSR Act will have expired or been terminated and all required filings will have been made and all required approvals obtained under applicable antitrust law;
- No governmental authority will have enacted, issued, promulgated, enforced or entered any governmental order which is in effect and has the effect of making the transactions contemplated by the Arrangement Agreement illegal, otherwise restraining or prohibiting consummation of such transactions or causing any of the transactions contemplated under the Arrangement Agreement to be rescinded following completion thereof; and
- All consents, approvals and other authorizations from governmental authorities will have been obtained, free of any condition that would reasonably be expected to have a material adverse effect.

*Kona Bay and Merger Sub Conditions*

The obligations of Kona Bay and Merger Sub to effect the Merger are subject to the satisfaction or waiver on or prior to the Closing of the following conditions:

- Each of the representations and warranties of Yerbaé contained in the Arrangement Agreement being true and correct in all material respects as of the Closing Date as though made on the Closing Date (except to the extent such representations and warranties expressly relate to an earlier date, in which case, they will be true and correct on and as of such earlier date).
- Yerbaé will have performed in all material respects all obligations, and complied in all material respects with the agreements and covenants, in the Arrangement Agreement required to be performed by or complied with by it at or prior to the Closing.
- From the date of the Arrangement Agreement, no material adverse effect having occurred on Yerbaé, nor any event or events having occurred that, individually or in the aggregate, with or without the lapse of time, could reasonably be expected to result in a material adverse effect on Yerbaé.
- Immediately before the Closing, Yerbaé will have no more than 32,544,609 Yerbaé Shares issued and outstanding, excluding those shares issued in connection the Concurrent Financing.
- On Closing, Kona Bay or Yerbaé will have entered into employment agreements with Todd Gibson as CEO, Karrie Gibson as COO, Seth Smith as VP of Sales and Brian Neumann as CMO.
- Kona Bay having had a reasonable opportunity to perform the searches and other due diligence reasonable in a transaction of a similar nature.

- Yerbaé will have provided a satisfactory legal opinion being available from legal counsel for Yerbaé as to the due existence of qualification.
- Yerbaé having obtained audited financial statements for its last three fiscal years.
- Kona Bay having received a certificate, dated the Closing Date and signed by a duly authorized officer of Yerbaé, certifying that certain conditions set forth in the Arrangement Agreement have been satisfied.

#### *Yerbaé Conditions*

The obligations of Yerbaé to effect the Merger are subject to the satisfaction or waiver on or prior to the Closing of the following conditions:

- Each of the representations and warranties of Kona Bay and Merger Sub contained in the Arrangement Agreement being true and correct in all material respects as of the Closing Date as though made on the Closing Date (except to the extent such representations and warranties expressly relate to an earlier date, in which case, they will be true and correct on and as of such earlier date).
- Kona Bay and Merger Sub will have performed in all material respects all obligations, and complied in all material respects with the agreements and covenants, in the Arrangement Agreement required to be performed by or complied with by it at or prior to the Closing.
- From the date of the Arrangement Agreement, no material adverse effect having occurred on Kona Bay, nor any event or events having occurred that, individually or in the aggregate, with or without the lapse of time, could reasonably be expected to result in a material adverse effect on Kona Bay.
- Yerbaé having had a reasonable opportunity to perform the searches and other due diligence reasonable in a transaction of a similar nature.
- Kona Bay will have provided a satisfactory legal opinion being available from legal counsel for Kona Bay as to the due existence of qualification.
- Kona Bay agreeing to indemnify, defend and hold harmless Yerbaé against any losses, claims, damages, liabilities and/or expenses of which Yerbaé may become subject under any applicable provincial, state or federal securities laws and regulations, solely because of actions of Kona Bay prior to, or in connection with, the Closing.
- Yerbaé having received a certificate, dated the Closing Date and signed by a duly authorized officer of Kona Bay, certifying that certain conditions set forth in the Arrangement Agreement have been satisfied.

#### ***No Solicitation Covenant***

Pursuant to the Arrangement Agreement, Kona Bay and Yerbaé have agreed not to, directly or indirectly, solicit, initiate, or knowingly take any action to facilitate or encourage the submission of any takeover proposal or the making of any proposal that could reasonably be expected to lead to any takeover proposal.

#### ***Termination***

The Arrangement Agreement may be terminated at any time prior to the Closing:



- (a) by the mutual written consent of Kona Bay and Yerbaé;
- (b) by Kona Bay or Yerbaé at any time prior to the Closing if the Merger has not been consummated on or before the End Date;
- (c) by Kona Bay or Yerbaé at any time prior to the Closing if (i) any law makes consummation of the transactions contemplated by the Arrangement Agreement illegal or otherwise prohibited or (ii) any governmental authority issues a governmental order restraining or enjoining the transactions contemplated by the Arrangement Agreement, and such governmental order has become final and non-appealable;
- (d) by Kona Bay or Yerbaé at any time prior to the Closing if the Arrangement Agreement has been submitted to Yerbaé Shareholders for adoption and the vote is not obtained at such meeting;
- (e) by Kona Bay or Yerbaé at any time prior to the Closing if the number of dissenting shares that are subject of appraisal demand notices that have been withdrawn exceeds 5% of the total number of shares of Yerbaé issued and outstanding;
- (f) by Kona Bay at any time prior to the Closing if the Kona Bay Board authorizes Kona Bay to enter into an acquisition agreement in respect of a Superior Proposal;
- (g) by Kona Bay at any time prior to the Closing if a Yerbaé Adverse Recommendation Change shall have occurred or if Yerbaé breaches or fails to perform in any material respect any of its covenants;
- (h) by Kona Bay at any time prior to the Closing if there has been a breach of any representation, warranty, covenant or agreement on the part of Yerbaé such that the conditions to the Closing of the Merger would not be satisfied and such breach is incapable of being cured by the End Date;
- (i) by Yerbaé at any time prior to the Closing if prior to the receipt of the vote, the Yerbaé Board authorizes Yerbaé to enter into an acquisition agreement in respect of a Superior Proposal;
- (j) by Yerbaé at any time prior to the Closing if Kona Bay approves and adopts any acquisition agreement or if Kona Bay breaches or fails to perform in any material respect any of its covenants; and
- (k) by Yerbaé at any time prior to the Closing if there has been a breach of any representation, warranty, covenant or agreement on the part of Kona Bay such that the conditions to the Closing of the Merger would not be satisfied and such breach is incapable of being cured by the End Date.

If either Yerbaé or Kona Bay wish to terminate the Arrangement Agreement pursuant to the terms of the Arrangement Agreement, it must give notice of such termination to the other Party, specifying in reasonable detail the basis for the exercise of its termination right.

Kona Bay or Merger Sub, on the one hand, or Yerbaé on the other hand may extend the time for the performance of any of the obligation of the other Party, waive any inaccuracies in the representations and warranties of the other Parties contained in the Arrangement Agreement, or unless prohibited by applicable law, waive compliance with any of the covenants, agreements, or conditions contained in the Arrangement Agreement. Any agreement on the part of a Party to any extension or waiver will be valid only if set forth in an instrument in writing signed by such Party.

#### **Certain Canadian Federal Income Tax Considerations**

The following is a summary of certain of the principal Canadian federal income tax considerations under the Tax Act in respect of the Arrangement generally applicable to a Kona Bay Shareholder who, for purposes of the Tax Act and

at all material times, holds Kona Bay Shares, and will hold Resulting Issuer Shares acquired pursuant to the Arrangement, as capital property, deals at arm's length with each of Kona Bay, Yerbaé, FinCo and each of their respective affiliates and is not affiliated with Kona Bay, Yerbaé, FinCo and each of their respective affiliates. Kona Bay Shares and Resulting Issuer Shares generally will be considered to be capital property to a Kona Bay Shareholder for purposes of the Tax Act unless the Kona Bay Shareholder holds such shares in the course of carrying on a business or the Kona Bay Shareholder has acquired or holds them in a transaction or transactions considered to be an adventure or concern in the nature of trade.

This summary is based on the current provisions of the Tax Act in force on the date hereof, and counsel's understanding of the current published administrative policies and assessing practices of the CRA. This summary takes into account all specific proposals to amend the Tax Act publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof (the "**Tax Proposals**"), and assumes that all Tax Proposals will be enacted in the form proposed. However, there is no certainty that the Tax Proposals will be enacted in the form currently proposed, if at all. This summary does not otherwise take into account or anticipate any changes in law, whether by judicial, governmental or legislative decision or action, or other changes in administrative policies or assessing practices of the CRA, nor does it take into account other federal, provincial, territorial or foreign income tax legislation or considerations, which may materially differ from the Tax Act or Canadian federal income tax considerations.

This summary does not apply to a Kona Bay Shareholder (i) that is a "financial institution" for the purposes of the mark-to-market rules in the Tax Act, (ii) that is a "specified financial institution" as defined in the Tax Act, (iii) an interest in which would be, or whose Kona Bay Shares are, a "tax shelter" or a "tax shelter investment", each as defined in the Tax Act, (iv) that has elected to report its "Canadian tax results" (as defined in the Tax Act) in a currency other than Canadian currency, (v) that is exempt from taxation under Part I of the Tax Act, (vi) that is a corporation resident in Canada that is, or becomes (or does not deal at arm's length for purposes of the Tax Act with a corporation resident in Canada that is or becomes), as part of a transaction or event or series of transactions or events that includes the Transaction, controlled by a non-resident for the purposes of the foreign affiliate dumping rules in section 212.3 of the Tax Act, (vii) in respect of whom the Resulting Issuer is or will be a "foreign affiliate" as defined in the Tax Act, or (viii) that holds Kona Bay Shares or will hold Resulting Issuer Shares as part of a "dividend rental arrangement" within the meaning of the Tax Act. This summary also does not apply to a Kona Bay Shareholder who has entered into or will enter into a "derivative forward agreement" or "synthetic disposition arrangement" (as those terms are defined in the Tax Act) with respect to Kona Bay Shares or the Resulting Issuer Shares. Such Kona Bay Shareholders should consult their own tax advisors having regard to their particular circumstances.

In addition, this summary does not address the tax considerations relevant to Kona Bay Shareholders who acquired their shares on the exercise of an employee stock option or pursuant to any other employee compensation plan. Such Kona Bay Shareholders should consult their own tax advisors. This summary also does not apply to holders of Kona Bay Options or holders of Kona Bay Warrants.

For purposes of the Tax Act, all amounts (including amounts related to the acquisition, holding or disposition of Kona Bay Shares or Resulting Issuer Shares, such as dividends, adjusted cost base and proceeds of disposition) must be expressed in Canadian dollars using the rate of exchange quoted by the Bank of Canada on the date such amounts arose, or such other rate of exchange as is acceptable to the CRA. The amount of income, capital gains, losses and capital losses may be affected by changes in foreign currency exchange rates.

**This summary is of a general nature only and is not exhaustive of all possible Canadian federal income tax considerations and is not intended to be, nor should it be construed to be, legal, business or tax advice or representations to any particular Kona Bay Shareholder. Accordingly, Kona Bay Shareholders should consult their own tax advisors with respect to their particular circumstances, including the application and effect of the income and other tax Laws of any country, province, state or local tax authority.**

### ***Shareholders Resident in Canada***

The following portion of this summary is applicable to Kona Bay Shareholders who, for purposes of the Tax Act and any applicable income tax treaty, are resident or deemed to be resident in Canada (each, a “**Resident Shareholder**”).

#### ***Dividends on Resulting Issuer Shares***

A Resident Shareholder who is an individual will be required to include in income any dividends received or deemed to be received on the Resident Shareholder’s Resulting Issuer Shares, and, except in the case of certain trusts, will be subject to the gross-up and dividend tax credit rules applicable to taxable dividends received from taxable Canadian corporations, including the enhanced gross-up and dividend tax credit rules applicable to any dividends designated by the Resulting Issuer as “eligible dividends”, as defined in the Tax Act. A dividend payor’s ability to make such designations may be limited under the Tax Act, and none of Parties or the Resulting Issuer has made any commitments in this regard.

A Resident Shareholder that is a corporation will be required to include in income any dividend received or deemed to be received on the Resident Shareholder’s Resulting Issuer Shares, but generally will be entitled to deduct an equivalent amount in computing its taxable income. In certain circumstances subsection 55(2) of the Tax Act will treat a taxable dividend received by a Resident Shareholder that is a corporation as proceeds of disposition or a capital gain. Resident Shareholders that are corporations should consult their own tax advisors in this regard.

A “private corporation” or a “subject corporation” (as defined in the Tax Act) may be liable under Part IV of the Tax Act to pay a special tax (refundable under certain circumstances) on any dividend that it receives or is deemed to receive on Resulting Issuer Shares to the extent that the dividend is deductible in computing the corporation’s taxable income.

Taxable dividends received by an individual or trust, other than certain specified trusts, may give rise to liability for minimum tax under the Tax Act.

#### ***Disposition of Resulting Issuer Shares***

A Resident Shareholder that disposes or is deemed to dispose of a Resulting Issuer Share in a taxation year generally will realize a capital gain (or capital loss) equal to the amount by which the proceeds of disposition of the Resulting Issuer Share exceeds (or is less than) the aggregate of the Resident Shareholder’s adjusted cost base of such Resulting Issuer Share (determined immediately before the disposition) and any reasonable costs of disposition. Such capital gain (or capital loss) will be subject to the tax treatment described below under “*Taxation of Capital Gains and Losses*”.

#### ***Taxation of Capital Gains and Capital Losses***

Generally, a Resident Shareholder will be required to include in computing its income for a taxation year one-half of the amount of any capital gain (a “**taxable capital gain**”) realized by it in that year. A Resident Shareholder must deduct one-half of the amount of any capital loss (an “**allowable capital loss**”) realized in a taxation year from taxable capital gains realized by the Resident Shareholder in that year. Allowable capital losses in excess of taxable capital gains for a taxation year may be carried back to any of the three preceding taxation years or carried forward to any subsequent taxation year and deducted against net taxable capital gains realized in such years to the extent and under the circumstances specified in the Tax Act.

Where a Resident Shareholder is a corporation, the amount of any capital loss arising on a disposition or deemed disposition of any Resulting Issuer Share may be reduced by the amount of dividends received or deemed to have been received by it on such share to the extent and under the circumstances described in the Tax Act. Similar rules may apply where a corporation is a member of a partnership or a beneficiary of a trust that owns Resulting Issuer

Shares, or where a trust or partnership of which a corporation is a beneficiary or a member is a member of a partnership or a beneficiary of a trust that owns any such shares.

A Resident Shareholder that is a “Canadian-controlled private corporation” (as defined in the Tax Act) may be required to pay an additional tax (refundable under certain circumstances) on certain investment income, which includes taxable capital gains.

Capital gains realized by an individual or trust, other than certain specified trusts, may give rise to liability for minimum tax under the Tax Act.

### ***Non-Residents of Canada***

This part of the summary is only applicable to a Kona Bay Shareholder, who, for purposes of the Tax Act and any applicable income tax treaty, has not been and will not be resident or deemed to be resident in Canada (or is a partnership other than a “Canadian partnership”) at any time while it has held or will hold Kona Bay Shares or Resulting Issuer Shares and who does not use or hold, will not use or hold and is not and will not be, deemed to use or hold such Kona Bay Shares or Resulting Issuer Shares in carrying on a business in Canada (a “**Non-Resident Shareholder**”). Special rules, which are not discussed in this summary, may apply to a non-resident that is an insurer carrying on business in Canada and elsewhere.

### ***Disposition of Resulting Issuer Shares***

A Non-Resident Shareholder will not be subject to tax under the Tax Act on the disposition of Resulting Issuer Shares, unless the Resulting Issuer Shares constitute “taxable Canadian property” of the Non-Resident Shareholder for purposes of the Tax Act and the Non-Resident Shareholder is not entitled to relief under an applicable income tax treaty or convention.

Generally, the Kona Bay Shares and Resulting Issuer Shares will not constitute “taxable Canadian property” to a Non-Resident Shareholder at the time of a disposition of such shares provided that the shares (i) are listed on a “designated stock exchange” (which currently includes the TSXV) for purposes of the Tax Act at that time, and (ii) either (A) at no time during the 60-month period immediately preceding the disposition were 25% or more of the issued shares of any class or series of the capital stock of the applicable corporation owned by either the Non-Resident Shareholder, by persons with whom the Non-Resident Shareholder did not deal at arm’s length, by partnerships in which the Non-Resident Shareholder or any such non-arm’s length Person holds a membership interest (either directly or through one or more partnerships) or by the Non-Resident Shareholder together with all such persons, or (B) at no time during that 60-month period did the shares of the applicable corporation derive more than 50% of their fair market value from one or any combination of real or immovable property situated in Canada, “Canadian resource properties”, “timber resource properties” (each as defined in the Tax Act), and options in respect of, or interests in, or for civil law rights in, any such properties (whether or not such property exists).

If the Kona Bay Shares are “taxable Canadian property” to a Non-Resident Shareholder, the Resulting Issuer Shares will generally be deemed to be taxable Canadian property to such holder. In certain other circumstances, a Non-Resident Shareholder’s shares may also be deemed to be taxable Canadian property for purposes of the Tax Act. Non-Resident Shareholders should consult with their own tax advisors as to whether the Kona Bay Shares or Resulting Issuer Shares constitute taxable Canadian property having regards to their particular circumstances.

Even if any of the Kona Bay Shares or Resulting Issuer Shares are taxable Canadian property to a Non-Resident Shareholder at a particular time such holder may be exempt from tax by virtue of an income tax treaty or convention to which Canada is a signatory.

In the event the Resulting Issuer Shares are taxable Canadian property to a Non-Resident Shareholder at the time of disposition and such Non-Resident Shareholder is not exempt from tax by a tax treaty, the tax consequences described above under “*Particulars of Matters to be Acted Upon – Approval of the Transaction – Certain Canadian*

*Federal Income Tax Considerations – Shareholders Resident in Canada – Disposition Resulting Issuer Shares*” will generally apply.

### **Dividends on Resulting Issuer Shares**

Dividends paid or credited, or deemed to be paid or credited, on a Non-Resident Shareholder’s Resulting Issuer Shares will be subject to withholding tax under the Tax Act at a rate of 25% of the gross amount of the dividend unless the rate is reduced under the provisions of an applicable income tax treaty or convention. In the case of a beneficial owner of dividends who is an individual resident in the United States for purposes of the *Canada-US Tax Convention (1980)*, as amended, and who is entitled to the benefits of that treaty, the rate of withholding will generally be reduced to 15%.

### **Eligibility for Investment**

Based on the current provisions of the Tax Act, the Resulting Issuer Shares would, at a particular time, be “qualified investments” under the Tax Act for Registered Plans, provided, at that time, (i) the Resulting Issuer Shares are listed on a designated stock exchange in Canada (which currently includes the TSXV), or (ii) the Resulting Issuer is, or is deemed to be, a “public corporation” for purposes of the Tax Act.

Notwithstanding the foregoing, a holder of Resulting Issuer Shares will be subject to a penalty tax if the Resulting Issuer Shares are held in a RRSP, RRIF, TFSA, RDSP or RESP and are a “prohibited investment” for such RRSP, RRIF, TFSA, RDSP or RESP under the Tax Act. The Resulting Issuer Shares will not be a prohibited investment for a RRSP, RRIF, TFSA, RDSP or RESP provided the annuitant, holder, or subscriber, as the case may be, of that RRSP, RRIF, TFSA, RDSP or RESP deals at arm’s length with the Resulting Issuer for the purposes of the Tax Act, and does not have a “significant interest” (as defined in the Tax Act) in the Resulting Issuer. Resulting Issuer Shares will also not be a prohibited investment if the Resulting Issuer Shares are “excluded property” as defined in the Tax Act for a RRSP, RRIF, TFSA, RDSP or RESP, as the case may be. Shareholders should consult their own tax advisors as to whether Resulting Issuer Shares will be a prohibited investment in their particular circumstances, including with respect to whether the Resulting Issuer Shares would be “excluded property”.

### **Certain United States Federal Income Tax Considerations**

The following is a general discussion of certain U.S. federal income tax considerations to U.S. Holders (as defined below) arising from the Transaction and to the ownership and disposition of Resulting Issuer Shares by such U.S. Holders following the Transaction, and the ownership and disposition of Resulting Issuer Shares by Non U.S. Holders (as defined below) following the Transaction. This discussion applies only to holders that hold Kona Bay Shares or Resulting Issuer Shares, as applicable, as capital assets for U.S. federal income tax purposes (generally, property held for investment). This discussion does not address any tax considerations applicable to a holder of options, warrants, or any other right to acquire Kona Bay Shares (or, post-transaction, Resulting Issuer Shares), including without limitation, the Kona Bay Options, Kona Bay Warrants, Resulting Issuer Options and Resulting Issuer Warrants. The discussion is based on and subject to the Code, the U.S. Treasury Regulations promulgated thereunder, administrative rulings and court decisions in effect on the date hereof, all of which are subject to change, possibly with retroactive effect, and to differing interpretations. No legal opinion from U.S. legal counsel or ruling from the IRS has been requested, or is expected to be obtained, regarding the U.S. federal income tax consequences described herein. This discussion is not binding on the IRS or any court, and there can be no assurance that the IRS will not take a contrary position or that any contrary position taken by the IRS will not be sustained by a court. This discussion also assumes that the Transaction is carried out as described in this Information Circular.

The discussion does not constitute tax advice and does not address all of the U.S. federal income tax considerations that may be relevant to specific Kona Bay Shareholders in light of their particular circumstances or to holders subject to special treatment under U.S. federal income tax law including:

- banks, thrifts, mutual funds and other financial institutions;

- regulated investment companies and real estate investment trusts;
- traders in securities who elect to apply a mark-to-market method of accounting;
- broker-dealers;
- tax-exempt organizations and pension funds;
- insurance companies;
- dealers or brokers in securities or foreign currency;
- individual retirement and other deferred accounts;
- U.S. Holders whose functional currency is not the U.S. dollar;
- U.S. expatriates;
- except to the limited extent specifically described herein, U.S. Holders who own, directly, indirectly or constructively, five percent (5%) or more of the total voting power or total value of all of the outstanding stock of Kona Bay (or who, following the Transaction, will own, directly, indirectly or constructively, five percent (5%) or more of the total voting power or total value of all of the outstanding stock of the Resulting Issuer);
- Kona Bay Shareholders that are required to accelerate the recognition of any item of gross income with respect to Kona Bay Shares or Resulting Issuer Shares as a result of such income being recognized on an applicable financial statement;
- “passive foreign investment companies” or “controlled foreign corporations”;
- persons liable for the alternative minimum tax;
- holders who hold their shares as part of a straddle, hedging, conversion, constructive sale or other risk reduction transaction;
- partnerships or other pass-through entities; and
- holders who received their shares through the exercise of employee stock options or otherwise as compensation or through a tax-qualified retirement plan.

This discussion does not address any non-income tax considerations or any non-U.S., state or local tax consequences. Except as discussed below, this discussion does not address tax filing and reporting requirements.

For purposes of this discussion, a “**U.S. Holder**” means a beneficial owner of Kona Bay Shares at the time of the Transaction or, as the context may require, a beneficial owner of Resulting Issuer Shares held as a result of the Transaction, that is:

- (a) an individual who is a citizen or resident of the United States;
- (b) a corporation (or other entity taxable as a corporation for U.S. federal income tax purposes) created or organized in the United States or under the Laws of the United States or any state thereof or the District of Columbia;

- (c) an estate the income of which is includible in gross income for U.S. federal income tax purposes regardless of its source; or
- (d) a trust if (1) a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or (2) the trust has a valid election in effect under applicable U.S. Treasury Regulations to be treated as a U.S. Person for U.S. federal income tax purposes.

If a partnership, including for this purpose any entity or arrangement that is treated as a partnership or other “pass-through” entity for U.S. federal income tax purposes, holds Kona Bay Shares at the time of the Transaction or Resulting Issuer Shares after the Transaction, the tax treatment of a partner in such partnership will generally depend upon the status of the partner and the activities of the partnership. A shareholder that is a partnership and the partners (or other owners) in such partnership should consult their own tax advisors about the U.S. federal income tax consequences of the Transaction and the ownership and disposition of Resulting Issuer Shares after the Transaction.

**Investors are advised to consult their own tax advisors as to the U.S. federal income and other tax considerations relating to the Transaction, ownership and disposition of Kona Bay Shares in light of their particular circumstances as well as the effect of any state, local or non-U.S. tax laws.**

***Tax Classification of the Resulting Issuer as a U.S. Domestic Corporation***

Pursuant to Section 7874(b) of the Code and the U.S. Treasury Regulations promulgated thereunder, notwithstanding that the Resulting Issuer will be organized under the provisions of the BCBCA, solely for U.S. federal income tax purposes, it is anticipated that the Resulting Issuer will be classified as a U.S. domestic corporation. More specifically, pursuant to the U.S. Treasury Regulations issued under Section 7874 of the Code, at the end of the day immediately prior to the Effective Date, Kona Bay will be treated as converting into a U.S. domestic corporation pursuant to a reorganization under Section 368(a)(1)(F) of the Code, a U.S. Tax Reorganization, such U.S. domestic corporation referred to in this summary immediately after the U.S. Tax Reorganization as “**Kona Bay-US**” and, after the completion of the Transaction, as the “Resulting Issuer.”

The Resulting Issuer will be subject to a number of significant and complicated U.S. federal income tax consequences as a result of being treated as a U.S. domestic corporation for U.S. federal income tax purposes, and this summary does not attempt to describe all such U.S. federal income tax consequences. Section 7874 of the Code and the U.S. Treasury Regulations promulgated thereunder do not address all the possible tax consequences that arise from the Resulting Issuer being treated as a U.S. domestic corporation for U.S. federal income tax purposes. Accordingly, there may be additional or unforeseen U.S. federal income tax consequences to the Resulting Issuer that are not discussed in this summary.

Generally, the Resulting Issuer will be subject to U.S. federal income tax on its worldwide taxable income (regardless of whether such income is “U.S. source” or “foreign source”) and will be required to file a U.S. federal income tax return annually with the IRS. The Resulting Issuer anticipates that it will also be subject to tax in Canada. It is unclear how the foreign tax credit rules under the Code will operate in certain circumstances, given the treatment of the Resulting Issuer as a U.S. domestic corporation for U.S. federal income tax purposes and the taxation of the Resulting Issuer in Canada. Accordingly, it is possible that the Resulting Issuer will be subject to double taxation with respect to all or part of its taxable income. It is anticipated that such U.S. and Canadian tax treatment will continue indefinitely and that the Resulting Issuer Shares will be treated indefinitely as shares in a U.S. domestic corporation for U.S. federal income tax purposes, notwithstanding future transfers. The remainder of this summary assumes that the Resulting Issuer will be treated as a U.S. domestic corporation for U.S. federal income tax purposes.

## **U.S. Federal Tax Consequences to U.S. Holders**

### *U.S. Tax Reorganization of Kona Bay*

As discussed above under “*Tax Classification of the Resulting Issuer as a U.S. Domestic Corporation*”, pursuant to the U.S. Tax Reorganization, at the end of the day immediately prior to the Effective Date, Kona Bay will be treated as converting into a U.S. domestic corporation pursuant to a reorganization under Section 368(a)(1)(F) of the Code and as a result, the Resulting Issuer will be classified as a U.S. domestic corporation for U.S. federal income tax purposes. Under the U.S. Tax Reorganization, U.S. Holders will be treated as receiving Kona Bay-US common shares in exchange for their Kona Bay Shares. Subject to the discussion below under “*Effect of Code Section 367*” and the discussion under “*Tax Consequences of the Transaction if Kona Bay is Classified as a PFIC*”, in general, a U.S. Holder should not recognize income, gain or loss upon completion of the U.S. Tax Reorganization and the aggregate tax basis of the Kona Bay-US common shares received will be the same as such U.S. Holder’s aggregate tax basis in Kona Bay Shares held immediately prior to the completion of the U.S. Tax Reorganization. The holding period of the Kona Bay-US common shares received in the U.S. Tax Reorganization will include the holding period of the Kona Bay Shares held immediately prior to the completion of the U.S. Tax Reorganization.

### *Effect of Code Section 367*

Section 367 of the Code applies to certain non-recognition transactions involving non-U.S. corporations. When it applies, Section 367 of the Code has the effect of imposing U.S. federal income tax on certain U.S. persons in connection with transactions that would otherwise be tax-deferred. Section 367(b) of the Code will apply to the U.S. Tax Reorganization under the circumstances discussed below, even if the U.S. Tax Reorganization otherwise qualifies as a reorganization under Section 368(a)(1)(F) of the Code.

A U.S. Holder who owns, actually or constructively, 10% or more of the voting power or value of all Kona Bay Shares entitled to vote will be required to recognize as a dividend the “all earnings and profits amount” attributable to such U.S. Holder’s Kona Bay Shares, as determined under U.S. Treasury Regulations Section 1.367(b)-2(d). A 10% Kona Bay Shareholder that is a corporation may, under certain circumstances, effectively be exempt from taxation on a portion or all of the deemed dividend pursuant to Section 245A of the Code (participation exemption). In addition, if certain conditions under U.S. Treasury Regulations Section 1.367(b)-3T(b)(4) are met, a 10% Kona Bay Shareholder may be able to elect to recognize gain (but not loss) with respect to the receipt of Kona Bay-US common shares in the U.S. Tax Reorganization, rather than recognize as a dividend the “all earnings and profits amount” attributable to such U.S. Holder’s Kona Bay Shares. U.S. Holders should consult their own tax advisors regarding the consequences of the U.S. Tax Reorganization to them under Sections 367 and 245A of the Code and the U.S. Treasury Regulations promulgated thereunder.

A U.S. Holder who is not a 10% Kona Bay Shareholder, but who beneficially owns (actually or constructively) Kona Bay Shares with a fair market value of \$50,000 or more on the date of the U.S. Tax Reorganization, generally will recognize gain (but not loss) with respect to the deemed receipt of Kona Bay-US common shares in the U.S. Tax Reorganization, unless such U.S. Holder makes the “**Deemed Dividend Election**” described below. In the absence of a Deemed Dividend Election, such gain recognized should be equal to the excess of the fair market value of the Kona Bay-US common shares received over the U.S. Holder’s adjusted basis in the Kona Bay Shares surrendered in exchange therefor. Such gain should be capital gain, and should be long-term capital gain if the holder held the Kona Bay Shares for longer than one year. U.S. Holders who are individuals are eligible for preferential rates of taxation with respect to their long-term capital gains. A U.S. Holder making a Deemed Dividend Election must include in income as a dividend the “all earnings and profits amount” attributable to the Kona Bay Shares owned by such U.S. Holder. If a U.S. Holder makes the election, then the holder will not recognize any gain upon the surrender of Kona Bay Shares for Kona Bay-US common shares pursuant to the U.S. Tax Reorganization. For a U.S. Holder to make the Deemed Dividend Election, Kona Bay must provide the U.S. Holder with the “all earnings and profits amount” for such U.S. Holder, and the U.S. Holder must make the election and file certain notices with such holder’s federal income tax return for the year in which the U.S. Tax Reorganization occurs.



To facilitate the making of a Deemed Dividend Election by U.S. Holders, Kona Bay intends to provide each U.S. Holder eligible to make the Deemed Dividend Election with information regarding its earnings and profits upon written request. Based on its projected earnings and profits through the date of the U.S. Tax Reorganization, Kona Bay does not expect its cumulative earnings and profits to be materially greater than zero through the date of the U.S. Tax Reorganization. Assuming this expectation is correct, then a U.S. Holder who properly makes the Deemed Dividend Election and complies with the applicable notice requirements generally should not recognize a material amount of income under Section 367(b) of the Code. Thus, it is expected that the making of any Deemed Dividend Election to include the all earnings and profits amount in income as a dividend may be advantageous to a U.S. Holder who would otherwise recognize gain with respect to the surrender of Kona Bay Shares for Kona Bay-US common shares pursuant to the U.S. Tax Reorganization. However, there can be no assurance that Kona Bay's cumulative earnings and profits through the date of the U.S. Tax Reorganization will not be greater than expected, nor can there be any assurance that the IRS will agree with Kona Bay's calculation of its earnings and profits. If it were determined that Kona Bay had earnings and profits materially greater than zero through the date of the U.S. Tax Reorganization, then a U.S. Holder making the Deemed Dividend Election could have a material all earnings and profits amount with respect to its Kona Bay Shares, and subject to the discussion in the above paragraph, such U.S. Holder would be required to include such amount in income as a deemed dividend as a result of the U.S. Tax Reorganization. U.S. Holders should consult their own tax advisors regarding whether to make the Deemed Dividend Election, as well as the appropriate filing requirements with respect to such election.

A U.S. Holder who is not a 10% Shareholder and who owns Kona Bay Shares with a fair market value of less than \$50,000 on the date of the U.S. Tax Reorganization should not be required to recognize any gain under Section 367 of the Code in connection with the U.S. Tax Reorganization, and generally should not be required to include any part of the all earnings and profits amount in income.

***Tax Consequences of the U.S. Tax Reorganization if Kona Bay is Classified as a PFIC***

A U.S. Holder of Kona Bay Shares could be subject to special, adverse tax rules in respect of the U.S. Tax Reorganization if Kona Bay was classified as a "passive foreign investment company" within the meaning of Section 1297 of the Code (a "PFIC") for any tax year during which such U.S. Holder holds or held Kona Bay Shares.

A non-U.S. corporation is a PFIC for any tax year in which (i) 75% or more of its gross income is passive income (as defined for U.S. federal income tax purposes) or (ii) 50% or more of the value of its assets either produce passive income (or produce no income) or are held for the production of passive income, based on the quarterly average of the fair market value of such assets. For purposes of the PFIC provisions, "gross income" generally includes all sales revenues less cost of goods sold, plus income from investments and from incidental or outside operations or sources, and "passive income" generally includes dividends, interest, certain royalties and rents, certain gains from the sale of stock and securities, and certain gains from commodities transactions. In determining whether or not it is a PFIC, a non-U.S. corporation is required to take into account its pro rata portion of the income and assets of each corporation in which it owns, directly or indirectly, at least a 25% interest (by value).

Based on current business plans and financial expectations, Kona Bay expects that it will be classified as a PFIC during its current tax year ending on the date of the U.S. Tax Reorganization. Kona Bay believes that it was classified as a PFIC for prior tax years. No opinion of legal counsel or ruling from the IRS concerning the status of Kona Bay as a PFIC has been obtained or is currently planned to be requested. PFIC classification is factual in nature, and generally cannot be determined until the close of the tax year in question. Additionally, the analysis depends, in part, on the application of complex U.S. federal income tax rules, which are subject to differing interpretations. Consequently, there can be no assurances regarding the PFIC status of Kona Bay during the current tax year or any prior tax year. U.S. Holders should consult their own tax advisors regarding the PFIC status of Kona Bay with respect to Kona Bay's current tax year and prior tax years.

Under proposed U.S. Treasury Regulations, absent application of the "PFIC-for-PFIC Exception" discussed below, if Kona Bay is classified as a PFIC for any tax year during which a U.S. Holder holds Kona Bay Shares, special rules may increase such U.S. Holder's U.S. federal income tax liability, unless the U.S. Holder makes a timely QEF Election (as

described below) or, in certain cases, a “deemed sale” election with respect to the Kona Bay Shares together with a corresponding QEF Election. If such “deemed sale” election is made, the U.S. Holder will be deemed to sell the Kona Bay Shares it holds at their fair market value on the last day of the last taxable year in which Kona Bay qualified as a PFIC, and any gain recognized from such deemed sale would be taxed under the PFIC “excess distribution” regime described below. After the deemed sale election, the U.S. Holder’s Kona Bay Shares would not be treated as shares of a PFIC unless Kona Bay subsequently became a PFIC. U.S. Holders should consult with their own tax advisors regarding the availability and desirability of making a deemed sale election with respect to their Kona Bay Shares.

Under the default PFIC rules:

- the surrender of Kona Bay Shares and the receipt of Kona Bay-US common shares in the U.S. Tax Reorganization may be treated as a taxable transaction under proposed U.S. Treasury Regulations even if it qualifies as occurring pursuant to a reorganization under Section 368(a)(1)(F) of the Code as discussed above;
- any gain on the surrender of Kona Bay Shares and the receipt of Kona Bay-US common shares in the U.S. Tax Reorganization and any “excess distribution” (defined as the excess of distributions with respect to the Kona Bay Shares in any tax year over 125% of the average annual distributions such U.S. Holder has received from Kona Bay during the shorter of the three preceding tax years, or such U.S. Holder’s holding period for the Kona Bay Shares), will be allocated ratably over such U.S. Holder’s holding period for the Kona Bay Shares;
- the amounts allocated to the current tax year and to any tax year prior to the first year in which Kona Bay was a PFIC will be taxed as ordinary income in the current year;
- the amounts allocated to each of the other tax years in such U.S. Holder’s holding period for the Kona Bay Shares (“prior PFIC years”) will be subject to tax as ordinary income at the highest rate of tax in effect for the applicable class of taxpayer for that year;
- an interest charge for a deemed deferral benefit will be imposed with respect to the resulting tax attributable to each of the prior PFIC years, which interest charge is not deductible by non-corporate U.S. Holders; and
- any loss realized would generally not be recognized.

A U.S. Holder that has made a mark-to-market election under Section 1296 of the Code (a “**Mark-to-Market Election**”) or a timely and effective election to treat Kona Bay as a “qualified electing fund” (a “**QEF**” and such an election a “**QEF Election**”) under Section 1295 of the Code may mitigate or avoid the PFIC consequences described above with respect to the U.S. Tax Reorganization. A QEF Election will be treated as timely for purposes of avoiding the default PFIC rules discussed above only if it is made for the first year in the U.S. Holder’s holding period for the Kona Bay Shares in which Kona Bay is a PFIC, or in certain cases, in conjunction with a deemed sale election. Upon the written request of a U.S. Holder, Kona Bay will provide such holder with PFIC Annual Information Statements for its current tax year and the tax year ended on December 31, 2018. Each U.S. Holder should consult its own tax advisor regarding the availability of, and procedure for making, a QEF Election or Mark-to-Market Election. A shareholder of PFIC stock who does not make a timely QEF Election is referred to in this section of the summary as a “Non-Electing Shareholder.”

Under proposed U.S. Treasury Regulations, a Non-Electing Shareholder does not recognize gain in a Reorganization where the Non-Electing Shareholder transfers stock in a PFIC so long as such Non-Electing Shareholder receives in exchange stock of another corporation that is a PFIC for its taxable year that includes the day after the date of transfer. For purposes of this summary, this exception will be referred to as the “PFIC-for-PFIC Exception.” However, under such proposed U.S. Treasury Regulations, a Non-Electing Shareholder generally does recognize gain (but not

loss) in a tax-deferred reorganization under Section 368(a)(1)(F) of the Code where the Non-Electing Shareholder transfers stock in a PFIC and receives in exchange stock of another corporation that is not a PFIC for its taxable year that includes the day after the date of transfer.

While Kona Bay expects that it will be classified as a PFIC during its current tax year based on current business plans and financial projections, and believes that it was a PFIC for prior tax years, Kona Bay-US will not be classified as a PFIC for its current tax year. Consequently, the "PFIC-for PFIC Exception" contained in the proposed U.S. Treasury Regulations will not apply. Therefore, if the foregoing rules contained in the proposed U.S. Treasury Regulations were finalized and made applicable to the U.S. Tax Reorganization, a Non-Electing Shareholder would recognize gain (but not loss) on shares exchanged under the rules applicable to excess distributions and dispositions of PFIC stock set forth in Section 1291 of the Code, regardless of whether the surrender of Kona Bay Shares and the receipt of Kona Bay-US common shares in the U.S. Tax Reorganization is treated as made pursuant to a reorganization under Section 368(a)(1)(F) of the Code. Under the rules applicable to excess distributions and dispositions of PFIC stock set forth in Section 1291 of the Code, the amount of any such gain recognized by a Non-Electing Shareholder in connection with the U.S. Tax Reorganization would be equal to the excess, if any, of (a) the fair market value (expressed in U.S. dollars) of the Kona Bay-US common shares received pursuant to the U.S. Tax Reorganization, over (b) the adjusted tax basis (expressed in U.S. dollars) of such Non-Electing Shareholder in the Kona Bay Shares surrendered pursuant to the U.S. Tax Reorganization. Such gain would be recognized on a share-by-share basis and would be taxable as ordinary income under the default PFIC rules, as described above.

The proposed U.S. Treasury Regulations discussed above were proposed in 1992 and have not been adopted in final form. The proposed U.S. Treasury Regulations state that they are to be effective for transactions occurring on or after April 11, 1992. Since the proposed U.S. Treasury Regulations have not yet been adopted in final form, they are not currently effective and there is no assurance they will be finally adopted in the form and with the effective date proposed. However, it is uncertain whether the IRS would consider the proposed U.S. Treasury Regulations to be effective for purposes of determining the U.S. federal income tax treatment of the U.S. Tax Reorganization. In the absence of the proposed U.S. Treasury Regulations being finalized in their current form, if the U.S. Tax Reorganization qualifies as a reorganization under Section 368(a)(1)(F) of the Code, the U.S. federal income tax consequences to a U.S. Holder may be generally as set forth above in the discussion "U.S. Tax Reorganization of Kona Bay" however, it is unclear whether the IRS would agree with this interpretation and/or whether the IRS could attempt to treat the U.S. Tax Reorganization as a taxable exchange on some alternative basis. U.S. Holders should consult their own tax advisors regarding whether the proposed U.S. Treasury Regulations under Section 1291 would apply to the U.S. Tax Reorganization.

Each U.S. Holder should consult its own tax advisor regarding the potential application of the PFIC rules to the receipt of Kona Bay-US common shares pursuant to the U.S. Tax Reorganization and the information reporting responsibilities under the proposed U.S. Treasury Regulations in connection with the U.S. Tax Reorganization.

## **Ownership and Disposition of Resulting Issuer Shares**

### ***Distributions***

Distributions of cash or property on Resulting Issuer Shares will constitute dividends for U.S. federal income tax purposes to the extent paid from Resulting Issuer's current or accumulated earnings and profits, as determined under U.S. federal income tax principles. Dividends will generally be taxable to a non-corporate U.S. Holder at the preferential rates applicable to long-term capital gains, provided that such holder meets certain holding period and other requirements. Distributions in excess thereof will first constitute a return of capital and be applied against and reduce a U.S. Holder's adjusted tax basis in its Resulting Issuer Shares, but not below zero, and thereafter be treated as capital gain and will be treated as described under "Sale or Other Taxable Disposition" below.

Dividends received by corporate U.S. Holders may be eligible for a dividends received deduction, subject to certain restrictions relating to, among others, the corporate U.S. Holder's taxable income, holding period and debt financing.

### ***Sale or Other Taxable Disposition***

Upon the sale or other taxable disposition of Resulting Issuer Shares, a U.S. Holder will generally recognize capital gain or loss equal to the difference between (i) the amount realized by such U.S. Holder in connection with such sale or other taxable disposition, and (ii) such U.S. Holder's adjusted tax basis in such stock. Such capital gain or loss will generally be long-term capital gain or loss if the U.S. Holder's holding period respecting such Resulting Issuer Shares is more than 12 months. U.S. Holders who are individuals are eligible for preferential rates of taxation respecting their long-term capital gains. Deductions for capital losses are subject to limitations.

### ***Foreign Tax Credit Limitations Applicable to Resulting Issuer Shares***

Because it is anticipated that the Resulting Issuer will be subject to tax both as a U.S. domestic corporation and as a Canadian corporation, a U.S. Holder may pay, through withholding, Canadian tax, as well as U.S. federal income tax, with respect to dividends paid on its Resulting Issuer Shares. For U.S. federal income tax purposes, a U.S. Holder may elect for any taxable year to receive either a credit or a deduction for all foreign income taxes paid by the holder during the year. Complex limitations apply to the foreign tax credit, including a general limitation that the credit cannot exceed the proportionate share of a taxpayer's U.S. federal income tax that the taxpayer's foreign source taxable income bears to the taxpayer's worldwide taxable income. In applying this limitation, items of income and deduction must be classified, under complex rules, as either foreign source or U.S. source. The status of the Resulting Issuer as a U.S. domestic corporation for U.S. federal income tax purposes will cause dividends paid by the Resulting Issuer to be treated as U.S. source rather than foreign source income for this purpose. As a result, a foreign tax credit may be unavailable for any Canadian tax paid on dividends received from the Resulting Issuer. Similarly, to the extent a sale or disposition of the Resulting Issuer Shares by a U.S. Holder results in Canadian tax payable by the U.S. Holder (for example, because the Resulting Issuer Shares constitute taxable Canadian property within the meaning of the Tax Act), a U.S. foreign tax credit may be unavailable to the U.S. Holder for such Canadian tax. In each case, however, the U.S. Holder should be able to take a deduction for the U.S. Holder's Canadian tax paid, provided that the U.S. Holder has not elected to credit other foreign taxes during the same taxable year.

The foreign tax credit rules are complex, and each U.S. Holder should consult its own tax advisors regarding these rules.

### ***Other Tax Matters***

#### ***Additional Tax on Passive Income***

Certain U.S. Holders that are individuals, estates or trusts (other than trusts that are exempt from tax) will be subject to a 3.8% tax on all or a portion of their "net investment income," which includes dividends on the Kona Bay Shares or Resulting Issuer Shares and net gains recognized on the disposition of the Kona Bay Shares or Resulting Issuer Shares (including in connection with an exchange made pursuant to the Transaction). Special rules apply to PFICs. U.S. Holders that are individuals, estates or trusts should consult their own tax advisors regarding the applicability of this tax to any of their income or gains in respect of the Kona Bay Shares or Resulting Issuer Shares.

#### ***Receipt of Foreign Currency***

The amount of any distribution or proceeds paid in Canadian dollars to a U.S. Holder in connection with the ownership of Resulting Issuer Shares, or on the sale, exchange or other taxable disposition of Resulting Issuer Shares, or any Canadian dollars received in connection with the Transaction, will be included in the gross income of a U.S. Holder as translated into U.S. dollars calculated by reference to the exchange rate prevailing on the date of actual or constructive receipt of the distribution or proceeds, regardless of whether the Canadian dollars are converted into U.S. dollars at that time. If the Canadian dollars received are not converted into U.S. dollars on the date of receipt, a U.S. Holder will have a basis in the Canadian dollars equal to its U.S. dollar value on the date of receipt. Different rules apply to U.S. Holders who use the accrual method of tax accounting. Any U.S. Holder who receives payment in Canadian dollars and engages in a subsequent conversion or other disposition of the Canadian dollars

may have a foreign currency exchange gain or loss that would be treated as ordinary income or loss, and generally will be U.S. source income or loss for foreign tax credit purposes. Each U.S. Holder should consult its own U.S. tax advisor regarding the U.S. federal income tax consequences of receiving, owning, and disposing of Canadian dollars.

### ***Information Reporting and Backup Withholding***

U.S. Holders of Kona Bay Shares may be subject to information reporting and may be subject to backup withholding, currently at a 24% rate, on consideration received in exchange for Kona Bay Shares. Distributions on, or the proceeds from a sale or other disposition of, Resulting Issuer Shares paid within the U.S. also may be subject to information reporting and backup withholding.

Backup withholding will generally not apply, however, to a U.S. Holder who furnishes a correct taxpayer identification number and certifies that it is not subject to backup withholding on an IRS Form W-9 (or substitute form); or is otherwise exempt from backup withholding.

Backup withholding is not an additional tax. Any amounts withheld from a payment to a holder under the backup withholding rules may be credited against the U.S. Holder's U.S. federal income tax liability, and a holder may obtain a refund of any excess amounts withheld by filing the appropriate claim for refund with the IRS in a timely manner and furnishing any required information.

The discussion of reporting requirements set forth above is not intended to constitute an exhaustive description of all reporting requirements that may apply to a U.S. Holder. A failure to satisfy certain reporting requirements may result in an extension of the time period during which the IRS can assess a tax, and under certain circumstances, such an extension may apply to assessments of amounts unrelated to any unsatisfied reporting requirement. Each U.S. Holder should consult its own tax advisor regarding applicable reporting requirements and the information reporting and backup withholding rules.

### ***Disclosure Requirements for Specified Foreign Financial Assets***

Individual U.S. Holders (and certain U.S. entities specified in U.S. Treasury Department guidance) who, during any taxable year, hold any interest in any "specified foreign financial asset" generally will be required to file with their U.S. federal income tax returns certain information on IRS Form 8938 if the aggregate value of all such assets exceeds certain specified amounts. "Specified foreign financial asset" generally includes any financial account maintained with a non-U.S. financial institution and may also include Kona Bay Shares or Resulting Issuer Shares if they are not held in an account maintained with a financial institution. Substantial penalties may be imposed, and the period of limitations on assessment and collection of U.S. federal income taxes may be extended, in the event of a failure to comply. U.S. Holders should consult their own tax advisors as to the possible application to them of this filing requirement.

### **Tax Considerations for Non U.S. Holders Regarding Holding and Disposing of Resulting Issuer Shares**

#### ***Definition of a Non U.S. Holder***

For purposes of this discussion, a "**Non U.S. Holder**" is any beneficial owner of Resulting Issuer Shares after giving effect to the Transaction that is neither a U.S. Holder nor an entity treated as a partnership for U.S. federal income tax purposes.

#### ***Distributions***

Distributions of cash or property on the Resulting Issuer Shares will constitute dividends for U.S. federal income tax purposes to the extent paid from Resulting Issuer's current or accumulated earnings and profits, as determined under U.S. federal income tax principles. Distributions in excess thereof will first constitute a return of capital and be applied against and reduce a Non U.S. Holder's adjusted tax basis in its Resulting Issuer Shares, but not below

zero, and thereafter be treated as capital gain and will be treated as described under “Sale or Other Taxable Disposition” below.

Subject to the discussions under “Information Reporting and Backup Withholding” and under “FATCA” below, any dividend paid to a Non U.S. Holder of Resulting Issuer Shares that is not effectively connected with the Non U.S. Holder’s conduct of a trade or business within the U.S. will be subject to U.S. federal withholding tax at a rate of 30%, or such lower rate as may be specified under an applicable income tax treaty. In order to receive a reduced treaty rate, a Non U.S. Holder must provide its financial intermediary with an IRS Form W-8BEN or IRS Form W-8BEN-E, as applicable (or an appropriate successor form), properly certifying such holder’s eligibility for the reduced rate. If a Non U.S. Holder holds Resulting Issuer Shares through a financial institution or other agent acting on the Non U.S. Holder’s behalf, the Non U.S. Holder will be required to provide appropriate documentation to such agent, and the Non U.S. Holder’s agent will then be required to provide such (or a similar) certification to us, either directly or through other intermediaries. A Non U.S. Holder that does not timely furnish the required certification, but that qualifies for a reduced treaty rate, may obtain a refund of any excess amounts withheld by timely filing an appropriate claim for refund with the IRS. Non U.S. Holders should consult their own tax advisors regarding their entitlement to benefits under any applicable income tax treaty.

Dividends paid to a Non U.S. Holder that are effectively connected with the Non U.S. Holder’s conduct of a trade or business in the U.S. (or, if required by an applicable income tax treaty, are attributable to a U.S. permanent establishment, or fixed base, of the Non U.S. Holder) generally will be exempt from the withholding tax described above and instead will be subject to U.S. federal income tax on a net income basis at the regular graduated U.S. federal income tax rates in the same manner as if the Non U.S. Holder were a U.S. Person. In such case, the Resulting Issuer will not have to withhold U.S. federal tax so long as the Non U.S. Holder timely complies with the applicable certification and disclosure requirements. In order to obtain this exemption from withholding tax, a Non U.S. Holder must provide its financial intermediary with an IRS Form W-8ECI properly certifying its eligibility for such exemption. Any such effectively connected dividends received by a corporate Non U.S. Holder may be subject to an additional “branch profits tax” at a rate of 30% (or such lower rate as may be specified by an applicable income tax treaty), as adjusted for certain items. Non U.S. Holders should consult their own tax advisors regarding any applicable tax treaties that may provide for different rules.

### ***Sale or Other Taxable Disposition***

Subject to the discussions above under “Information Reporting and Backup Withholding” and under “FATCA” below, any gain realized on the sale or other disposition of Resulting Issuer Shares by a Non U.S. Holder generally will not be subject to U.S. federal income tax unless:

- the gain is effectively connected with the Non U.S. Holder’s conduct of a trade or business in the U.S. (or, if required by an applicable income tax treaty, is attributable to a U.S. permanent establishment, or fixed base, of the Non U.S. Holder);
- the Non U.S. Holder is an individual who is present in the United States for 183 days or more in the taxable year of disposition, and certain other conditions are met; or
- the rules of the Foreign Investment in FIRPTA apply to treat the gain as effectively connected with a U.S. trade or business.

A Non U.S. Holder who has gain that is described in the first bullet point immediately above will be subject to U.S. federal income tax on the gain derived from the sale or other disposition pursuant to regular graduated U.S. federal income tax rates in the same manner as if it were a U.S. Person. In addition, a corporate Non U.S. Holder described in the first bullet point immediately above may be subject to the branch profits tax equal to 30% of its effectively connected earnings and profits (or at such lower rate as may be specified by an applicable income tax treaty), as adjusted for certain items.

A Non U.S. Holder who meets the requirements described in the second bullet point immediately above will be subject to a flat 30% tax (or a lower tax rate specified by an applicable tax treaty) on the gain derived from the sale or other disposition, which gain may be offset by certain U.S. source capital losses (even though the individual is not considered a resident of the U.S.), provided the Non U.S. Holder has timely filed U.S. federal income tax returns with respect to such losses.

With respect to the third bullet point above, pursuant to FIRPTA, in general, a Non U.S. Holder is subject to U.S. federal income tax in the same manner as a U.S. Holder on any gain realized on the sale or other disposition of a USRPI. For purposes of these rules, a USRPI generally includes stock in a U.S. corporation (like Resulting Issuer Shares) assuming the U.S. corporation's interests in U.S. real property constitute 50% or more, by value, of the sum of the U.S. corporation's (i) assets used in a trade or business, (ii) U.S. real property interests, and (iii) interests in real property outside of the U.S. A U.S. corporation whose interests in U.S. real property constitute 50% or more, by value, of the sum of such assets is commonly referred to as a USRPHC. The Resulting Issuer is not, and does not anticipate becoming, a USRPHC.

### ***Information Reporting and Backup Withholding***

With respect to distributions and dividends on Resulting Issuer Shares, the Resulting Issuer must report annually to the IRS and to each Non U.S. Holder the amount of distributions and dividends paid to such Non U.S. Holder and any tax withheld with respect to such distributions and dividends, regardless of whether withholding was required with respect thereto. Copies of the information returns reporting such dividends and distributions and withholding also may be made available to the tax authorities in the country in which the Non U.S. Holder resides or is established under the provisions of an applicable income tax treaty, tax information exchange agreement or other arrangement. A Non U.S. Holder will be subject to backup withholding for dividends and distributions paid to such Non U.S. Holder unless either (i) such Non U.S. Holder certifies under penalty of perjury that it is not a U.S. Person (as defined in the Code), which certification is generally satisfied by providing a properly executed IRS Form W-8BEN, IRS Form W-8BEN-E, or IRS Form W-8ECI (or appropriate successor form), and the payor does not have actual knowledge or reason to know that such holder is a U.S. Person, or (ii) such Non U.S. Holder otherwise establishes an exemption.

With respect to sales or other dispositions of Resulting Issuer Shares, information reporting and, depending on the circumstances, backup withholding will apply to the proceeds of a sale or other disposition of Resulting Issuer Shares within the U.S. or conducted through certain U.S. related financial intermediaries, unless either (i) such Non U.S. Holder certifies under penalty of perjury that it is not a U.S. Person (as defined in the Code), which certification is generally satisfied by providing a properly executed IRS Form W-8BEN, IRS Form W-8BEN-E, or IRS Form W-8ECI (or appropriate successor form), and the payor does not have actual knowledge or reason to know that such holder is a U.S. Person, or (ii) such Non U.S. Holder otherwise establishes an exemption.

Whether with respect to distributions and dividends, or the sale or other disposition of Resulting Issuer Shares, backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules may be allowed as a refund or a credit against a Non U.S. Holder's U.S. federal income tax liability, if any, provided the required information is timely furnished to the IRS.

### ***FATCA***

Withholding taxes may be imposed pursuant to the FATCA (Sections 1471 through 1474 of the Code) on certain types of payments made to non-U.S. financial institutions and certain other non-U.S. entities. Specifically, except as discussed below, a 30% withholding tax may be imposed on dividends on Resulting Issuer Shares paid to a "foreign financial institution" or a "non-financial foreign entity" (each as defined in the Code).

Such 30% FATCA withholding will not apply to a foreign financial institution if such institution undertakes certain diligence and reporting obligations, or otherwise qualifies for an exemption from these rules. The diligence and reporting obligations include, among others, entering into an agreement with the U.S. Treasury Department pursuant to which the foreign financial institution must (i) undertake to identify accounts held by certain "specified

United States persons” or “United States owned foreign entities” (each as defined in the Code), (ii) annually report certain information about such accounts, and (iii) withhold 30% on certain payments to non-compliant foreign financial institutions and certain other account holders. Foreign financial institutions located in jurisdictions that have an intergovernmental agreement with the U.S. governing FATCA may be subject to different rules.

The 30% FATCA withholding will not apply to a non-financial foreign entity which either certifies that it does not have any “substantial United States owners” (as defined in the Code), furnishes identifying information regarding each substantial United States owner, or otherwise qualifies for an exemption from these rules.

Under the applicable U.S. Treasury Regulations and administrative guidance, withholding under FATCA generally applies to payments of dividends on Resulting Issuer Shares.

### **Adoption of New Equity Incentive Plan**

The Current Stock Option Plan is a “rolling” stock option plan, whereby the maximum number of Kona Bay Shares that may be reserved for issuance pursuant to the exercise of options is 10% of the issued shares of the Company and, as such, will increase with the issue of additional shares by Kona Bay. The Current Stock Option Plan complied with the policies of TSXV for Tier 2 issuers for security based compensation prior to the TSXV’s adoption of Policy 4.4 effective November 24, 2021. At the Meeting, Kona Bay Shareholders will, in accordance with the requirements of Policy 4.4, be asked to consider, and if deemed appropriate, approve, with or without variation, a resolution approving the adoption by the Company of the New Equity Incentive Plan upon closing of the Transaction. A copy of the New Equity Incentive Plan is attached hereto as Schedule “K”.

The following information is intended as a brief description of the New Equity Incentive Plan and is qualified in its entirety by the full text of the New Equity Incentive Plan, a copy of which is attached hereto as Schedule “K”.

#### ***Purpose***

The purpose of the New Equity Incentive Plan is to promote the long-term success of the Company and the creation of Shareholder value by: (i) encouraging the attraction and retention of eligible persons; (ii) encouraging such eligible persons to focus on critical long-term objectives; and (iii) promoting greater alignment of the interests of such eligible persons with the interests of the Company.

The New Equity Incentive Plan provides flexibility to the Company to grant equity-based incentive awards in the form of Kona Bay Options, RSUs, PSUs and DSUs to eligible persons.

#### ***Shares Subject to the New Equity Incentive Plan***

The New Equity Incentive Plan is a rolling plan for Kona Bay Options and a fixed 10% plan for Performance-Based Awards such that the aggregate number of Kona Bay Shares that: (i) may be issued upon the exercise or settlement of Kona Bay Options granted under the New Equity Incentive Plan, shall not exceed 10% of the Company’s issued and outstanding Kona Bay Shares from time to time, such number expected to be 5,455,121 as at the Closing, and (ii) may be issued in respect of Performance-Based Awards shall not exceed 5,455,121. Under the New Equity Incentive Plan, settled or terminated Kona Bay Shares shall be available for subsequent grants under the New Equity Incentive Plan and the number of awards available to grant increases as the number of issued and outstanding Kona Bay Shares increases.

#### ***Participation Limits***

The New Equity Incentive Plan provides that:

- (a) unless the Company has obtained disinterested shareholder approval, the maximum aggregate number of Kona Bay Shares issuable to Insiders under the New Equity Incentive Plan, within any



12 month period and at any point in time under New Equity Incentive Plan, together with Kona Bay Shares reserved for issuance to Insiders under all of the Company's other Security-Based Compensation Arrangements (as defined in the New Equity Incentive Plan), shall not exceed 10% of the issued and outstanding Kona Bay Shares (calculated as at the date of any grant);

- (b) unless the Company has obtained disinterested shareholder approval, the maximum aggregate number of Kona Bay Shares issuable to any participant (as defined in the New Equity Incentive Plan) under the New Equity Incentive Plan, within any 12 month period, together with Kona Bay Shares reserved for issuance to such participant (and to Companies wholly-owned by that participant) under all of the Company's other Security-Based Compensation Arrangements, shall not exceed 5% percent of the issued and outstanding Kona Bay Shares (calculated as at the date of any grant);
- (c) the maximum aggregate number of Kona Bay Shares issuable to any one consultant (as defined in the New Equity Incentive Plan) under the New Equity Incentive Plan, within any 12 month period, together with all other Security-Based Compensation Arrangements, shall not exceed 2% percent of the issued and outstanding Kona Bay Shares (calculated as at the date of any grant); and
- (d) the maximum aggregate number of Kona Bay Shares issuable pursuant to grants of Kona Bay Options to all investor relation service providers performing investor relations activities under the New Equity Incentive Plan, within any 12 month period, shall not in aggregate exceed 2% percent of the issued and outstanding Kona Bay Shares (calculated as at the date of any grant). For the avoidance of doubt, persons performing investor relations activities are only eligible to receive Kona Bay Options under the New Equity Incentive Plan; they are not eligible to receive any Performance-Based Award or other type of securities based compensation under the New Equity Incentive Plan.

#### ***Administration of the New Equity Incentive Plan***

The New Equity Incentive Plan shall be administered by the Board or by a committee to which the Board has delegated specific authority (and, for further clarity, not by the board of directors of any subsidiary of the Company) and the Board shall have full authority to administer the New Equity Incentive Plan, including the authority to interpret and construe any provision of the New Equity Incentive Plan and to adopt, amend and rescind such rules and regulations for administering the New Equity Incentive Plan as the Board may deem necessary in order to comply with the requirements of the New Equity Incentive Plan.

#### ***Eligible Persons under the New Equity Incentive Plan***

When used in connection with the grant of Kona Bay Options, all officers, directors, employees, management company employees and consultants of the Company are eligible to participate in the New Equity Incentive Plan. When used in connection with the grant of Performance-Based Awards, all officers, directors, employees, management company employees and consultants of the Company that do not perform investor relations activities are eligible to participate in the New Equity Incentive Plan. The extent to which any such individual is entitled to receive a grant of an award pursuant to the New Equity Incentive Plan will be determined in the sole and absolute discretion of the Board. Each person who receives a grant under the New Equity Incentive Plan is referred to as a "Participant".

#### ***Types of Awards***

Awards of Kona Bay Options, RSUs, PSUs and DSUs may be made under the New Equity Incentive Plan. All of the awards described below are subject to the conditions, limitations, restrictions, exercise price, vesting, settlement and forfeiture provisions determined by the Board, in its sole discretion, subject to such limitations provided in the New Equity Incentive Plan, and will generally be evidenced by an award agreement.

### *Kona Bay Options*

Each Kona Bay Option entitles a holder thereof to purchase a prescribed number of Kona Bay Shares at an exercise price determined by the Board at the time of the grant of the Kona Bay Option, which includes an ISO, provided that the exercise price of a Kona Bay Option granted under the New Equity Incentive Plan shall not be less than the Discounted Market Price (as defined in the policies of the TSXV), provided that if a Kona Bay Option is proposed to be granted by the Company after the Company has just been recalled for trading following a suspension or halt, the Company must wait at least 10 trading days since the day on which trading in the Company's securities resumes before setting the exercise price for and granting the Kona Bay Option. Each Option shall, unless sooner terminated, expire on a date to be determined by the Board which will not exceed 10 years from the date of grant of the Kona Bay Option. The Board may, in its absolute discretion, upon granting Kona Bay Options under the New Equity Incentive Plan, specify different time periods following the dates of granting the Kona Bay Options during which the Participant may exercise their Kona Bay Options to purchase Kona Bay Shares and may designate different exercise prices and numbers of Kona Bay Shares in respect of which each Participant may exercise Kona Bay Options during each respective time period. Subject to the discretion of the Board, the Kona Bay Options granted to a Participant under the New Equity Incentive Plan shall vest as determined by the Board on the date of grant of such Kona Bay Options. If the Board does not specify a vesting schedule at the date of grant, then Options granted to persons, other than those conducting investor relations activities, shall vest fully on the date of grant, and in any event in accordance with the policies of the TSXV. Kona Bay Options issued to persons conducting investor relations activities must vest (and shall not otherwise be exercisable) in stages over a minimum of 12 months such that: (a) no more than  $\frac{1}{4}$  of the Kona Bay Options vest no sooner than 3 months after the date of grant; (b) no more than another  $\frac{1}{4}$  of the Kona Bay Options vest no sooner than 6 months after the date of grant; (c) no more than another  $\frac{1}{4}$  of the Kona Bay Options vest no sooner than 9 months after the date of grant; and (d) the remainder of the Kona Bay Options vest no sooner than 12 months after the date of grant.

Subject to the rules and policies of the TSXV, the Board may, in its discretion and at any time, determine to grant a Participant the alternative, when entitled to exercise a Kona Bay Option, to deal with such Kona Bay Option on a "cashless exercise" basis, on such terms as the Board may determine in its discretion (the "**Cashless Exercise Right**"). Without limitation, the Board may determine in its discretion that such Cashless Exercise Right, if any, grants a Participant the right to engage a broker to sell such number of Kona Bay Shares as is necessary to raise an amount equal to the aggregate exercise price for all Kona Bay Options being exercised by that Participant and any applicable tax withholdings. Pursuant to the award agreement, the Participant may authorize the broker to sell shares on the open market and forward the proceeds to the Company to satisfy the exercise price and any applicable tax withholdings, promptly following which the Company shall issue the Kona Bay Shares underlying the number of Kona Bay Options as provided for in the award agreement. In the event the Company permits a Participant to exercise a Cashless Exercise Right, the Company shall make an election pursuant to subsection 110(1.1) of the Tax Act.

ISOs are available only for Participants who are employees of the Company, or a "parent corporation" or "subsidiary corporation" (as such terms are defined in Section 424(e) and (f) of the Code), on the date the Kona Bay Option is granted. A Participant who holds an ISO must continue as an employee, except that upon termination of employment the Kona Bay Option will continue to be treated as an ISO for up to three months, after which the Kona Bay Option will no longer qualify as an ISO, except as otherwise provided herein. A Participant's employment will be deemed to continue during period of sick leave, military leave or other bona fide leave of absence, provided the leave of absence does not exceed three months, or the Participant's return to employment is guaranteed by statute or contract. If a termination of employment is due to permanent disability, a Kona Bay Option may continue its ISO status for up to one year, and if the termination is due to death, the ISO status may continue for the balance of the Kona Bay Option's term. Nothing referenced herein will be deemed to extend the original expiry date of a Kona Bay Option. A Participant who owns, or is deemed to own, pursuant to Section 424(e) of the Code, Kona Bay Shares accounting for more than ten percent (10%) of the total combined voting power of all classes of stock of the Company may not be granted an ISO unless (i) the Option Price is at least one hundred and ten percent (110%) of the Market Value of the Kona Bay Shares, as of the date of the grant, and (ii) the Kona Bay Option is not exercisable after the expiration of five years from the date of grant. To the extent the aggregate Market Value (determined as of the date of grant) of

Kona Bay Shares with respect to which ISOs are exercisable for the first time by a Participant during any calendar year (under all plans of the Company and any affiliates) exceeds One Hundred Thousand United States Dollars (US\$100,000), the Kona Bay Options or portions thereof that exceed such limit (according to the order in which they were granted) shall be treated as Kona Bay Options other than ISOs, notwithstanding any contrary provision in the applicable award agreement.

If the award agreement for the grant of Options so provides, in the event of a change of control (as defined in the New Equity Incentive Plan), all Kona Bay Options granted to a Participant who ceases to be an eligible person shall become fully vested and shall become exercisable by the Participant in accordance with the terms of such award agreement and the New Equity Incentive Plan. No acceleration of the vesting of any Kona Bay Options shall be permitted without prior Exchange review and acceptance for Kona Bay Options issued to persons conducting investor relations activities.

Other than as may be set forth in the award agreement for the grant of Kona Bay Options, upon the death of a Participant, any Kona Bay Options granted to such Participant which, prior to the Participant's death, have not vested, will immediately terminate without payment, be forfeited and cancelled and shall be of no further force or effect; and the Participant or their estate, as the case may be, shall have no right, title or interest therein whatsoever. Any Kona Bay Options granted to such Participant which, prior to the Participant's death, had vested pursuant to the terms of the applicable Award Agreement will accrue to the Participant's estate in accordance with New Equity Incentive Plan, provided the period in which they can make such claim must not exceed one year from the Participant's death.

Where a Participant's relationship with the Company is terminated by the Company or a subsidiary for cause, all Kona Bay Options granted to the Participant under the New Equity Incentive Plan will immediately terminate without payment, be forfeited and cancelled and shall be of no further force or effect as of the termination date.

Where a Participant's relationship with the Company terminates by reason of termination by the Company or a subsidiary without cause, by voluntary termination, voluntary resignation or due to retirement by the Participant, such that the Participant no longer qualifies as an eligible person, all Kona Bay Options granted to the Participant under the New Equity Incentive Plan that have not vested will, unless the applicable award agreement provides otherwise and subject to the provisions below, immediately terminate without payment, be forfeited and cancelled and shall be of no further force or effect as of the termination date; provided, however, that any Kona Bay Options granted to such Participant which, prior to the Participant's termination without cause, voluntary termination, voluntary resignation or retirement, had vested pursuant to the terms of the applicable award agreement will accrue to the Participant in accordance with the New Equity Incentive Plan and shall be exercisable by such Participant for a period of 90 days following the date the Participant ceased to be an eligible person, or such longer period as may be provided for in the award agreement or as may be determined by the Board, provided such period does not exceed 12 months after the termination date.

Where a Participant becomes afflicted by a disability, all Kona Bay Options granted to the Participant under the New Equity Incentive Plan will continue to vest in accordance with the terms of such Kona Bay Options; provided, however, that no Kona Bay Options may be redeemed during a leave of absence. Where a Participant's relationship is terminated due to disability such that the Participant ceases to be an eligible person, all Kona Bay Options granted to the Participant under the New Equity Incentive Plan that have not vested will, unless the applicable award agreement provides otherwise and subject to the provisions below, immediately terminate without payment, be forfeited and cancelled and shall be of no further force or effect as of the termination date; provided, however, that any Kona Bay Options granted to such Participant which, prior to the termination of the Participant's relationship with the Company due to disability, had vested pursuant to terms of the applicable award agreement, will accrue to the Participant in accordance with the New Equity Incentive Plan and shall be exercisable by such Participant for a period of 90 days following the termination date, or such longer period as may be provided for in the award agreement or as may be determined by the Board.

### *Restricted Share Units*

A RSU is a right awarded to a Participant, as compensation for employment or consulting services or services as a director or officer, to receive for no additional cash consideration, securities of the Company upon specified vesting criteria being satisfied, and subject to the terms and conditions of the New Equity Incentive Plan and the applicable award agreement, and which may be paid in cash and/or Kona Bay Shares. The number of RSUs to be credited to each Participant shall be determined by the Board in its sole discretion in accordance with the New Equity Incentive Plan. All RSUs will vest and become payable by the issuance of Kona Bay Shares at the end of the restriction period if all applicable restrictions have lapsed, as such restrictions may be specified in the award agreement. Subject to the terms and conditions of the applicable award agreement, if a Participant wishes to defer settling the RSUs upon vesting, the Participant must provide written notice (each, a “**RSU Deferral Notice**”) to the Company within 3 business days of the vesting date.

RSUs shall be subject to such restrictions as the Board, in its sole discretion, may establish in the applicable award agreement, which restrictions may lapse separately or in combination at such time or times and on such terms, conditions and satisfaction of objectives as the Board may, in its discretion, determine at the time a RSU is granted. The Board shall determine any vesting terms applicable to the grant of RSUs, however, no RSUs may vest before the date that is 12 months following the date of the award.

If the award agreement so provides, in the event of a change of control (as defined in the New Equity Incentive Plan) pursuant to which a Participant ceases to be an eligible person, all restrictions upon any RSUs shall lapse immediately and all such RSUs shall become fully vested in the Participant in accordance with the New Equity Incentive Plan.

Other than as may be set forth in the applicable award agreement, upon the death of a Participant, any RSUs granted to such Participant which, prior to the Participant’s death, have not vested, will be immediately and automatically forfeited and cancelled without further action and without any cost or payment, and the Participant or their estate, as the case may be, shall have no right, title or interest therein whatsoever. Any RSUs granted to such Participant which, prior to the Participant’s death, had vested pursuant to the terms of the applicable award agreement will accrue to the Participant’s estate in accordance with the New Equity Incentive Plan, provided such period does not exceed 12 months from the date of the Participant’s death.

Where a Participant’s relationship with the Company is terminated by the Company or a subsidiary for cause, all RSUs granted to the Participant under the New Equity Incentive Plan will immediately terminate without payment, be forfeited and cancelled and shall be of no further force or effect as of the termination date.

Where a Participant’s relationship with the Company terminates by reason of termination by the Company or a subsidiary without cause, by voluntary termination, voluntary resignation or due to retirement by the Participant, all RSUs granted to the Participant under the New Equity Incentive Plan that have not vested will, unless the applicable award agreement provides otherwise and subject to the provisions below, immediately terminate without payment, be forfeited and cancelled and shall be of no further force or effect as of the termination date and the Participant shall have no right, title or interest therein whatsoever; provided, however, that any RSUs granted to such Participant which, prior to the Participant’s termination without cause, voluntary termination, voluntary resignation or retirement, had vested pursuant to the terms of the applicable award agreement will accrue to the Participant in accordance with the New Equity Incentive Plan, provided such period does not exceed 12 months after the termination date.

Where a Participant becomes afflicted by a disability, all RSUs granted to the Participant under the New Equity Incentive Plan will continue to vest in accordance with the terms of such RSUs; provided, however, that no RSUs may be redeemed during a leave of absence. Where a Participant’s relationship is terminated due to disability such that the Participant ceases to be an eligible person, all RSUs granted to the Participant under the New Equity Incentive Plan that have not vested will, unless the applicable award agreement provides otherwise and subject to the provisions below, immediately terminate without payment, be forfeited and cancelled and shall be of no further force or effect as of the termination date and the Participant shall have no right, title or interest therein whatsoever;

provided, however, that any RSUs granted to such Participant which, prior to the Participant's termination due to disability, had vested pursuant to terms of the applicable award agreement will accrue to the Participant in accordance with the New Equity Incentive Plan, provided such period does not exceed 12 months after the date the Participant ceases to be an eligible person.

As soon as practicable after each vesting date of a RSU, and unless the Company has received a RSU Deferral Notice from the Participant, the Company shall, at the sole discretion of the Board, either: (a) issue to the Participant from treasury the number of Kona Bay Shares equal to the number of RSUs that have vested; or (b) make a cash payment in an amount equal to the Market Unit Price (as defined in the New Equity Incentive Plan) on the next trading day after the vesting date of the RSUs, net of applicable withholdings.

#### *Performance Share Units*

A PSU is a right awarded to a Participant, as compensation for employment or consulting services or services as a director or officer, to receive, for no additional cash consideration, securities of the Company upon specified performance and vesting criteria being satisfied, subject to the terms and conditions of the New Equity Incentive Plan and the applicable award agreement, and which may be paid in cash and/or Kona Bay Shares.

Subject to the provisions of the New Equity Incentive Plan and such other terms and conditions as the Board may prescribe, the Board may, from time to time, grant awards of PSUs to eligible persons that do not perform investor relations activities. The number of PSUs to be awarded to any Participant shall be determined by the Board, in its sole discretion, in accordance with the New Equity Incentive Plan. Each PSU shall, contingent upon the attainment of the performance criteria within the performance cycle, represent one Kona Bay Share.

The Board will select, settle and determine the performance criteria (including without limitation the attainment thereof), for purposes of the vesting of the PSUs, in its sole discretion. An award agreement may provide the Board with the right to revise the performance criteria and the award amounts if unforeseen events (including, without limitation, changes in capitalization, an equity restructuring, an acquisition or a divestiture) occur which have a substantial effect on the financial results and which in the sole judgment of the Board make the application of the performance criteria unfair unless a revision is made.

All PSUs will vest and become payable to the extent that the performance criteria set forth in the award agreement are satisfied in the performance cycle, the determination of which satisfaction shall be made by the Board on the determination date. No PSU may vest before the date that is 12 months following the date of the award. Subject to the terms and conditions of the applicable award agreement, if a Participant wishes to defer settling the PSUs upon vesting, the Participant must provide written notice (each, a "**PSU Deferral Notice**") to the Company within 3 business days of the determination date.

If the award agreement so provides, in the event of a change of control (as defined in the New Equity Incentive Plan) pursuant to which a Participant ceases to be an eligible person, all PSUs granted to a Participant shall become fully vested in such Participant (without regard to the attainment of any performance criteria) and shall become payable to the Participant in accordance with the New Equity Incentive Plan.

Other than as may be set forth in the applicable award agreement and below, upon the death of a Participant, all PSUs granted to the Participant which, prior to the Participant's death, have not vested, will immediately and automatically be forfeited and cancelled without further action and without any cost or payment, and the Participant or their estate, as the case may be, shall have no right, title or interest therein whatsoever; provided, however, the Board may determine, in its sole discretion, the number of the Participant's PSUs that will vest based on the extent to which the applicable performance criteria have been satisfied in that portion of the performance cycle that has lapsed. Any PSUs determined to have been vested by the Board must expire within a reasonable period, not exceeding, 12 months, following the date the Participant ceases to be an eligible person.

Where a Participant's relationship with the Company is terminated by the Company or a subsidiary for cause, all PSUs granted to the Participant under the New Equity Incentive Plan will immediately terminate without payment, be forfeited and cancelled and shall be of no further force or effect as of the termination date.

Where a Participant's relationship with the Company terminates by reason of termination by the Company or a subsidiary without cause, by voluntary termination, voluntary resignation or due to retirement by the Participant, all PSUs granted to the Participant which have not vested will, unless the award agreement provides otherwise and subject to the provisions below, immediately terminate without payment, be forfeited and cancelled and shall be of no further force or effect as of the termination date, and the Participant shall have no right, title or interest therein whatsoever; provided, however, the Board may determine, in its sole discretion, the number of the Participant's PSUs that will vest based on the extent to which the applicable performance have been satisfied in that portion of the performance cycle that has lapsed.

Where a Participant becomes afflicted by a disability, all PSUs granted to the Participant under the New Equity Incentive Plan will continue to vest in accordance with the terms of such PSUs; provided, however, that no PSUs may be redeemed during a leave of absence. Where a Participant's relationship is terminated due to disability such that the Participant ceases to be an eligible person, all PSUs granted to the Participant under the New Equity Incentive Plan that have not vested will, unless the applicable award agreement provides otherwise and subject to the provisions below, immediately terminate without payment, be forfeited and cancelled and shall be of no further force or effect as of the termination date, and the Participant shall have no right, title or interest therein whatsoever; provided, however, that the Board may determine, in its sole discretion, the number of the Participant's PSUs that will vest based on the extent to which the applicable performance criteria have been satisfied in that portion of the performance cycle that has lapsed.

Payment to Participants in respect of vested PSUs shall be made after the determination date for the applicable award and in any case within 95 days after the last day of the performance cycle to which such award relates, subject to deferral by the Participant. Unless the Company has received a PSU Deferral Notice from the Participant, the Company shall, at the sole discretion of the Board, either: (a) issue to the Participant the number of Kona Bay Shares equal to the number of PSUs that have vested on the determination date; or (b) make a cash payment in an amount equal to the Market Unit Price (as defined in the New Equity Incentive Plan) on the next trading day after the determination date of the PSUs that have vested, net of applicable withholdings.

#### *Deferred Share Units*

A DSU is a right granted to a Participant, as compensation for employment or consulting services or services as a director or officer, to receive, for no additional cash consideration, securities of the Company on a deferred basis upon specified vesting criteria being satisfied, subject to the terms and conditions of the New Equity Incentive Plan and the applicable award agreement, and which may be paid in cash and/or Kona Bay Shares.

Subject to the provisions of the New Equity Incentive Plan and such other terms and conditions as the Board may prescribe, the Board may, from time to time, grant awards of DSUs to directors that do not perform investor relations activities in lieu of fees (including annual Board retainers, chair fees, meeting attendance fees or any other fees payable to a director) or to other eligible persons that do not perform investor relations activities as compensation for employment or consulting services. The number of DSUs to be credited to each Participant shall be determined by the Board in its sole discretion in accordance with the New Equity Incentive Plan. The number of DSUs shall be specified in the applicable award agreement. Each director may elect to receive any or all of their fees in DSUs under the New Equity Incentive Plan.

The number of DSUs shall be calculated by dividing the amount of Fees selected by a director by the Market Unit Price (as defined in the New Equity Incentive Plan) on the grant date (or such other price as required under the policies of the TSXV) which shall be the 10<sup>th</sup> business day following each financial quarter end. Any fractional DSU shall be rounded down and no payment or other adjustment will be made with respect to the fractional DSU.

No Deferred Share Units may vest before the date that is 12 months following the date of the award of the DSU.

Each Participant shall be entitled to receive, after the effective date of the Participant's termination of service, on a day designated by the Participant and communicated to the Company by the Participant in writing at least 15 days prior to the designated day (or such earlier date after the Participant ceases to be an eligible person as the Participant and the Company may agree, which date shall be no later than one year after the date upon which the Participant ceases to be an eligible person) and if no such notice is given, then on the first anniversary of the effective date that the Participant ceases to be an eligible person, at the sole discretion of the Board, either: (a) that number of Kona Bay Shares equal to the number of vested DSUs credited to the participant's account, such Kona Bay Shares to be issued from treasury of the Company; or (b) a cash payment in an amount equal to the Market Unit Price on the next trading day after the Participant ceases to be an eligible person of the vested DSUs, net of applicable withholdings.

In the event that the value of a DSU would be determined with reference to a period commencing at a fiscal quarter-end of the Company and ending prior to the public disclosure of interim financial statements for the quarter (or annual financial statements in the case of the fourth quarter), the cash payment of the value of the DSUs will be made to the Participant with reference to the 5 trading days immediately following the public disclosure of the interim financial statements for that quarter (or annual financial statements in the case of the fourth quarter).

Upon death of a Participant holding DSUs that have vested, the Participant's estate shall be entitled to receive, within 120 days after the Participant's death and at the sole discretion of the Board, a cash payment or Kona Bay Shares that would have otherwise been payable in accordance with the New Equity Incentive Plan to the Participant upon such Participant ceasing to be an eligible person, provided the period in which they can make such claim must not exceed one year from the Participant's death.

Upon a Participant ceasing to be a Participant by reason of Termination for Cause, the Participant's participation in the New Equity Incentive Plan shall be terminated immediately, all DSUs credited to such Participant's Account that have not vested shall be forfeited and cancelled, and the Participant's rights to Shares or Cash Equivalent or a combination thereof that relate to such Participant's unvested DSUs shall be forfeited and cancelled on the Termination Date. The Participant shall not receive any payment in lieu of cancelled DSUs that have not vested. "Termination for Cause" shall include, among other things, gross misconduct, theft, fraud, breach of confidentiality or breach of the Company's codes of conduct and any other reason determined by the Company to be cause for termination. For the purposes of the New Equity Incentive Plan, the determination by the Company that the Participant was discharged for Cause shall be binding on the Participant.

### ***General Provisions of the New Equity Incentive Plan***

#### *Termination of Service*

A Participant ceases to be a Participant under the New Equity Incentive Plan, other than by Termination for Cause, on the earliest date on which both of the following conditions are met: (i) the Participant has ceased to be employed by the Company or has ceased providing ongoing services as a Consultant to the Company or any subsidiary thereof; and (ii) the Participant is not a member of the Board nor a director of the Company or any of its subsidiaries.

#### *Non-Transferability*

No Kona Bay Option or Performance-Based Award and no right under any such Kona Bay Option or Performance-Based Award shall be assignable, alienable, saleable, or transferable by a Participant otherwise than by will or by the laws of descent and distribution and only then if permitted by the policies of the TSXV. No Kona Bay Option or Performance-Based Award and no right under any such Kona Bay Option or Performance-Based Award, may be pledged, alienated, attached, or otherwise encumbered, and any purported pledge, alienation, attachment, or encumbrance thereof shall be void and unenforceable against the Company.

### *Black-out Periods*

In the event that the date provided for expiration, redemption or settlement of an award falls within a blackout period imposed by the Company pursuant to a trading policy as the result of the bona fide existence of undisclosed material information, the expiry date, redemption date or settlement date, as applicable, of the award shall automatically be extended to the date that is 10 business days following the date of expiry of the blackout period. Notwithstanding the foregoing, there will be no extension of any award if the Company (or the Participant) is subject to a CTO (or similar order under applicable law).

### *Deductions*

Whenever cash is to be paid in respect of DSUs, RSUs or PSUs, the Company shall have the right to deduct from all cash payments made to a Participant any taxes required by law to be withheld with respect to such payments. Whenever Kona Bay Shares are to be delivered in respect of DSUs, RSUs or PSUs, the Company shall have the right to deduct from any other amounts payable to the Participant any taxes required by law to be withheld with respect to such delivery of Kona Bay Shares, or if any payment due to the Participant is not sufficient to satisfy the withholding obligation, to require the Participant to remit to the Company in cash an amount sufficient to satisfy any taxes required by law to be withheld. At the sole discretion of the Board, a Participant may be permitted to satisfy the foregoing requirement, all in accordance with the policies of the TSXV, by delivering (on a form prescribed by the Company and in any event in accordance with the policies of the TSXV) an irrevocable direction to a securities broker approved by the Company to sell all or a portion of the Kona Bay Shares and deliver to the Company from the sales proceeds an amount sufficient to pay the required withholding taxes.

### *Amendments to the New Equity Incentive Plan*

The Board may at any time or from time to time, in its sole and absolute discretion and without the approval of Kona Bay Shareholders, amend, suspend, terminate or discontinue the New Equity Incentive Plan and may amend the terms and conditions of any Kona Bay Options or Performance-Based Awards granted hereunder, subject to:

- (a) any required disinterested shareholder approval to (i) reduce the exercise price of a Kona Bay Option or Performance-Based Award issued to an Insider or (ii) extend the term of a Kona Bay Option or Performance-Based Award granted to an Insider, in either event, in accordance with the policies of the TSXV while the Kona Bay Shares are listed on the TSXV;
- (b) any required approval of any applicable regulatory authority or the TSXV; and
- (c) any approval of Shareholders as required by the policies of the TSXV (or otherwise required by the TSXV) or applicable law, provided that shareholder approval shall not be required for the following amendments (except that the TSXV may require approval of the Kona Bay Shareholders for amendments under items (c)(iii) to (c)(vii) below) and the Board may make any changes which may include but are not limited to:
  - (i) amendments of a “housekeeping nature”;
  - (ii) amendments for the purpose of curing any ambiguity, error or omission in the New Equity Incentive Plan or to correct or supplement any provision of the New Equity Incentive Plan that is inconsistent with any other provision of the New Equity Incentive Plan; and
  - (iii) amendments which are necessary to comply with applicable law or the requirements of the TSXV.



*Term*

The New Equity Incentive Plan shall terminate automatically 10 years after the Effective Date and may be terminated on any earlier date as provided in the New Equity Incentive Plan.

**New Equity Incentive Plan Resolutions**

Under Policy 4.4, because the New Equity Incentive Plan is a rolling 10% plan, the Company must receive, in the future, the approval of the New Equity Incentive Plan from the Kona Bay Shareholders at each annual meeting of the shareholders. Failure to obtain such Kona Bay Shareholder approval no later than 15 months from the date Kona Bay Shareholder approval was last obtained for the New Equity Incentive Plan will result in the Company being unable to grant or issue any securities-based compensation under the New Equity Incentive Plan in accordance with section 5.2(c) of Policy 4.4.

At the Meeting, Kona Bay Shareholders will be asked to consider, and if thought fit, to approve the following ordinary resolution:

**“BE IT HEREBY RESOLVED THAT**, as an ordinary resolution:

1. the New Equity Incentive Plan, in the form attached as Schedule “K” to the information circular of the Company dated as of November 13, 2022 , including the reservation for issuance under the New Equity Incentive Plan of stock options at any time of a maximum of 10% of the issued and outstanding Kona Bay Shares, be and is hereby ratified, confirmed and approved, subject to the Closing of the Transaction and the acceptance of the New Equity Incentive Plan by the TSXV;
2. the Board be and is hereby authorized, in its absolute discretion, to administer the New Equity Incentive Plan and amend or modify the New Equity Incentive Plan in accordance with its terms and conditions and with the policies of the TSXV; and
3. any one director or officer of the Company be and is hereby authorized and directed to do all such acts and things and to execute and deliver, under the corporate seal of the Company or otherwise, all such deeds, documents, instruments and assurances as in his opinion may be necessary or desirable to give effect to the foregoing resolutions, including, without limitation, making any changes to the New Equity Incentive Plan required by the TSXV or applicable securities regulatory authorities and to complete all transactions in connection with the administration of the New Equity Incentive Plan.”

An ordinary resolution needs to be passed by a simple majority of the votes cast by the Kona Bay Shareholders present in person or represented by proxy and entitled to vote at the Meeting.

**Management recommends the approval of the resolution regarding the Adoption of the New Equity Incentive Plan at the Meeting. It is the intention of the Designated Persons named in the enclosed form of proxy, if not expressly directed otherwise in such form of proxy, to vote such proxy for the adoption of the New Equity Incentive Plan.**

**Approval of Performance Shares**

Pursuant to the terms of the Arrangement Agreement, Kona Bay has agreed to issue an aggregate of 8,000,000 Performance Shares to certain individuals, as to 3,000,000 Performance Shares to Klutch, a former Insider of Kona Bay and arm’s length party to Yerbaé, and 2,500,000 Performance Shares to each of Todd Gibson and Karrie Gibson, which Performance Shares are to be held in escrow and released upon the completion of certain performance-based incentives related to the listing of the Resulting Issuer Shares on the TSXV, future equity financings, and certain trailing gross revenue targets. Accordingly, 900,000 pre-Consolidation Kona Bay Shares held by Klutch will be

excluded in the calculation of the votes approving the issuance of the Performance Shares on or before Closing pursuant to the terms of the Arrangement Agreement. See *“Particulars of Matters to be Acted Upon – Approval of the Transaction –Regulatory Law Matters and Securities Law Matters – Canadian Securities Law Matters”* for more information on the Transaction and the proposed issuance of the Performance Shares.

### **Approval of the Issuance of Performance Shares Outside of New Equity Incentive Plan**

At the Meeting, disinterested Kona Bay Shareholders will be asked to consider, and if thought fit, to approve the following ordinary resolution:

**“BE IT HEREBY RESOLVED THAT**, as an ordinary resolution of the disinterested Kona Bay Shareholders that:

1. the 8,000,000 Performance Shares issuable in connection the Transaction as contemplated by terms of the Arrangement Agreement among Kona Bay, Yerbaé, Merger Sub, FinCo, Todd Gibson and Karrie Gibson, as to 3,000,000 Performance Shares to Klutch, a former Insider of Kona Bay and arm’s length party to Yerbaé, and 2,500,000 Performance Shares to each of Todd Gibson and Karrie Gibson, be and are hereby authorized and approved as being issuable outside the limitations of Kona Bay’s proposed New Equity Incentive Plan, as and when approved; and
2. Any one director or officer of Kona Bay be and is hereby authorized and directed to do all such acts and things and to execute and deliver, under the corporate seal of Kona Bay or otherwise, all such deeds, documents, instruments and assurances as in his opinion may be necessary or desirable to give effect to the foregoing resolutions, including, without limitation, making any changes to the issuance of the Performance Shares required by the TSXV or applicable securities regulatory authorities and to complete all transactions in connection with issuance of the Performance Shares.”

The form of the Performance Shares resolution set forth above is subject to such amendments as management of the Company may propose at the Meeting, but which do not materially affect the substance of the Performance Shares resolution.

**Management recommends disinterested Shareholders approval of the resolutions regarding the Approval of the Issuance of Performance Shares Outside of New Equity Incentive Plan at the Meeting. It is the intention of the Designated Persons named in the enclosed form of proxy, if not expressly directed otherwise in such form of proxy, to vote such proxy for the approval of the issuance of the Performance Shares outside of the New Equity Incentive Plan.**

### **ADDITIONAL INFORMATION**

Kona Bay Shareholders may contact the Company at its office by mail at Suite 250, 750 West Pender Street, Vancouver, British Columbia, V6C 2T7, to request copies of the Company’s financial statements and related Management’s Discussion and Analysis (the **“MD&A”**). Financial information is provided in the Company’s audited financial statements and MD&A for the most recently completed financial year and in the financial statements and MD&A for subsequent financial periods, which are available on SEDAR.

### **GENERAL MATTERS**

#### **Sponsorship**

Pursuant to Policy 2.2 of the TSXV Corporate Finance Manual, sponsorship is generally required in conjunction with a RTO. Kona Bay has obtained a waiver of the sponsorship requirement from the TSXV in connection with the Transaction from the TSXV on the basis that: (i) it is not a Foreign Issuer; (ii) the anticipated management of the Resulting Issuer will meet a high standard as required by Section 3.4(a)(i)(B) of Policy 2.2, as further described herein;

(iii) the Resulting Issuer will satisfy the Tier 2 “Initial Listing Requirements” as set forth in Policy 2.1 – *Initial Listing Requirements*; (iv) the Company and Yerbaé will have raised gross proceeds of US\$5,000,000 pursuant to the Concurrent Financing from arm’s length investors prior to Closing; and (v) this Information Circular is being prepared in connection with the Transaction.

#### **Experts**

Charlton & Company, Chartered Professional Accountants, is the independent auditor of Kona Bay. To the knowledge of management of Kona Bay, as of the date hereof, neither Charlton & Company, Chartered Professional Accountants, nor any Associate or Affiliate thereof, has any beneficial interest, direct or indirect, in the securities or property of Kona Bay.

Sikich LLP is the independent auditor of Yerbaé. To the knowledge of management of Yerbaé, as of the date hereof, neither Sikich LLP nor any Associate or Affiliate thereof, has any beneficial interest, direct or indirect, in the securities or property of Yerbaé.

#### **Other Material Facts**

To the knowledge of management of Kona Bay and Yerbaé, there are no other material facts relating to the Transaction that are not otherwise disclosed in this Information Circular or are necessary for the Information Circular to contain full, true and plain disclosure of all material facts relating to the Transaction.

#### **Board Approval**

The Board and the Yerbaé Board have approved the contents of this Information Circular.

#### **OTHER MATTERS**

Other than the above, management of the Company know of no other matters to come before the Meeting other than those referred to in the Notice. If any other matters that are not currently known to management should properly come before the Meeting, the accompanying form of proxy confers discretionary authority upon the Designated Persons named therein to vote on such matters in accordance with their best judgment.

**SCHEDULE "A"****RISK FACTORS**

The risks presented below are believed to be key factors that could cause actual results to be different from expected and historical results but they may not be all of the risks that the Company or the Resulting Issuer may face. Other sections of this Information Circular include additional factors that could have an effect on the business and financial performance of the Resulting Issuer's business following the completion of the Transaction. The market in which Yerbaé currently competes, and the Resulting Issuer will compete, is very competitive and changes rapidly. New risks may emerge from time to time and management may not be able to predict all of them, or be able to predict how they may cause actual results to be different from those contained in any forward-looking statements. You should not rely upon forward-looking statements as a prediction of future results.

**Risk Factors Relating to the Transaction**

***There can be no assurance that all conditions precedent to the Transaction will be satisfied.***

The completion of the Transaction is subject to a number of conditions precedent, certain of which are outside the control of the Company, including obtaining the approval of the TSXV. There is no certainty, nor can the Company provide any assurance, that these conditions will be satisfied or, if satisfied, when they will be satisfied. The requirement to take certain actions or to agree to certain conditions to satisfy such requirements or obtain any such approvals may have a material adverse effect on the business and affairs of the Company or the trading price of the Kona Bay Shares. If for any reason the Transaction is not completed, the market price of the Kona Bay Shares may be adversely affected.

***The Arrangement Agreement may be terminated in certain circumstances.***

Each of Kona Bay and Yerbaé has the right to terminate the Arrangement Agreement in certain circumstances including that certain conditions to the obligations of Kona Bay or Yerbaé, as applicable, have not been completed or waived in accordance with the terms of the Arrangement Agreement, or the Transaction has not been completed by the completion date set out in the Arrangement Agreement. Accordingly, there is no certainty, nor can Kona Bay provide any assurance, that the Arrangement Agreement will not be terminated by either Kona Bay or Yerbaé before the completion of the Transaction.

***Kona Bay and Yerbaé expect to incur significant costs in connection with the Transaction.***

Kona Bay and Yerbaé will collectively incur significant direct transaction costs in connection with the Transaction. Actual direct transaction costs incurred in connection with the Transaction may be higher than expected. Moreover, certain of Kona Bay's and Yerbaé's costs related to the Transaction, including legal and accounting services costs, must be paid even if the Transaction is not completed. There are also opportunity costs associated with the diversion of management attention away from the conduct of their respective businesses in the ordinary course.

***Kona Bay has not verified the reliability of the information regarding Yerbaé included in, or which may have been omitted from, this Information Circular.***

All historical information regarding Yerbaé contained in this Information Circular, including all Yerbaé financial information and all pro forma financial information reflecting the pro forma effects of the Transaction, has been provided by Yerbaé. Although Kona Bay has no reason to doubt the accuracy or completeness of such information, any inaccuracy or material omission in the information about or relating to Yerbaé contained in this Information Circular could result in unanticipated liabilities or expenses, increase the cost of integrating the companies or adversely affect the operational plans of the Resulting Issuer and its results of operations and financial condition.

***Dilution Risks.***

The proposed Transaction will involve the issuance of additional Resulting Issuer Shares and this will result in significant dilution to Resulting Issuer shareholders.

**Risk Factors Relating to the Resulting Issuer's Proposed Business*****Changes in the caffeinated energy beverage business environment and retail landscape could adversely impact our financial results.***

The caffeinated energy beverage business environment is rapidly evolving as a result of, among other things, changes in consumer preferences, including changes based on health and nutrition considerations and obesity concerns; shifting consumer tastes and needs; changes in consumer lifestyles; and competitive product and pricing pressures. In addition, the caffeinated energy beverage retail landscape is very dynamic and constantly evolving, not only in emerging and developing markets, where modern trade is growing at a faster pace than traditional trade outlets, but also in developed markets, where discounters and value stores, as well as the volume of transactions through e-commerce, are growing at a rapid pace. If the Resulting Issuer is unable to successfully adapt to the rapidly changing environment and retail landscape, our share of sales, volume growth and overall financial results could be negatively affected.

***Intense competition and increasing competition in the commercial beverage market could hurt our business.***

The commercial retail beverage industry, and in particular its functional caffeinated energy beverage segment is highly competitive. Market participants are of various sizes, with various market shares and geographical reach, some of whom have access to substantially more sources of capital.

The Resulting Issuer will compete generally with all commercial beverages, including specialty beverages, such functional energy drinks. The Resulting Issuer will compete indirectly with major international beverage companies including, but not limited to: the Coca Cola Company, Dr. Pepper Snapple Group, PepsiCo, Inc., Nestle, Waters North America, Inc., Hansen Natural Corp. and Red Bull. These companies have established market presence in the United States, and offer a variety of beverages that are substitutes to our product. The Resulting Issuer faces potential direct competition from such companies, because they have the financial resources, and access to manufacturing and distribution channels to rapidly enter the energy beverage market.

The Resulting Issuer will compete directly with other beverage producers and brands focused on the emerging naturally caffeinated, plant-based energy beverage market including: Guayaki, Guru, Hi-Ball, and Celsius. These companies could bolster their position in the caffeinated plant-based energy beverage market through additional expenditure and promotion.

The rapid growth in sales through e-commerce retailers, e-commerce websites, mobile commerce applications and subscription services, and closures of physical retail operations, particularly during, and potentially following, the COVID-19 pandemic, may result in a shift away from physical retail operations to digital channels and a reduction in impulse purchases. Further, the ability of consumers to compare prices on a real-time basis using digital technology puts additional pressure on the Resulting Issuer to maintain competitive prices. Sales in gas chains may also be affected by improvements in fuel efficiency and increased consumer preferences for electric or alternative fuel-powered vehicles, which may result in fewer trips by consumers to gas stations and a corresponding reduction in purchases by consumers in convenience gas retailers. Yerbaé has been growing its e-commerce sales by using its own website platform, Amazon, and leveraging its retail partners e-commerce platforms. However, if the Resulting Issuer is unable to successfully adapt to the rapidly changing retail landscape, its share of sales, volume growth and overall financial results could be negatively affected.

As a result of both direct and indirect competition, the Resulting Issuer's ability to successfully distribute, market and sell its product, and to gain sufficient market share in the United States to realize profits may be limited, greatly diminished, or totally diminished, which may lead to partial or total loss of your investments in the Resulting Issuer.

***Changes in consumer product and shopping preferences may reduce demand for the Resulting Issuer's products.***

The functional energy drink and supplement categories are subject to changing consumer preferences and shifts in consumer preferences may adversely affect the Resulting Issuer. There is increasing awareness of and concern for health, wellness, and nutrition considerations, including concerns regarding caloric intake associated with sugar-sweetened drinks and the perceived undesirability of artificial ingredients. Yerbaé's products do not contain the artificial preservatives often found in many energy drinks and sodas. Yerbaé has no artificial preservatives, aspartame or high fructose corn syrup and is very low in sodium. Yerbaé has sweetened line of products that are sweetened with Stevia, a composite herb native to South America whose leaves are the source of a noncaloric sweetener. However, consumer preferences may shift away from the trend towards healthier options that we have observed, and as such, there can be no assurance that Yerbaé's current products and product lines will maintain their current levels of demand. There are also changes in demand for different packages, sizes, and configurations. This may reduce demand for the Resulting Issuer's products, which could reduce the Resulting Issuer's revenues and adversely affect our results of operations.

Consumers are seeking greater variety in their functional energy drinks. The Resulting Issuer's success will depend, in part, upon its continued ability to develop and introduce different and innovative drinks and supplements that appeal to consumers. In order to retain and expand Yerbaé's market share, the Resulting Issuer must continue to develop and introduce different and innovative supplements and be competitive in the areas of efficacy, taste, quality, and price, although there can be no assurance of its ability to do so. There is no assurance that consumers will continue to purchase Yerbaé products in the future. Product lifecycles for some functional energy drink brands, products and/or packages may be limited to a few years before consumers' preferences change. The functional energy drinks that we currently market are in varying stages of their product lifecycles, and there can be no assurance that such products will become or remain profitable for the Resulting Issuer. The Resulting Issuer may be unable to achieve volume growth through product and packaging initiatives. The Resulting Issuer may also be unable to penetrate new markets.

***Yerbaé derives virtually all of its revenues from functional energy drinks, and competitive pressure in the functional energy drink category could adversely affect the Resulting Issuer's business and operating results.***

Yerbaé's focus is in the functional energy category, and our business is vulnerable to adverse changes impacting the fitness supplement category and business, which could adversely impact the Resulting Issuer's business and the trading price of its common stock.

Virtually all of Yerbaé's sales are derived from our functional energy seltzer product lines. Any decrease in the sales of its functional energy drinks could significantly adversely affect the Resulting Issuer's future revenues and net income. Historically, Yerbaé have experienced substantial competition from new entrants in the functional energy drink category. The increasing number of competitive products and limited amount of shelf space, including in coolers, in retail stores may adversely impact the Resulting Issuer's ability to gain or maintain a share of sales in the marketplace. In addition, certain actions of competitors, including unsubstantiated and/or misleading claims, false advertising claims and tortious interference in the Resulting Issuer's business, as well as competitors selling misbranded products, could impact the Resulting Issuer's sales. Competitive pressures in the functional energy drink and supplement categories could impact the Resulting Issuer's revenues, cause price erosion and/or lower market share, any of which could have a material adverse effect on its business and results of operations.

***The Resulting Issuer will compete in an industry that is brand-conscious, so brand name recognition and acceptance of its products are critical to its success and significant marketing and advertising could be needed to achieve and sustain brand recognition.***

The Resulting Issuer's business is substantially dependent upon awareness and market acceptance of its products and brands by its targeted consumers. Its business also depends on acceptance by independent distributors of the Yerbaé brand as one that has the potential to provide incremental sales growth rather than reduce distributors' existing functional energy drinks. The development of brand awareness and market acceptance is likely to require significant marketing and advertising expenditures. There can be no assurance that Yerbaé will achieve and maintain satisfactory levels of acceptance by independent distributors and retail customers. Any failure of the Yerbaé brand to maintain or increase acceptance or market penetration would likely have a material adverse effect on business, financial condition and results of operations.

***If the Resulting Issuer is unable to successfully manage new product launches, our business and financial results could be adversely affected.***

Due to the highly competitive nature of the global functional energy drink sector, we expect and intend to continue to introduce new products and evolve existing products to better match consumer demand. The success of new and evolved products depends on several factors, including timely and successful development and consumer acceptance. Such endeavors may also involve significant risks and uncertainties, including distraction of management from current operations, greater than expected liabilities and expenses, inadequate return on capital, exposure to additional regulations and reliance on the performance of third parties.

***Alternative non-commercial beverages or processes could hurt our business.***

The availability of non-commercial beverages, such as tap water, and machines capable of producing naturally caffeinated, plant-based energy beverages at the consumer's home could hurt the Resulting Issuer's business, market share, and profitability.

*Expansion of the naturally caffeinated, plant-based energy beverage market or sufficiency of consumer demand in that market for operations to be profitable are not guaranteed.*

The naturally caffeinated, plant-based energy beverage market is an emerging market and there is no guarantee that this market will expand or that consumer demand will be sufficiently high to allow the Resulting Issuer to successfully market, distribute and sell our product, or to successfully compete with current or future competition, all of which may result in total loss of your investment.

*Health benefits of caffeinated energy beverages are not guaranteed or proven, rather it is perceived by consumers.*

Health benefits of caffeinated energy beverages are not guaranteed and have not been proven. There is a perception that consuming naturally caffeinated, plant-based energy beverages have beneficial health effects. Consequently, negative changes in consumers' perception of the benefits of such beverages or negative publicity surrounding them may result in loss of market share or potential market share and hence loss of your investment.

***Water scarcity and poor quality could negatively impact the Resulting Issuer's production costs and capacity.***

Water is an ingredient in the product. It is also a limited resource, facing unprecedented challenges from overexploitation, increasing pollution, poor management, and climate change. As demand for water continues to increase, as water becomes scarcer, and as the quality of available water deteriorates, the Resulting Issuer may incur increasing production costs or face capacity constraints that could adversely affect our profitability or net operating revenues in the long run.

***Climate change and natural disasters may affect the Resulting Issuer's business.***

There is concern that a gradual increase in global average temperatures due to increased carbon dioxide and other greenhouse gases in the atmosphere could cause significant changes in weather patterns around the globe and an increase in the frequency and severity of natural disasters. Changing weather patterns could result in decreased agricultural productivity in certain regions, and/or outbreaks of diseases or other health issues, which may limit availability and/or increase the cost of certain ingredients used in the Resulting Issuer's products and could impact the food security of communities around the world. Increased frequency or duration of extreme weather conditions could also impair production capabilities, disrupt the Resulting Issuer's supply chain and/or impact demand for its products.

Natural disasters and extreme weather conditions, such as hurricanes, wildfires, earthquakes or floods, and outbreaks of diseases (such as the COVID-19 pandemic) or other health issues may affect the Resulting Issuer's operations and the operation of its supply chain, impact the operations of its distributors and unfavorably impact the Resulting Issuer's consumers' ability to purchase its products. In addition, public expectations for reductions in greenhouse gas emissions could result in increased energy, transportation, and raw material costs, and may require the Resulting Issuer to make additional investments in facilities and equipment. Changes in applicable laws, regulations, standards or practices related to greenhouse gas emissions, packaging and water scarcity, as well as initiatives by advocacy groups in favor of certain climate change-related laws, regulations, standards or practices, may result in increased compliance costs, capital expenditures and other financial obligations, which could affect the Resulting Issuer's business, financial condition and results of operations. Sales of the Resulting Issuer's products may also be influenced to some extent by weather conditions in the markets in which we operate. The Resulting Issuer's third-party co-packers use a number of key ingredients in the manufacturing of its products and powder packets that are derived from agricultural commodities. Increased demand for food products and decreased agricultural productivity in certain regions of the world as a result of changing weather patterns and other factors may limit the availability or increase the cost of such agricultural commodities and could impact the food security of communities around the world. Weather conditions may influence consumer demand for certain of the Resulting Issuer's products, which could have an effect on its operations, either positively or negatively.

***Increase in the cost, disruption of supply or shortage of ingredients, other raw materials or packaging materials could harm the Resulting Issuer's business.***

The Resulting Issuer's bottling partners will use water, Yerba Mate, guarana, white tea, stevia, flavoring and packaging materials for bottles such as aluminum, plastic and paper products. The prices for these ingredients, other raw materials and packaging materials fluctuate depending on market conditions. Substantial increases in the prices of the Resulting Issuer's or its bottling partners' ingredients, other raw materials and packaging materials, to the extent they cannot be recouped through increases in the prices of finished beverage products, would increase the Resulting Issuer's operating costs and could reduce its profitability. Increases in the prices of the Resulting Issuer's finished products resulting from a higher cost of ingredients, other raw materials and packaging materials could affect the affordability of its products and reduce sales.

An increase in the cost, a sustained interruption in the supply, or a shortage of some of these ingredients, other raw materials, or packaging materials and containers that may be caused by a deterioration of the Resulting Issuer's or its bottling partners' relationships with suppliers; by supplier quality and reliability issues; or by events such as



natural disasters, power outages, labor strikes, political uncertainties or governmental instability, or the like, could negatively impact the Resulting Issuer's net revenues and profits.

### **Risk Factors Relating to the Resulting Issuer's Operations**

***Because the Resulting Issuer has a limited operating history, the Resulting Issuer's ability to fully and successfully develop the business is unknown.***

Yerbaé was incorporated in 2017, and has only recently begun producing and distributing energy beverages, and does not have a significant operating history with which investors can evaluate the Resulting Issuer's business. The Resulting Issuer's ability to successfully develop its products, and to realize consistent, meaningful revenues and profit has not been established and cannot be assured. Yerbaé's net loss was US\$3,801,661 for the 12-months ended December 31, 2021. For the Resulting Issuer to achieve success, the products must receive broad market acceptance by consumers. Without this market acceptance, the Resulting Issuer will not be able to generate sufficient revenue to continue the Resulting Issuer's business operations. If the Resulting Issuer's products are not widely accepted by the market, the business may fail.

The Resulting Issuer's ability to achieve and maintain profitability and positive cash flow is dependent upon the Resulting Issuer's ability to generate revenues, manage development costs and expenses, and compete successfully with direct and indirect competitors.

Based upon current plans, the Resulting Issuer expects to incur operating losses in future periods. This will happen because there are expenses associated with the development, production, marketing, and sales of the product. As a result, the Resulting Issuer may not generate significant revenues in the future. Failure to generate significant revenues in near future may cause us to suspend or cease activities.

***The Resulting Issuer will need additional funds to produce, market, and distribute the Resulting Issuer's product.***

The Resulting Issuer will have to spend additional funds to produce, market and distribute the Resulting Issuer's product. If the Resulting Issuer cannot raise sufficient capital, the Resulting Issuer may have to cease operations and investors could lose their investment.

The Resulting Issuer will need additional funds to produce the Resulting Issuer's product for distribution to the Resulting Issuer's target market. Even after the Resulting Issuer completes the production of its product, it will have to spend substantial funds on distribution, marketing and sales efforts before the Resulting Issuer will know if it has commercially viable and marketable/sellable products.

### ***Negative operating cash flow.***

Both of Kona Bay and Yerbaé historically have had negative cash flow from operating activities. It is anticipated that the Resulting Issuer will continue to have negative cash flows in the foreseeable future. Continued losses may have the following consequences:

- increasing the Resulting Issuer's vulnerability to general adverse economic and industry conditions;
- limiting the Resulting Issuer's ability to obtain additional financing to fund future working capital, capital expenditures, operating costs and other general corporate requirements; and

limiting the Resulting Issuer's flexibility in planning for, or reacting to, changes in its business and the industry.

***Ability to Generate Profits.***

There can be no assurance that the Resulting Issuer will generate net profits in future periods. Further, there can be no assurance that the Resulting Issuer will be cash flow positive in future periods. In the event that the Resulting Issuer fails to achieve profitability, the value of the Resulting Issuer Shares may decline. In addition, if the Resulting Issuer is unable to achieve or maintain positive cash flows, the Resulting Issuer will be required to seek additional funding, which may not be available on favourable terms, or at all.

***Dependence on personnel.***

Due to the specialized nature of Yerbaé's business, the Resulting Issuer's success depends on its ability to attract and retain qualified personnel and management. In particular, the Resulting Issuer's future success will depend in part on the continued services of its proposed executive officers and other key employees. Competition for qualified personnel in the industry in which Yerbaé operates is intense. Yerbaé believes that there are only a limited number of people with the requisite skills to serve in many key positions and it is difficult to hire and retain these people. The loss of one or more of these key personnel may have a significant adverse effect on Yerbaé's or the Resulting Issuer's sales, operations and profits.

***Dependence on trademarks and proprietary rights.***

The Resulting Issuer's success depends, in large part, on its ability to protect its brands and products and to defend its intellectual property rights. Yerbaé currently has registered both the name "Yerbaé" and Yerbaé's frog logo as trademarks with the United States Patent and Trademark Office. The Resulting Issuer cannot be sure that trademarks will be issued with respect to any future trademark applications or that its competitors will not challenge, invalidate or circumvent any existing or future trademarks issued to, or licensed by, the Resulting Issuer. Additionally, the Resulting Issuer's products will be manufactured using proprietary blends of ingredients created by third-party suppliers and then supplied to co-packers. Although the third-parties in the Resulting Issuer's supply and manufacturing chain will execute confidentiality agreements, there can be no assurances that trade secrets, such as the proprietary ingredient blends, will not become known to competitors.

***The U.S. Food and Drug Administration ("FDA") has not passed on the efficacy of the Resulting Issuer's products or the accuracy of any claim made related to its products. The Federal Trade Commission ("FTC") regulates advertising and may review the truthfulness of and substantiation for any claim the Resulting Issuer makes related to its products.***

The Resulting Issuer's advertising activities within the United States are subject to regulation by the FTC under the *Federal Trade Commission Act*. In recent years, the FTC and state attorneys general have initiated numerous investigations of dietary and nutritional supplement companies and products. Any actions or investigations initiated against the Company by governmental authorities or private litigants could have a material adverse effect on the Resulting Issuer's business, financial condition, and results of operations.

The shifting regulatory environment through the various jurisdictions in which are products are sold necessitates building and maintaining robust systems to achieve and maintain compliance in multiple jurisdictions and increases the possibility that the Resulting Issuer may violate one or more of the legal requirements. If its operations are found to be in violation of any applicable laws or regulations, the Resulting Issuer may be subject to, without limitation, civil and criminal penalties, damages, fines, the curtailment or restructuring of its operations, injunctions, or product withdrawals, recalls or seizures, any of which could adversely affect its ability to operate its business, its financial condition and results of operations.

***The requirements of being a public company may strain the Resulting Issuer's resources, divert management's attention and affect its ability to attract and retain executive management and qualified board members.***

As a reporting issuer, the Resulting Issuer is subject to the reporting requirements of applicable Securities Laws of the jurisdiction in which it is a reporting issuer, the listing requirements of the TSXV and other applicable securities rules and regulations. Compliance with these rules and regulations will increase the Resulting Issuer's legal and financial compliance costs, make some activities more difficult, time consuming or costly and increased demand on its systems and resources. Applicable Securities Laws require the Resulting Issuer to, among other things, file certain annual and quarterly reports with respect to their businesses and results of operations. In addition, applicable Securities Laws require the Resulting Issuer to, among other things, maintain effective disclosure controls and procedures and internal control over financial reporting. In order to maintain and, if required, improve its disclosure controls and procedures and internal control over financial reporting to meet this standard, significant resources and management oversight may be required. The Resulting Issuer may be required to improve its disclosure controls and procedures and internal control over financial reporting primarily through the continued development and implementation of formal policies, improved processes and documentation procedures, as well as the continued sourcing of additional finance resources. As a result, management's attention may be diverted from other business concerns, which could harm the Resulting Issuer's business and results of operations. To comply with these requirements, the Resulting Issuer may need to hire more employees in the future or engage outside consultants, which will increase its costs and expenses.

In addition, changing laws, regulations and standards relating to corporate governance and public disclosure are creating uncertainty for public companies, increasing legal and financial compliance costs and making some activities more time consuming. These laws, regulations and standards are subject to varying interpretations, in many cases due to their lack of specificity, and, as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. The Resulting Issuer intends to continue to invest resources to comply with evolving laws, regulations and standards, and this investment may result in increased general and administrative expenses and a diversion of management's time and attention from revenue generating activities to compliance activities. If its efforts to comply with new laws, regulations and standards differ from the activities intended by regulatory or governing bodies due to ambiguities related to their application and practice, regulatory authorities may initiate legal proceedings against the Resulting Issuer and its business may be adversely affected.

As a public company subject to these rules and regulations, the Resulting Issuer may find it more expensive for them to obtain director and officer liability insurance, and it may be required to accept reduced coverage or incur substantially higher costs to obtain coverage. These factors could also make it more difficult for the Resulting Issuer to attract and retain qualified members to its board of directors, particularly to serve on its audit committee and compensation committee, and qualified executive officers.

As a result of disclosure of information in filings required of a public company, the Resulting Issuer's businesses and financial condition have become more visible, which may result in threatened or actual litigation, including by competitors and other third parties. If such claims are successful, the Resulting Issuer's business and results of operations could be harmed, and even if the claims do not result in litigation or are resolved in its favor, these claims, and the time and resources necessary to resolve them, could divert the resources of the Resulting Issuer's management and harm its business and results of operations.

***Litigation and Product Recall.***

All industries, including the caffeinated energy beverage industry, are subject to legal claims, with and without merit. Defense and settlement costs of legal claims can be substantial, even with respect to claims that have no merit. Due to the inherent uncertainty of the litigation process, the litigation process could take away from management time and effort and the resolution of any particular legal proceeding to which the Resulting Issuer may become subject could have a material adverse effect on the Resulting Issuer's business, prospects, financial position or results of

operations. Additionally, the Resulting Issuer may be required to recall its products if they become contaminated, damaged, or mislabeled. A significant product liability judgement, or widespread product recall, could have a material adverse effect on our business, financial condition and results of operations.

***Operating risk and insurance coverage.***

Yerbaé may obtain insurance to protect its assets, operations and employees. Such insurance may be subject to coverage limits and exclusions and may not be available for the risks and hazards to which the Resulting Issuer is exposed. In addition, no assurance can be given that such insurance would be adequate to cover the Resulting Issuer's liabilities or will be generally available in the future or, if available, that premiums will be commercially justifiable. If the Resulting Issuer was to incur substantial liability and such damages were not covered by insurance or were in excess of policy limits, or if the Resulting Issuer was to incur such liability at a time when it is not able to obtain liability insurance, its business, results of operations and financial condition could be materially adversely affected.

***Management of growth.***

The Resulting Issuer may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The ability of the Resulting Issuer to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The inability of the Resulting Issuer to deal with this growth may have a material adverse effect on the Resulting Issuer's businesses, financial condition, results of operations and prospects.

***Internal controls.***

Internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS. However, internal controls over financial reporting are not guaranteed to provide absolute assurance with regard to the reliability of financial reporting and financial statements.

***No Dividends.***

Neither Kona Bay nor the Resulting Issuer currently has plans to pay regular dividends on the Resulting Issuer Shares. Any declaration and payment of future dividends to holders of Resulting Issuer Shares will be at the sole discretion of the Resulting Issuer Board and will depend on many factors, including the financial condition, earnings, capital requirements, level of indebtedness, statutory and contractual restrictions applying to the payment of dividends and other considerations of the Resulting Issuer that the Resulting Issuer Board deems relevant.

***Tax considerations applicable to an investment in the Resulting Issuer Shares.***

Each prospective investor should consult with their own tax advisor with respect to the Canadian and non-Canadian income tax consequences of acquiring, holding, and disposing of the Resulting Issuer Shares, based on each prospective investor's particular circumstances.

***There is no guarantee that sufficient sale levels will be achieved.***

There is no guarantee that the expenditure of money on distribution and marketing efforts will translate into sales or sufficient sales to cover the Resulting Issuer's expenses and result in profits. Consequently, there is a risk that you may lose all of your investment.

***Product development, marketing, and sales activities are limited by the Resulting Issuer's size.***

Due to a lack of capital and resources, the Resulting Issuer must limit its product development, marketing, and sales activities. As such, the Resulting Issuer may not be able to complete its production and business development program. If this becomes a reality, the Resulting Issuer may not ever generate revenues and you will lose your investment.

***Conflicts of Interest.***

Certain of the proposed directors and officers of the Resulting Issuer are also directors and officers of other companies. In addition, they may devote time to other outside business interests, so long as such activities do not materially or adversely interfere with their duties to the Resulting Issuer. The interests of these persons could conflict with those of the Resulting Issuer. Conflicts of interest, if any, will be subject to the procedures and remedies provided under applicable laws, including the requirements of the BCBCA, as applicable, following the Transaction, if approved. In particular, in the event that such a conflict of interest arises at a meeting of the Resulting Issuer Board, a director who has such a conflict will abstain from voting for or against the approval of such participation or such terms. In accordance with applicable laws, the directors of the Resulting Issuer will be required to act honestly, in good faith and in the best interests of the Resulting Issuer.

***The Resulting Issuer's growth and profitability depends on the performance of third-parties and its relationship with them.***

Yerbaé and the Resulting Issuer's distribution network and its success depend on the performance of third parties, such as third-party co-packers and distribution partners. Any non-performance or deficient performance by such parties may undermine the Resulting Issuer's operations, profitability, and result in total loss to your investment. To manufacture products, the Resulting Issuer will rely on third-party co-packers. These third-party co-packers may not be able to fulfill the Resulting Issuer's demand, or such third-parties could begin to charge rates that make using their services cost inefficient. In such a case, the Resulting Issuer's business, financial condition, and results of operation would be adversely affected. To distribute product, the Resulting Issuer will use a broker-distributor-retailer network whereby brokers represent products to distributors and retailers who will in turn sell product to consumers. The success of this network will depend on the performance of the brokers, distributors and retailers of this network. There is a risk that a broker, distributor, or retailer may refuse to or cease to market or carry the Resulting Issuer's product. There is a risk that the mentioned entities may not adequately perform their functions within the network by, without limitation, failing to distribute to sufficient retailers or positioning the Resulting Issuer's product in localities that may not be receptive to it. Furthermore, such third-parties' financial position or market share may deteriorate, which could adversely affect our distribution, marketing and sale activities. The Resulting Issuer's must maintain good commercial relationships with third-party brokers, distributors and retailers so that they will promote and carry its product. Any adverse consequences resulting from the performance of third-parties or the Resulting Issuer's relationship with them could undermine the Resulting Issuer's operations, profitability and may result in total loss of your investment.

**Risk Factors Relating to the General Economic, Political and Environmental Conditions**

***Share price fluctuations.***

The market price of the Resulting Issuer Shares may be subject to wide fluctuations in response to many factors, including variations in the operating results of the Resulting Issuer, divergence in financial results from analysts' expectations, changes in earnings estimates by stock market analysts, changes in the business prospects for the Resulting Issuer, general economic conditions, legislative changes, and other events and factors outside of the Resulting Issuer's control. In addition, stock markets have from time to time experienced extreme price and volume fluctuations, which, as well as general economic and political conditions, could adversely affect the market price for the Resulting Issuer Shares.

***Limited market for securities.***

Upon completion of the Transaction, the Resulting Issuer Shares are intended to be listed on the TSXV, however, there can be no assurance that an active and liquid market for the Resulting Issuer Shares will develop or be maintained and an investor may find it difficult to resell Resulting Issuer Shares.

***Changes in laws and regulations relating to beverage containers and packaging could increase the Resulting Issuer's costs and reduce demand for its products.***

The Resulting Issuer and its bottlers intend to offer nonrefillable, recyclable containers in the United States. Legal requirements have been enacted in various jurisdictions in the United States requiring that deposits or certain ecotaxes or fees be charged for the sale, marketing and use of certain nonrefillable beverage containers. Other proposals relating to beverage container deposits, recycling, ecotax and/or product stewardship have been introduced in various jurisdictions in the United States and overseas, and the Resulting Issuer anticipates that similar legislation or regulations may be proposed in the future at local, state and federal levels in the United States. Consumers' increased concerns and changing attitudes about solid waste streams and environmental responsibility and the related publicity could result in the adoption of such legislation or regulations. If these types of requirements are adopted and implemented on a large scale in the geographical regions in which the Resulting Issuer intends to operate, they could affect the Resulting Issuer's costs or require changes in its distribution model, which could reduce the Resulting Issuer's net operating revenues or profitability.

***Significant additional labeling or warning requirements or limitations on the availability of the Resulting Issuer's product may inhibit sales of affected products.***

Various jurisdictions may seek to adopt significant additional product labeling or warning requirements or limitations on the availability of the Resulting Issuer's product relating to the content or perceived adverse health consequences of the Resulting Issuer's product. If these types of requirements become applicable to the Resulting Issuer's product under current or future environmental or health laws or regulations, they may inhibit sales of the Resulting Issuer's product.

***Changes in, or failure to comply with, the laws and regulations applicable to the Resulting Issuer's products or its business operations could increase our costs or reduce our net operating revenues.***

The advertising, distribution, labeling, production, safety, sale, and transportation in the United States of the Resulting Issuer's product will be subject to: the *Federal Food, Drug, and Cosmetic Act*; the *Federal Trade Commission Act*; the Lanham Act; state consumer protection laws; competition laws; federal, state, and local workplace health and safety laws, such as the *Occupational Safety and Health Act*; various federal, state and local environmental protection laws; and various other federal, state, and local statutes and regulations. Legal requirements also apply in many jurisdictions in the United States requiring that deposits or certain ecotaxes or fees be charged for the sale, marketing, and use of certain non-refillable beverage containers. The precise requirements imposed by these measures vary. Other types of statutes and regulations relating to beverage container deposits, recycling, ecotaxes and/or product stewardship also apply in various jurisdictions in the United States. We anticipate that additional, similar legal requirements may be proposed or enacted in the future at the local, state and federal levels in the United States. Changes to such laws and regulations could increase our costs or reduce our net operating revenues.

In addition, failure to comply with environmental, health or safety requirements and other applicable laws or regulations could result in the assessment of damages, the imposition of penalties, suspension of production, changes to equipment or processes, or a cessation of operations at the Resulting Issuer's or its bottling partners' facilities, as well as damage to our image and reputation, all of which could harm the Resulting Issuer's profitability.

***Unfavorable general economic conditions in the United States could negatively impact the Resulting Issuer's financial performance.***

Unfavorable general economic conditions, such as a recession or economic slowdown, in the United States could negatively affect the affordability of, and consumer demand for, our product in the United States. Under difficult economic conditions, consumers may seek to reduce discretionary spending by forgoing purchases of our products or by shifting away from our beverages to lower-priced products offered by other companies, including caffeinated energy beverages. Consumers may also cease purchasing caffeinated energy beverages and consume tap water or caffeinated energy beverages made by machines at their home. Lower consumer demand for Yerbaé's product in the United States could reduce the Resulting Issuer's profitability.

***The business of Kona Bay, Yerbaé and the Resulting Issuer could be adversely affected by the effects of health epidemics, including the global COVID-19 pandemic.***

In December 2019, a novel strain of coronavirus, "COVID-19," was reported in China. Since then, COVID-19 has spread globally resulting in the World Health Organization declaring the outbreak of COVID-19 as a "pandemic," or a worldwide spread of a new disease, on March 11, 2020. Many countries around the world, including Canada, have imposed various restriction relating to COVID-19 during the pandemic, including mandated quarantines, restrictions on travel and mass gatherings, and the closing of non-essential businesses. While the potential economic impact brought by, and the duration of, COVID-19 may be difficult to assess or predict, a widespread pandemic such as the one brought by COVID-19 could result in significant disruption of global financial markets, reducing Kona Bay and the Resulting Issuer's ability to access capital which could in the future negatively affect each entities liquidity and ability to finance operations. In addition, a global recession and/or market correction resulting from the spread of COVID-19 could materially affect each entities business and respective share value. The ultimate long-term impact of the COVID-19 pandemic is highly uncertain and cannot be predicted with confidence.

***The Resulting Issuer will likely become subject to the periodic reporting requirements of the Exchange Act that would require us to incur audit fees and legal fees in connection with the preparation of such reports. These additional costs could reduce or eliminate our ability to earn a profit.***

Yerbaé is not currently subject to the periodic reporting requirements of the Exchange Act but would become subject to them under Section 12(g) of the Exchange Act, and the rules and regulations promulgated thereunder, once the Resulting Issuer has a class of equity securities held of record by 2,000 persons, or 500 persons who are not accredited investors, and total assets exceeding US\$10,000,000. The Resulting Issuer anticipates meeting those thresholds in the near future. In order to comply with these requirements, the Resulting Issuer's independent registered public accounting firm must review its financial statements on a quarterly basis and audit its financial statements on an annual basis. Moreover, the Resulting Issuer's legal counsel will review and assist in the preparation of such reports. The fees of these professionals cannot be accurately predicted because factors such as the number and type of transactions that we engage in, and the complexity of our required reports cannot be determined at this time. However, the incurrence of such costs will obviously be an expense to the Resulting Issuer's operations and thus have a negative effect on its ability to meet its overhead requirements and earn a profit. If we cannot provide reliable financial reports or prevent fraud, the Resulting Issuer business and operating results could be harmed, investors could lose confidence in its reported financial information, and the trading price of its common stock could drop significantly.

Since the inception of Yerbaé, Sikich LLP has served as its independent registered public accounting firm, who performs Yerbaé's annual audits and reviews as well as our tax filings. Yerbaé will continue to utilize Sikich's service to serve it in the United States.

As of December 31, 2021, Yerbaé engaged MNP LLP to manage its accounting under the IFRS standard in Canada to perform on-going reviews and audits in compliance with Canadian laws, rules, and regulations. There can be no assurance that MNP LLP will not find errors in any of Yerbaé's historical financial statements or will not disagree with

its application of accounting principles or any accounting judgments Yerbaé has made, any of which could require it to make adjustments to, or restate, our historical financial statements.

***The Resulting Issuer's periodic filings as required under the Exchange Act may be subject to review and comment by the SEC, which may result in changes to its public disclosure.***

The Resulting Issuer anticipates becoming subject to the periodic reporting requirements of the Exchange Act, and filings made pursuant to such obligation may be subject to review and comment by the SEC. Furthermore, the SEC may review the Resulting Issuer's periodic filings in the future, and should the SEC conduct such review and comment, Yerbaé and/or the Resulting Issuer may be required to revise such periodic filings, including but not limited to the financial statements contained therein.

***If the Resulting Issuer does not maintain an effective internal control environment as well as adequate control procedures over our financial reporting, investor confidence may be adversely affected thereby unfavorably impacting the value of the Resulting Issuer Shares.***

The Resulting Issuer will be required to maintain proper internal control over its financial reporting and adequate controls related to its disclosures. Internal control over financial reporting is a process designed by, or under the supervision of, the principal executive and principal financial officers and effected by the board of directors, management, and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. If we fail to maintain adequate controls, our business, the results of operations, financial condition and/or the value of our stock may be adversely impacted.

The Resulting Issuer may also be subject to further or other examinations, investigations, proceedings, and orders by the SEC or other regulators. Any such further or other actions could be expensive and damaging to its business, results of operations and financial condition.



**SCHEDULE "B"****INFORMATION CONCERNING KONA BAY TECHNOLOGIES INC.****Corporate Structure*****Name and Incorporation***

On June 30, 2003, Nova Canada Enterprises Ltd. and Stepstone Enterprises Ltd. amalgamated as one company under the name "Stepstone Enterprises Ltd." pursuant to the provisions of the BCBCA. On August 31, 2004, "Stepstone Enterprises Ltd." filed articles of amendment changing its name from "Stepstone Enterprises Ltd." to "ACT360 Solutions Ltd." Effective June 2, 2016, the Company filed articles of amendment changing its name from "ACT360 Solutions Ltd." to "Kona Bay Technologies Inc."

The Company's head office and principal address is 250 – 750 West Pender Street, Vancouver, BC, V6C 2T7, and its registered and records office is located at 800 – 885 West Georgia Street, Vancouver, British Columbia, V6C 3H1.

***Intercorporate Relationships***

The following table describes the Company's subsidiaries, their place of incorporation, continuance or formation, and the percentage of the outstanding voting securities beneficially owned, controlled or directed by the Company:

<b>Name of Subsidiary</b>	<b>Percentage of Voting Securities Owned</b>	<b>Jurisdiction of Incorporation or Continuance</b>
Kona Bay Technologies (Delaware) Inc.	100%	Delaware
Newport Concept Corporation	100%	British Columbia
1362283 B.C. Ltd.	100%	British Columbia

Merger Sub was incorporated on May 9, 2022 pursuant to the provisions of the DGCL under the name "Kona Bay Technologies (Delaware) Inc.". The head office of Merger Sub is located at 250 – 750 West Pender Street, Vancouver, BC, V6C 2T7, and its registered and records office is located at 800 – 885 West Georgia Street, Vancouver, British Columbia, V6C 3H1. Merger Sub was incorporated for the sole purpose of facilitating the Merger.

Newport Concept Corporation was incorporated on January 14, 2015 pursuant to the provisions of the BCBCA under the name "Newport Concept Corporation". The head office of Newport Concept Corporation is located at 250 – 750 West Pender Street, Vancouver, BC, V6C 2T7, and its registered and records office is located at 800 – 885 West Georgia Street, Vancouver, British Columbia, V6C 3H1.

FinCo was incorporated on May 11, 2022 pursuant to the provisions of the BCBCA under the name "1362283 B.C. Ltd.". The head office of FinCo is located at 250 – 750 West Pender Street, Vancouver, BC, V6C 2T7, and its registered and records office is located at 800 – 885 West Georgia Street, Vancouver, British Columbia, V6C 3H1. FinCo was incorporated for the sole purposes of conducting the Concurrent Financing; a non-brokered private placement to raise minimum gross proceeds of US\$5,000,000 (less any amounts raised by Kona Bay, Yerbaé or any Affiliate thereof concurrent to the Transaction, excluding the Bridge Loan) and, in connection therewith, facilitating the completion of the Amalgamation.

**General Development of the Business*****History***

The Company was incorporated pursuant to the laws of British Columbia on June 13, 2000 under the name "Nova Canada Enterprises Ltd." as a capital pool company.

On June 30, 2003, Nova Canada Enterprises Ltd. and Stepstone Enterprises Ltd. amalgamated as one company under the name “Stepstone Enterprises Ltd.” pursuant to the BCBCA. As a result of the amalgamation, the outstanding common shares of Nova and outstanding common shares of Stepstone were exchanged for common shares of Stepstone Enterprises Ltd. on a one-for-one basis to result in 6,000,000 common shares. In order to complete the amalgamation and related transactions, Nova Canada Enterprises Ltd. and Stepstone Enterprises Ltd. requested a trading halt their respective common shares prior to opening of trading on June 27, 2003. Stepstone Enterprises Ltd. continued to be subject to the TSXV’s policies governing capital pool companies and had until June 30, 2004 to complete its Qualifying Transaction (as such term is defined by the policies of the TSXV).

On May 21, 2004, Stepstone Enterprises Ltd. signed an agreement dated May 21, 2004 for the acquisition of 100% of the outstanding shares of ACT360 Media Ltd., a private software development company based in Richmond, British Columbia. This transaction was intended to be Stepstone Enterprises Ltd.’s “Qualifying Transaction” for the purposes of the capital pool company requirements.

On August 31, 2004, the Company completed its Qualifying Transaction with ACT360 Media Ltd. As consideration for the acquisition, the Company issued 9,789,467 Kona Bay Shares to the former shareholders of ACT360 Media Ltd. at a deemed price of \$0.13 per Kona Bay Share, of which 7,917,656 Kona Bay Shares were issued to Vincent Wong, Chi Sing Wai, ACT Labs Ltd. and ACT Research Ltd. (the latter two companies being controlled by Alex Pui). Stepstone Enterprises Ltd. changed its name to “ACT360 Solutions Ltd.”

On June 2, 2016, the Company changed its name from “ACT360 Solutions Ltd.” to “Kona Bay Technologies Inc.” and consolidated its issued and outstanding Kona Bay Shares on the basis of 10 pre-consolidation Kona Bay Shares for one post-consolidation Kona Bay Share.

On February 28, 2019, the Company entered into an arrangement agreement with ACT360 Media Ltd., Bexar Ventures Inc. and Hapuna Ventures Inc. for the purposes of carrying out a corporate restructuring by way of a plan of arrangement. On December 13, 2017, the plan of arrangement closed, the software-as-a-service assets were transferred to Bexar Ventures Inc., the online advertising assets were transferred to Hapuna Ventures Inc., and 4,761,199 of the common shares of each of the companies were issued to the Company. On December 14, 2017, the Company exchanged the shares for the Class A shares outstanding.

During the year ended September 30, 2020, the Company dissolved its two wholly-owned US subsidiaries, ACT360 USA Inc. and Kopia Holdings LLC.

On July 27, 2021, the Company entered into a share purchase agreement with Radames Bernath to sell all of the shares that the Company owns in the capital of its subsidiary, ACT360 Media Ltd. in exchange for a cash payment of \$1 and Mr. Bernath indemnifying the Company for all liabilities associated with ACT360 Media Ltd. The Company had continued to incur losses in its operations in ACT360 Media Ltd. and was not optimistic that the operations would become profitable in the future. On September 3, 2021, the Company received approval from a majority of the shareholders to complete the transaction. On completion, the Kona Bay Shares transitioned to the NEX Board of the TSXV.

#### *Concurrent Financing and Amalgamation*

In connection with the Transaction, and prior to the Closing, FinCo intends to conduct the Concurrent Financing; a non-brokered private placement to raise minimum gross proceeds of US\$5,000,000 (less any amounts raised by Kona Bay, Yerbaé or any Affiliate thereof concurrent to the Transaction, excluding the Bridge Loan) by way of issuance of FinCo Subscription Receipts at a price of US\$1.23 per FinCo Subscription Receipt. Each FinCo Subscription Receipt sold by FinCo will, in accordance with the terms of the FinCo Subscription Receipt Certificates, entitle the holder thereof to receive, without payment of any additional consideration and without further action on the part of the holder thereof, one FinCo Share. Yerbaé has, as of the date of this Information Circular, raised an aggregate of US\$499,995.16 through a financing via the issuance of an aggregate of 291,968 Non-Voting Common Stock – Class D-3 Yerbaé Shares at a price of US\$1.37 per Yerbaé Share on September 1, 2022, US\$274,997.36 through a financing via the issuance of an aggregate of 200,728 Non-Voting Common Stock – Class D-3 Yerbaé Shares at a price of US\$1.37 per Yerbaé Share on September 8, 2022, US\$24,999.76 through a financing via the issuance of 18,248 Non-Voting Common Stock – Class D-3 Yerbaé Shares at a price of US\$1.37 per Yerbaé Share on September 13, 2022,

US\$18,542.95 through a financing via the issuance of 13,535 Non-Voting Common Stock – Class D-3 Yerbaé Shares at a price of US\$1.37 per Yerbaé Share on September 15, 2022, US\$24,999.75 through a financing via the issuance of 20,325 Non-Voting Common Stock – Class D-1 Yerbaé Shares at a price of US\$1.23 per Yerbaé Share on September 19, 2022, US\$49,999.50 through a financing via the issuance of 40,650 Non-Voting Common Stock – Class D-1 Yerbaé Shares at a price of US\$1.23 per Yerbaé Share on September 23, 2022, and US\$99,999 through a financing via the issuance of 81,300 Non-Voting Common Stock – Class D-2 Yerbaé Shares at a price of US\$1.23 per Yerbaé Share on October 19, 2022. In addition, Yerbaé has raised a total of US\$135,903.83 through the issuance of an aggregate of 105,771 Non-Voting Common Stock – Class 2022-1 Yerbaé Shares through crowdfunding concurrent to the Transaction as to (i) 11,028 Non-Voting Common Stock – Class 2022-1 Yerbaé Shares at a price of US\$1.14 per Yerbaé Share for aggregate proceeds of US\$12,571.92, (ii) 1,048 Non-Voting Common Stock – Class 2022-1 Yerbaé Shares at a price of US\$1.15 per Yerbaé Share for aggregate proceeds of US\$1,205.20, (iii) 50,286 Non-Voting Common Stock – Class 2022-1 Yerbaé Shares at a price of US\$1.25 per Yerbaé Share for aggregate proceeds of US\$62,857.50, (iv) 2,514 Non-Voting Common Stock – Class 2022-1 Yerbaé Shares at a price of US\$1.29 per Yerbaé Share for aggregate proceeds of US\$3,243.06, and (v) 40,895 Non-Voting Common Stock – Class 2022-1 Yerbaé Shares at a price of US\$1.37 per Yerbaé Share for aggregate proceeds of US\$56,026.15. See “Schedule “C” – Information Concerning Yerbaé Brands Co. – Prior Sales” below for more details.

Pursuant to the terms of the Roth Engagement Agreement, Yerbaé will issue an aggregate of 308,823 Yerbaé Warrants to Roth Canada, to be converted to Resulting Issuer Warrants immediately on closing of the Transaction. The warrants issued to Roth Canada will be exercisable into one Resulting Issuer Share at an exercise price of US\$1.37 for a period of two years after Closing. Aside from any further fees payable to Roth Canada pursuant to the terms of the Roth Engagement Agreement, the parties may pay customary finder’s fees to other eligible arm’s length finders in connection with the Concurrent Financing. Accordingly, the payment of any finder’s fees will be subject to the approval of the TSXV.

After the conversion of all the FinCo Subscription Receipts, in accordance with the terms and conditions of the Arrangement Agreement, and in accordance with the BCBCA, FinCo and Kona Bay or newly formed subsidiary thereof will amalgamate and continue as AmalCo. In connection with and as a result of the Amalgamation: (a) each FinCo Share (other than any FinCo Shares held by Kona Bay) will be exchanged into one Kona Bay Share and (b) each FinCo Share held by Kona Bay will be automatically cancelled without any payment of capital in respect thereof.

For more information on the Transaction, the Arrangement Agreement, the Amalgamation and the Merger, see “Particulars of Matters to be Acted Upon – Approval of the Transaction”.

## **Selected Consolidated Financial Information and Management’s Discussion and Analysis**

### **Summary Financial Information**

Schedule “E” to this Information Circular contains the Kona Bay Financial Statements. The following table sets forth selected information regarding the expenses of Kona Bay for the fiscal years ended September 30, 2021 and September 30, 2020 and for the nine month period ended June 30, 2022. Such information is derived from the Kona Bay Financial Statements and should be read in conjunction therewith:

<b>Expenses</b>	<b>Nine month period ended June 30, 2022 (unaudited) (\$)</b>	<b>Year ended September 30, 2021 (audited) (\$)</b>	<b>Year ended September 30, 2020 (audited) (\$)</b>
Revenues	-	-	72,000
Current assets	11,673	117,236	113,383
Total assets	11,673	117,236	115,327
Current liabilities	67,666	25,801	684,742
Total liabilities	67,666	25,801	724,742
Total expenses	(147,428)	(223,953)	(309,436)

Expenses	Nine month period ended June 30, 2022 (unaudited) (\$)	Year ended September 30, 2021 (audited) (\$)	Year ended September 30, 2020 (audited) (\$)
Net loss and comprehensive loss	(147,428)	(71,505)	(219,290)
Loss per share – basic and diluted from continuing operations	(0.01)	(0.00)	(0.04)

### ***Management’s Discussion and Analysis***

Kona Bay’s MD&A for the fiscal years ended September 30, 2021 and September 30, 2020 and the nine month period ended June 30, 2022 are attached as Schedule “F” to this Information Circular. The MD&As should be read in conjunction with the Kona Bay Financial Statements, which are attached as Schedule “E” to this Information Circular. The foregoing documents also available under Kona Bay’s profile on SEDAR at [www.sedar.com](http://www.sedar.com) and may also be obtained upon request without charge from Kona Bay’s head office located at Suite 250 – 750 West Pender Street, Vancouver, BC, V6C 2T7.

### **Description of the Securities**

The authorized capital of Kona Bay consists of an unlimited number of Kona Bay Shares without par value and without special rights or restrictions attached and 100,000,000 Kona Bay Preferred Shares without par value and with special rights or restrictions attached. As of the date of this Information Circular, 28,820,633 pre-Consolidation Kona Bay Shares are issued and outstanding and Nil Kona Bay Preferred Shares outstanding.

### ***Kona Bay Shares***

The holders of the Kona Bay Shares are entitled to receive notice of and to attend and vote at all meetings of the shareholders of the Company and each Kona Bay Share shall confer the right to one vote in person or by proxy at all meetings of the shareholders of the Company. The holders of the Kona Bay Shares, subject to the prior rights, if any, of any other class of shares of the Company, are entitled to receive such dividends in any financial year as the Board may by resolution determine. In the event of the liquidation, dissolution or winding-up of Kona Bay, whether voluntary or involuntary, the holders of the Kona Bay Shares are entitled to receive, subject to the prior rights, if any, of the holders of any other class of shares of the Company, the remaining property and assets of Kona Bay. The Kona Bay Shares are not subject to call or assessment rights, redemption rights, rights regarding purchase for cancellation or surrender, or any pre-emptive or conversion rights.

### ***Kona Bay Preferred Shares***

The holders of the Kona Bay Preferred Shares are not entitled to receive notice of or to attend and vote at meetings of the shareholders of Kona Bay. The holders of the Kona Bay Preferred Shares are entitled to priority over the Kona Bay Shares and all other shares ranking junior to the Kona Bay Preferred Shares with respect to the payment of dividends and the distribution of assets of the Kona Bay in the event of any liquidation, dissolution or winding up of Kona Bay or other distribution of Kona Bay assets for the purpose of winding up Kona Bay’s affairs, whether voluntary or involuntary. The Kona Bay Preferred Shares are not subject to call or assessment rights, redemption rights, rights regarding purchase for cancellation or surrender, or any pre-emptive or conversion rights.

### **Stock Option Plan**

The Company currently has in place the Current Stock Option Plan. See “*Statement of Executive Compensation - Stock Option Plans and Other Incentive Plans*” above for a summary of the terms of the Current Stock Option Plan.

### **Prior Sales**

The Company has not sold any securities from treasury within the 12 month period prior to the date of this Information Circular.

## Stock Exchange Price

The following table shows the high, low and closing prices and total trading volume of the Kona Bay Shares on the TSXV on a monthly basis for each month of the quarter immediately preceding the current quarter, and on a quarterly basis for each preceding quarter prior to the date of this Information:

Period	High	Low	Close	Volume Traded
November 1, 2022 to November 13, 2022	No trades <sup>(1)</sup>			
October 1, 2022 to October 31, 2022	No trades <sup>(1)</sup>			
Quarter ended September 30, 2022	No trades <sup>(1)</sup>			
Quarter ended June 30, 2022	\$0.25	\$0.04	\$0.25	3,444,829
Quarter ended March 31, 2022	\$0.10	\$0.10	\$.10	116,520
Quarter ended December 31, 2021	\$0.15	\$0.10	\$0.10	44,566
Quarter ended September 30, 2021 <sup>(2)</sup>	\$0.16	\$0.15	\$0.15	120,760
Quarter ended June 30, 2021	\$0.18	\$0.135	\$0.18	63,520
Quarter ended March 31, 2021	\$0.24	\$0.06	\$0.165	751,459
Quarter ended December 31, 2020	\$0.10	\$0.03	\$0.10	78,000

<sup>(1)</sup> Trading in the Kona Bay Shares on the TSXV was halted on May 20, 2022 at a trading price of \$0.25, pending the public announcement of the Transaction.

<sup>(2)</sup> Effective September 17, 2021, the Kona Bay Shares began trading on the NEX Board of the TSXV under the trading symbol "KBY.H".

## Executive Compensation

See "*Statement of Executive Compensation*" for further information on the executive compensation of each of the Company's NEOs and directors.

## Arm's Length Transaction

**The TSXV has deemed the Transaction a non-Arm's Length Transaction, as defined in the policies of the TSXV.**

## Legal Proceedings

There are no material pending legal proceedings to which Kona Bay is a party, or of which any of its property is the subject matter, nor is Kona Bay aware that any such proceedings are contemplated.

## Auditor, Transfer Agent and Registrar

### *Auditor*

The auditor of Kona Bay is Charlton and Co., at its Vancouver office at 1735 – 555 Burrard Street, Vancouver, British Columbia, V7X 1M9.

### *Transfer Agent and Registrar*

The Transfer Agent of Kona Bay is Odyssey Trust Company, at its Vancouver office, located at 350 – 409 Granville Street, Vancouver, British Columbia, V6C 1T2.

**Material Contracts**

Since incorporation, Kona Bay has not entered into any contracts that are still in force that are material to investors in the Kona Bay Shares, except the Arrangement Agreement, referred to under the Arrangement Agreement, referred to under “*Particulars of Matters to be Acted Upon – The Transaction*”.

A copy of the Arrangement Agreement may be inspected without charge during regular business hours at 800 – 885 West Georgia Street, Vancouver, British Columbia, V6C 3H1, until 30 days after the Closing. A copy may also be found under Kona Bay’s profile on SEDAR at [www.sedar.com](http://www.sedar.com).

**SCHEDULE "C"****INFORMATION CONCERNING YERBAÉ BRANDS CO.**

Except where otherwise expressly provided, all amounts in this Schedule "C" are stated in US currency.

**Corporate Structure*****Name and Incorporation***

Yerbaé Brands Co. was incorporated under DGCL on August 21, 2020. Since 2016, Yerbaé's wholly owned subsidiary, Yerbaé LLC, a Delaware limited liability company, has conducted the business of Yerbaé. At the time of Yerbaé's incorporation, all of the equity owners of Yerbaé LLC contributed their interests of Yerbaé LLC for capital stock of Yerbaé. Yerbaé LLC continues as Yerbaé's wholly-owned operating subsidiary.

Yerbaé's head office is located at 18801 N. Thompson Peak Parkway, Suite D-380, Scottsdale, Arizona 85255. Its registered office is Corporation Trust Center, 1209 Orange Street, Wilmington, County of New Castle, Delaware 19801.

Yerbaé's certificate of incorporation was amended and restated on April 26, 2022, to effect a forward stock split whereby each Yerbaé Share became 1.595 Yerbaé Shares (the "**Yerbaé Stock Split**").

In connection with the Transaction, Yerbaé will be filing a Certificate of Merger with the Delaware Secretary of State in order to effect the Merger in accordance with the DGCL, pursuant Merger Sub will merge with and into Yerbaé, the separate corporate existence of Merger Sub will cease, and Yerbaé will continue its corporate existence under the DGCL as the surviving corporation in the Merger and a subsidiary of Kona Bay.

***Intercorporate Relationships***

The following table describes Yerbaé's subsidiaries, their place of incorporation, continuance or formation, and the percentage of the outstanding voting securities beneficially owned, controlled or directed by Yerbaé:

Name of Subsidiary	Percentage of Voting Securities Owned	Jurisdiction of Incorporation or Continuance
Yerbaé LLC	100%	Delaware

Yerbaé has one wholly-owned subsidiary, Yerbaé LLC. Yerbaé LLC is organized under the State of Delaware *Limited Liability Company Act*.

**General Development of the Business*****History***

Yerbaé is a beverage manufacturer and marketing company that produces products for the consumer product industry. Yerbaé was originally founded as Yerbaé LLC owned by the current ownership group in 2016, In August 2020, Yerbaé Brands Co. was incorporated as a C-Corp in Delaware and became the parent company to Yerbaé LLC, the subsidiary business. Yerbaé owns all interests in Yerbaé LLC and has continued operations of the business.

Since 2020, Yerbaé has experienced growth as measured by multiple metrics. In 2020, Yerbaé's products were sold in roughly 6,400 retail locations, and now Yerbaé sells in approximately 10,000 retail locations. In the fiscal year ended December 31, 2020, Yerbaé had \$4,780,045 in net sales, grew to \$6,045,089 in net sales for the fiscal year

ended December 31, 2021, and reported net sales of \$3,379,602 for six month interim period ended June 30, 2022. In 2020, Yerbaé employed 15 people, and now employs 23 people as of the date of this Information Circular. Yerbaé extended its product line in 2020 by introducing its 16oz stevia sweetened line. Yerbaé has extended that line to 7 flavours as of 2022, and the line now exceeds 70% of Yerbaé's total sales.

#### *Capital Asset Promissory Note*

On April 18, 2022, Yerbaé issued a promissory note payable to Capital Asset, an arm's length party, in the principal amount of \$500,000. Yerbaé entered into an amendment to the promissory note on September 16, 2022. Interest rate on the promissory note is 8% and payment of the principal and interest in the amount of \$20,336.31 (together, the "**Debt**") is due the earlier of (i) December 31, 2022 and (ii) ten days after Yerbaé is listed on the TSXV. If payment is not made on the due date then the interest rate will be increased from 8% to 12%. The Debt is secured by a general business security agreement dated May 2, 2022 (the "**General Business Security Agreement**") between Capital Asset and Yerbaé.

#### *Stock Split*

On April 26, 2022, Yerbaé completed the Yerbaé Stock Split; a forward stock split of Yerbaé Shares whereby each one Yerbaé Share became 1.595 Yerbaé Shares.

#### *Bridge Loan*

On February 10, 2022, Yerbaé issued a convertible promissory note in the principal amount of \$1,000,000 to Klutch in connection with a bridge loan in the amount of \$1,000,000.

On May 20, 2022, Yerbaé issued a second convertible promissory note in the principal amount of \$2,000,000 to Klutch in connection with a bridge loan in the amount of \$2,000,000. On September 22, 2022, Klutch assigned and transferred an aggregate principal amount of US\$1,900,000 of the second Convertible Promissory Note to Mae Suffron, an Insider of the Company. See "*Schedule "C" – Information Concerning Yerbaé Brands Co. – Description of the Securities – Convertible Promissory Notes*" below for more information.

#### *Growth Line of Credit Agreement*

On June 1, 2022, Yerbaé LLC entered into a growth line of credit agreement (the "**Growth Line of Credit Agreement**") with Ampla, LLC, an arm's length party, for up to \$3,500,000, with \$791,590 issued as of September 30, 2022, and with an effective interest rate of approximately 12%. The line of credit proceeds may only be used for certain business purposes of Yerbaé LLC as further described in the agreement. Pursuant to the terms of the Growth Line of Credit Agreement, Yerbaé LLC will cause all receivables generated to be paid into a designated account under which the lender is authorized to debit a collection amount determined each day based on a relational function determined in lender's sole discretion as premised on Yerbaé LLC credit limit utilization. Yerbaé LLC has the right to prepay all obligations under the Growth Line of Credit Agreement at any time without penalty.

#### *Concurrent Financing*

In connection with the Transaction, and prior to the Closing, FinCo intends to conduct the Concurrent Financing; a non-brokered private placement to raise minimum gross proceeds of \$5,000,000 (less any amounts raised by Kona Bay, Yerbaé or any Affiliate thereof concurrent to the Transaction, excluding the Bridge Loan) by way of issuance of FinCo Subscription Receipts at a price of \$1.23 per FinCo Subscription Receipt. Each FinCo Subscription Receipt sold by FinCo will, in accordance with the terms of the FinCo Subscription Receipt Certificates, entitle the holder thereof to receive, without payment of any additional consideration and without further action on the part of the holder thereof, one FinCo Share. Yerbaé has, as of the date of this Information Circular, raised an aggregate of US\$499,995.16 through a financing via the issuance of an aggregate of 291,968 Non-Voting Common Stock – Class D-3 Yerbaé Shares at a price of US\$1.37 per Yerbaé Share on September 1, 2022, US\$274,997.36 through a financing



via the issuance of an aggregate of 200,728 Non-Voting Common Stock – Class D-3 Yerbaé Shares at a price of US\$1.37 per Yerbaé Share on September 8, 2022, US\$24,999.76 through a financing via the issuance of 18,248 Non-Voting Common Stock – Class D-3 Yerbaé Shares at a price of US\$1.37 per Yerbaé Share on September 13, 2022, US\$18,542.95 through a financing via the issuance of 13,535 Non-Voting Common Stock – Class D-3 Yerbaé Shares at a price of US\$1.37 per Yerbaé Share on September 15, 2022, US\$24,999.75 through a financing via the issuance of 20,325 Non-Voting Common Stock – Class D-1 Yerbaé Shares at a price of US\$1.23 per Yerbaé Share on September 19, 2022, US\$49,999.50 through a financing via the issuance of 40,650 Non-Voting Common Stock – Class D-1 Yerbaé Shares at a price of US\$1.23 per Yerbaé Share on September 23, 2022, and US\$99,999 through a financing via the issuance of 81,300 Non-Voting Common Stock – Class D-2 Yerbaé Shares at a price of US\$1.23 per Yerbaé Share on October 19, 2022. In addition, Yerbaé has raised a total of US\$135,903.83 through the issuance of an aggregate of 105,771 Non-Voting Common Stock – Class 2022-1 Yerbaé Shares through crowdfunding concurrent to the Transaction as to (i) 11,028 Non-Voting Common Stock – Class 2022-1 Yerbaé Shares at a price of US\$1.14 per Yerbaé Share for aggregate proceeds of US\$12,571.92, (ii) 1,048 Non-Voting Common Stock – Class 2022-1 Yerbaé Shares at a price of US\$1.15 per Yerbaé Share for aggregate proceeds of US\$1,205.20, (iii) 50,286 Non-Voting Common Stock – Class 2022-1 Yerbaé Shares at a price of US\$1.25 per Yerbaé Share for aggregate proceeds of US\$62,857.50, (iv) 2,514 Non-Voting Common Stock – Class 2022-1 Yerbaé Shares at a price of US\$1.29 per Yerbaé Share for aggregate proceeds of US\$3,243.06, and (v) 40,895 Non-Voting Common Stock – Class 2022-1 Yerbaé Shares at a price of US\$1.37 per Yerbaé Share for aggregate proceeds of US\$56,026.15. See “Schedule ‘C’ – Information Concerning Yerbaé Brands Co. – Prior Sales” below for more details.

Pursuant to the terms of the Roth Engagement Agreement, Yerbaé will issue an aggregate of 308,823 Yerbaé Warrants to Roth Canada, to be converted to Resulting Issuer Warrants immediately on closing of the Transaction. The warrants issued to Roth Canada will be exercisable into one Resulting Issuer Share at an exercise price of US\$1.37 for a period of two years after Closing. Aside from any further fees payable to Roth Canada pursuant to the terms of the Roth Engagement Agreement, the parties may pay customary finder’s fees to other eligible arm’s length finders in connection with the Concurrent Financing. Accordingly, the payment of any finder’s fees will be subject to the approval of the TSXV.

For more information on the Transaction, the Arrangement Agreement, the Amalgamation and the Merger, see “Particulars of Matters to be Acted Upon – Approval of the Transaction”.

## **Acquisitions and Dispositions**

Yerbaé has not undertaken any acquisitions or dispositions as of the date of this Information Circular.

## **Narrative Description of the Business**

### ***General***

Yerbaé develops plant-based energy drinks that contain no added sugar or artificial ingredients. Yerbaé was founded by Todd and Karrie Gibson in 2016 to create plant-based energy drinks containing Yerba Mate, a South American herb and a natural source of caffeine. Yerbaé’s first beverage was launched in the first quarter of 2017.

Yerbaé is engaged in the development, marketing, sale, and distribution of plant-based energy beverages that do not contain calories, carbohydrates, or sugar. Yerbaé’s line of beverages are blended with non-GMO plant-based ingredients, and offer the benefits of Yerba Mate and White Tea; sustainably sourced from Brazil and other growing regions in South America.

Yerbaé beverages are created to provide products targeted at consumers seeking healthier beverages as an alternative to existing energy drinks and focused on health, wellness, and fitness. The products are formulated to provide a more refreshing taste than coffee, with additional benefits to existing sodas and sparkling waters, along with healthier ingredients than traditional energy drinks. Yerbaé’s products complement a variety of healthy lifestyles, such as non-GMO, Keto, Vegan, Kosher, Paleo and gluten-free diets.

### ***Principal Products or Services***

Yerbaé offers two primary beverage lines with a total of fifteen flavors. Yerbaé's products are currently distributed through an omni-channel distribution network that services more than 10,000 retail locations, including grocery stores, natural food stores, and food services in the United States.

Yerbaé's two primary product lines are the 12oz Energy Seltzer Water and 16oz Energy Drink.

#### *12oz Energy Seltzer Water*

Yerbaé's unsweetened energy seltzer line is served in a 12oz can with zero sugar and zero calories. The beverage offers a lighter flavor than the 16 oz Energy Drink line and contains 100mg of caffeine. The 12oz Energy Seltzer Water makes up approximately 27% of Yerbaé's sales for the period commencing January 1, 2022 and ending June 30, 2022.

An example of the Yerbaé's 12oz Energy Seltzer Water is provided below.



#### *16oz Energy Drink*

Yerbaé's zero calorie 16oz Energy Drink line was introduced to the market in 2020 to provide consumers with a greater energy boost. The flavor is more full-bodied than the 12oz Energy Seltzer Water and uses non-GMO Stevia as the sweetener. This beverage contains 160mg of caffeine without sugar, carbohydrates, or calories, and makes up approximately 73% of Yerbaé's sales for the period commencing January 1, 2022 and ending June 30, 2022.

An example of Yerbaé's 16oz Energy Drink is provided below.



#### *Distribution to Retailers*

Since the product launch in 2017, Yerbaé has sold over 22 million cans of Yerbaé. Yerbaé's line of products are available in over 10,000 retail locations in the US marketplace. Yerbaé sells across many retail segments that includes

wholesale clubs, convenience stores, drug stores, grocery stores, natural food stores, mass merchants, food services, and direct to consumer, as well as health clubs, gyms, Yoga Studios and quick serve restaurants.

Yerbaé uses four main distribution channels to deliver its products to retailers in the United States:

1. **Broadline Distribution** – This distribution channel consists of retailers that use third party warehouse distribution centers for delivery to their retail outlets such as Vistar, Kehe, United Natural Foods, Inc. and others.
2. **DSD (Direct Store Delivery)** – This distribution channel comprises of local distributors who service nationally-recognized brands, or other independent distribution networks that deliver directly to retail stores and merchandise the products on Yerbaé’s behalf.
3. **Direct Distribution** – Yerbaé sells its products directly to the retailer and then ships them to retailer owned warehouses for store distribution and merchandising.
4. **Direct to Consumer** – Yerbaé sells directly to consumers through e-commerce platforms such as Amazon and the company’s own website.

The below chart indicates Yerbaé’s approximate revenue breakdown by distribution channel for the period commencing January 1, 2019 and ending December 31, 2021.



### **Operations**

Yerbaé’s operations team and headquarters are based in Scottsdale, Arizona. Yerbaé currently has 23 employees.

Yerbaé develops, markets, sells, and distributes naturally caffeinated plant-based energy drinks. Yerbaé does not directly manufacture its beverages, but instead outsources the manufacturing process to established third-party co-packers. Yerbaé sources and provides Yerbaé’s co-packers and production partners with Yerbaé’s recipes, ingredient blends, flavors, cans, and other raw materials to produce Yerbaé’s beverages. All raw materials are sourced by Yerbaé at fair market pricing.

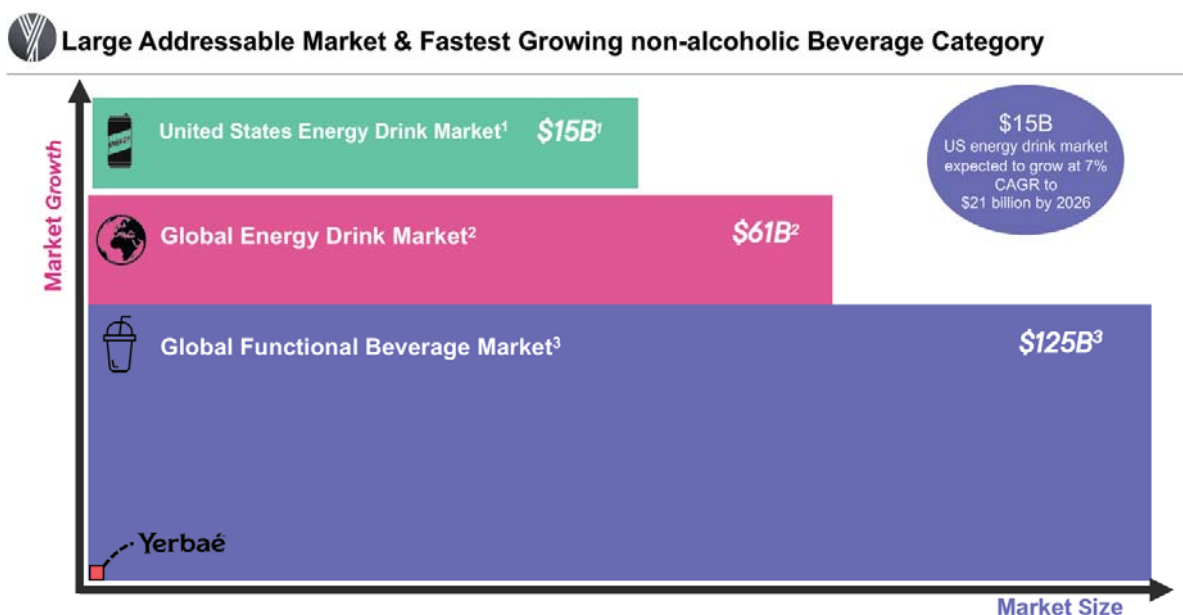
Yerbaé does not own any property, office space, storage space, bottling facilities, or retail spaces. Yerbaé leases current office space in Scottsdale, Arizona under a sub-lease that Yerbaé intends to directly lease for a 36 month term commencing November 2022.

Although Yerbaé's business is not cyclical, seasonality is typical in the beverage industry. Yerbaé produces and sells its products throughout the entire year with the highest sales volumes generally occurring in the second and third quarters. Yerbaé expects to see continued seasonality effects, with net sales tending to be greater in the second and third quarters of the year. There are no known financial and/or operational effects in relation to environmental protection requirements on the capital expenditures, earnings, and Yerbaé's competitive position. Yerbaé's intellectual property plays an important role in the success of the business and Yerbaé is not subject to any franchise, license, software, or subscription list.

Yerbaé does not sell products outside of the United States.

### Market

The energy-drink industry is a \$15 billion industry, and it represents the fastest growing category within the nonalcoholic beverage space, rapidly gaining share from soft drinks and juices. Over the last year, the energy drink category has seen 8% sales growth compared to 2.8% for all beverages. The U.S. energy drink industry is estimated to reach \$21 billion in sales by 2026, reflecting a 7% CAGR.



- (1) According to Research and Markets, the US energy drink market is expected to grow at a CAGR of 7% from 2022-2026, ultimately surpassing \$21 billion.
- (2) According to Allied Market Research, the global energy market is expected to grow at a 7.2% CAGR from 2021 to 2026, ultimately surpassing \$86 billion.
- (3) According to Fior Markets, the global functional beverage market is expected to grow at a 7.1% CAGR from 2021-2028, ultimately surpassing \$217 billion.

### Marketing Plans and Strategies

Yerbaé's products were created and formulated with five key pillars in mind:

1. **Plant Power** – Utilizes the power of plants as the source of energy;

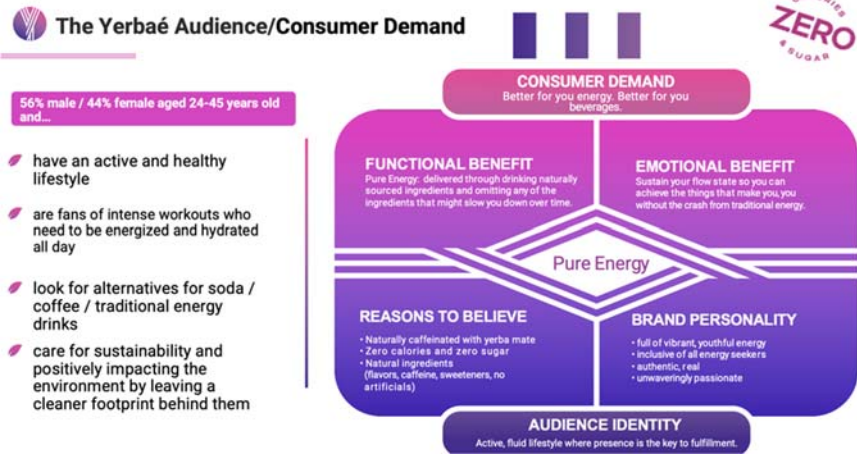
2. **Anti-Inflammation** – Created without sugar, calories, and carbohydrates or other inflammatory ingredients to meet consumer demands;
3. **Diet Friendly** – Gluten-free and compliant with modern diets such as Keto, Paleo, Vegan and many more;
4. **Sustainability** – Deliver a product that is rooted in sustainability. Yerbaé believes in recyclability and the positive impacts that accompany sustainable packaging decisions; and
5. **Taste** – The most important attribute is that the product must taste delicious.



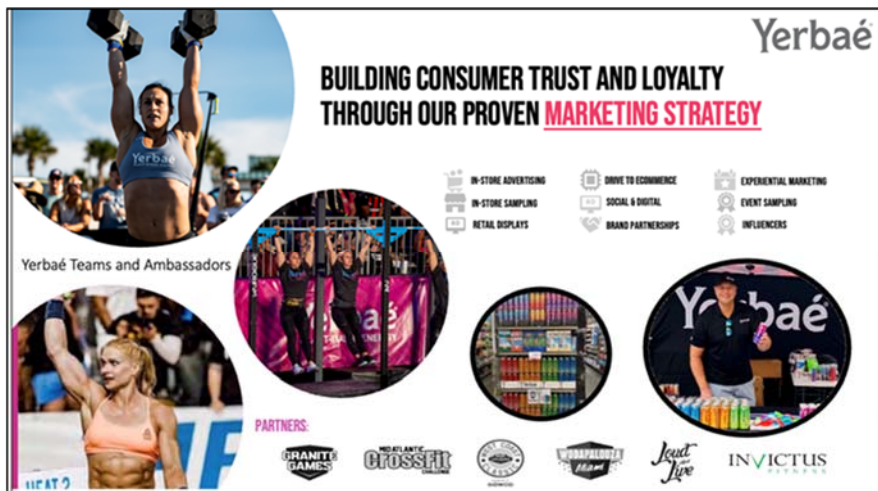
To support those 5 key pillars, Yerbaé has undertaken significant marketing efforts aimed at building brand awareness, including digital, social media, sponsorships, TV, and podcasts. Yerbaé also undertakes various promotions at the retail level such as display activity, coupons and other in-store incentives and sampling.

The energy drink market is expected to experience significant growth through 2031, as reported by Research and Markets in 2022. The North American market is currently dominated by two legacy brands that share about 82% of the market, as reported by Information Resources, Inc in 2021. However, emerging brands like Yerbaé have started to erode that market share lead with new products aimed at solving the industry’s biggest problem: its ingredients list.

As displayed in the chart below, Yerbaé’s consumers are estimated to be 56% male and 44% female with the average age range of 24 to 45 years of age. Yerbaé’s consumers are engaged in active lifestyles and are looking for healthier energy drink alternatives for their mind and body.



To connect with the target audience, Yerbaé has marketed to the CrossFit community, which has millions of potential consumers, domestically in the US marketplace and has partnered with athletes such as Annie Thorisdottir. Yerbaé has also partnered at the regional level with various championship events and local crossfit gyms in the USA, such as Granite Games (Regional Finals), Syndicate Games (Regional Finals), M.A.C.C. (Regional Finals) and other events within the community. Yerbaé is also distributed in many CrossFit gyms throughout the USA marketplace.



**Competitive Conditions**

The functional energy drink industry is highly competitive. The principal areas of competition are pricing, packaging, distribution channel penetration, development of new products and flavors, product positioning as well as promotion and marketing strategies. Yerbaé’s products compete with a wide range of drinks produced by a relatively large number of manufacturers, most of which have substantially greater financial, marketing and distribution resources and name recognition than Yerbaé does.

Important factors affecting Yerbaé’s ability to compete successfully include the efficacy, taste and flavor of Yerbaé’s products, trade and customer promotions, rapid and effective development of new, unique cutting-edge products, attractive and different packaging, branded product advertising and pricing. The success of Yerbaé’s social media and other general marketing endeavors may impact Yerbaé’s business, financial condition, and results of operation. Yerbaé’s products compete with all liquid refreshments and with products of much larger and substantially better financed competitors, including the products of numerous nationally and internationally known producers, such as The Coca Cola Company, Dr. Pepper Snapple Group, PepsiCo, Inc., Nestle, Waters North America, Inc., Monster



Energy and Red Bull. Yerbaé also competes with companies that are smaller or primarily local in operation. Yerbaé's products also compete with private label brands such as those carried by supermarket chains, convenience store chains, drug store chains, mass merchants and club warehouses. New competitors continue to emerge, some of which target specific markets as well as the health and wellness space. This may require additional marketing expenditures on Yerbaé's part to remain competitive.

### ***Future Developments***

Yerbaé is consistently optimizing its portfolio and innovating new flavor extension to continuously deliver a new and fresh flavor profile for the ever changing consumer taste buds. Yerbaé also intends to continue to build sales and distribution throughout the United States through its distribution channels and increasing consumer brand awareness through its marketing efforts as discussed above.

### ***Proprietary Protection***

Yerbaé owns domestic trademarks and other proprietary rights that are important to Yerbaé's business, including Yerbaé's main trademark. Yerbaé® LOGO is a registered trademark of Yerbaé in the United States. Depending upon the jurisdiction, trademarks are valid as long as they are used in the regular course of trade and/or their registrations are properly maintained. All of Yerbaé's material trademarks are registered with the U.S. Patent and Trademark Office.

Yerbaé's trademarks are as follows:

<b>Trademark</b>	<b>Country</b>	<b>Date of Registration</b>	<b>Register</b>	<b>Registration Number</b>
	United States	February 13, 2018	Supplemental Register	5,403,553
	United States	November 7, 2017	Principal Register	5,328,481

Pursuant to a trademark license agreement dated May 4, 2017 between the Non-GMO Project and Yerbaé LLC as the licensee, the Non-GMO Project has granted to Yerbaé LLC a non-exclusive, non-transferable, non-assignable, revocable license in the United States and Canada in and to certain of trademarks owned by the Non-GMO Project for use on or in relation to the products of Yerbaé LLC.

### ***Lending***

As of the date hereof, Yerbaé does not conduct any lending operations, nor does it have any investment policies and/or investment restrictions policies in place.

## Selected Consolidated Financial Information and Management's Discussion and Analysis

### Annual Information

The following selected financial information has been derived from and is qualified in its entirety by the audited financial statements of Yerbaé for the years ended December 31, 2021 and December 31, 2020 and the interim financial statements of Yerbaé for the six months period ended June 30, 2022 and should be read in conjunction with the Management's Discussion and Analysis for the years ended December 31, 2021 and December 31, 2020 and for the six months period ended June 30, 2022.

	Six month period ended June 30, 2022 (unaudited) (\$)	Year ended December 31, 2021 (audited) (\$)	Year ended December 31, 2020 (audited) (\$)
Total net revenues	3,379,602	6,045,089	4,780,045
Total assets	3,001,066	1,446,337	1,043,230
Total liabilities	6,721,095	1,862,992	1,707,073
Basic and diluted loss per Yerbaé Share	(0.11)	(0.24)	(0.10)
Other income (loss)/expenses	(64,358)	(174,971)	249,971
(Loss) from Continuing Operations	(3,259,016)	(3,626,690)	(1,795,621)
Net (loss)	(3,323,374)	(3,801,661)	(1,545,650)

### Quarterly Information

The results of each financial quarter from September 30, 2020 to the most recently completed fiscal quarter, namely June 30, 2022, are summarized below:

	Q2 Ended June 30, 2022 (\$)	Q1 Ended March 31, 2022 (\$)	Q4 Ended December 31, 2021 (\$)	Q3 Ended September 30, 2021 (\$)	Q2 Ended June 30, 2021 (\$)	Q1 Ended March 31, 2021 (\$)	Q4 Ended December 31, 2020 (\$)	Q3 Ended September 30, 2020 (\$)
Net Revenues	1,849,169	1,530,433	1,060,013	1,391,565	1,546,285	2,053,029	965,981	1,187,376
(Loss) from Continuing Operations	(1,780,218)	(1,479,090)	(1,452,016)	(969,099)	(717,208)	(552,671)	(593,139)	(634,454)
Net comprehensive income (loss)	(1,817,510)	(1,506,155)	(1,520,294)	(999,411)	(773,818)	(572,439)	(310,206)	(658,227)
Basic and diluted (loss) per Yerbaé Share	(0.06)	(0.05)	(0.05)	(0.03)	(0.03)	(0.02)	(0.01)	(0.03)

### Management's Discussion and Analysis

Yerbaé's MD&A for the fiscal years ended December 31, 2021 and December 31, 2020 and the six month period ended June 30, 2022 are attached as Schedule "H" to this Information Circular. The MD&As should be read in conjunction with the Yerbaé Financial Statements, which are attached as Schedule "G" to this Information Circular.



## Trends

Yerbaé is subject to consumer's overall ability and willingness to purchase health and wellness products. The company's operations could be affected by the economic context should the unemployment level, interest rates or inflation reach levels that influence consumer trends and consequently, impact Yerbaé's sales and profitability. Also, demand for the Yerbaé's products is subject to changes in consumer trends. These changes may affect earnings. The impact of these changes will depend on the Yerbaé's ability to innovate and develop new products. Yerbaé's products may not appeal to all consumers. Yerbaé's products may be more appealing to more affluent and/or health and environmentally conscious consumers looking for alternatives to existing products competitive to Yerbaé's product offering. As a result, changes in consumer trends and taste preferences on their own and in conjunction with changing product offerings by other suppliers may affect demand for the Yerbaé's products.

## Description of the Securities

The authorized capital stock of Yerbaé consists of two classes of voting common stock or voting Yerbaé Shares and five classes of non-voting common stock or non-voting Yerbaé Shares. As of the date of this Information Circular, 11,974,792 Voting Common Stock – Class A Yerbaé Shares issued and outstanding, 9,603,947 Voting Common Stock – Class B Yerbaé Shares issued and outstanding, 2,181,569 Non-Voting Common Stock – Class D-1 Yerbaé Shares issued and outstanding, 4,917,363 Non-Voting Common Stock – Class D-2 Yerbaé Shares issued and outstanding, 524,479 Non-Voting Common Stock – Class D-3 Yerbaé Shares issued and outstanding, 847,416 Non-Voting Common Stock – Class 2020-1 Yerbaé Shares issued and outstanding and 107,752 Non-Voting Common Stock – Class 2022-1 Yerbaé Shares outstanding.

### Common Stock

On September 14, 2020, Yerbaé entered into the Voting Stockholders Agreement with the Voting Common Stockholders and the Non-Voting Stockholders Agreement with the Non-Voting Common Stockholders. The Voting Stockholders Agreement and the Non-Voting Stockholders Agreement each provide for, among other terms and conditions governing the future disposition of shares of Voting Common Stock and shares of Non-Voting Common Stock, as applicable, and the maintenance of the management, control, and operation of the business of Yerbaé, restrictions on voluntary transfers of shares of Voting Common Stock and shares of Non-Voting Common Stock, as applicable. It is anticipated that on closing of the Transaction, the Voting Stockholders Agreement and the Non-Voting Stockholders Agreement will be terminated.

On April 11, 2022, Yerbaé authorized the Yerbaé Stock Split; a stock split of its Yerbaé Shares whereby all Yerbaé Shares were split on a 1 to 1.595 basis. Accordingly, Yerbaé's certificate of incorporation was amended and restated on April 26, 2022, to effect a forward stock split whereby each Yerbaé Share became 1.595 Yerbaé Shares.

Following the Yerbaé Stock Split, Yerbaé is authorized to issue an aggregate of 39,875,000 voting Yerbaé Shares with a par value of \$0.0001 per voting Yerbaé Share, consisting of:

1. 27,115,000 voting Yerbaé Shares with a par value of \$0.0001 per voting Yerbaé Share, of which (a) 17,545,000 shares are designated as "Voting Common Stock – Class A" and (b) 9,570,000 shares are designated as "Voting Common Stock – Class B", and
2. 12,760,000 non-voting Yerbaé Shares with a par value of \$0.0001 per non-voting Yerbaé Share, of which (a) 3,190,000 shares are designated as "Non-Voting Common Stock – Class D-1", (b) 3,595,000 shares are designated as "Non-Voting Common Stock – Class D-2", (c) 1,000,000 shares are designated as "Non-Voting Common Stock – Class D-3", (d) 849,000 shares are designated as "Non-Voting Common Stock – Class 2020-1", (e) 4,068,500 shares are designated as "Non-Voting Common Stock – Class 2022-1", and (f) 57,500 shares remain undesignated.

The Yerbaé Shares, as applicable, are subject to the following rights, privileges, restrictions and conditions:

- (a) Each share of voting Yerbaé Shares, regardless of class, entitles its holder to one vote per share on each matter on which the stockholders of Yerbaé are entitled to vote.
- (b) Except as otherwise required by law, no share of on- Yerbaé Shares entitles its holder to vote on any matter on which the stockholders may otherwise be entitled to vote.
- (c) In accordance with Yerbaé’s Amended and Restated Certificate of Incorporation, the directors may, in their discretion, at any time and from time to time declare and cause Yerbaé to pay dividend on the Yerbaé Shares, except in the event of a liquidation, dissolution, winding up of Yerbaé, or sale of Yerbaé; and
- (d) In the event of a liquidity event, the directors will distribute the proceeds (available cash or other property after payment or provision for payment of the debts and liabilities of Yerbaé) from the Liquidity Event to the stockholders in the following order of priority:
  - (i) If the liquidity event proceeds are less than the cumulative amount equal to the excess of (a) the aggregate amount of capital contributions made by a stockholder in consideration of the issuance of such stockholder’s Yerbaé Shares, over (b) all distributions Yerbaé has made to such stockholder (the “**Aggregate Unreturned Contribution Amount**”), then Yerbaé will (a) first distribute to the existing stockholders holding (i) Voting Common Stock – Class A, (ii) Voting Common Stock – Class B, (iii) Non-Voting Common Stock – Class D-1, and (iv) Non-Voting Common Stock – Class D-2 (the “**Existing Stockholders**”) the cumulative Unreturned Contribution Amount of all Existing Stockholders (the “**Aggregate Existing Stockholders Unreturned Contribution Amount**”), pro rata in proportion to each Existing Stockholders’ Unreturned Contribution Amount until the Aggregate Existing Stockholders Unreturned Contribution Amount is reduced to zero, and then (b) distribute to the stockholders that are not the Existing Stockholders (the “**Later Stockholders**”) the cumulative Unreturned Contribution Amount of the Later Stockholders (the “**Aggregate Later Stockholder Unreturned Contribution Amount**”), pro rata in proportion to each Later Stockholder’s Unreturned Contribution Amount until the Aggregate Later Stockholder Unreturned Contribution Amount is reduced to zero.
  - (ii) If the liquidity event proceeds are equal to or more than the Aggregate Unreturned Contribution Amount, then Yerbaé will distribute the Liquidity Event Proceeds to all the stockholders pro rata in proportion to the number of Common Stock held by all the stockholders.

Pursuant to the Voting Shareholder Agreement among the Voting Common Stockholders, the Class A Voting Common Stockholders have the following redemption right: in the event of the death or mental incapacity of either Class A Stockholder, the remaining Class A Stockholder shall have the right to require Yerbaé to purchase all Class A Shares held by all of the Class A Stockholders.

As of the date of this Information Circular, Yerbaé has 30,157,318 Yerbaé Shares issued and outstanding. The Yerbaé Shares are restricted as none of the Yerbaé Shares have been registered under the U.S. Securities Act. The Yerbaé Shares may not be sold, transferred, encumbered, or otherwise disposed of without the written consent of the Yerbaé Board.

### ***Yerbaé Warrants***

As at the date of this Information Circular, 1,754,464 Yerbaé Warrants are issuable upon satisfaction of certain objectives pursuant to performance agreements. The Yerbaé Warrants are exercisable into Non-Voting Common Stock – Class D-2 Yerbaé Shares at an exercise price of \$0.95 per Yerbaé Share and are subject to vesting. Yerbaé has elected to issue all of these outstanding warrants on Closing. Additionally, pursuant to the Roth Engagement

Agreement, Yerbaé will issue 308,823 Yerbaé Warrants on Closing to Roth Canada, which Yerbaé Warrants are to be immediately converted to Resulting Issuer Warrants at the time of Closing.

### ***Convertible Promissory Notes***

Yerbaé issued the Convertible Promissory Notes in the aggregate principal amount of \$3,000,000 in connection with the Bridge Loan, comprising of a convertible promissory note in the principal amount of \$1,000,000 on February 10, 2022 to Klutch and a second Convertible Promissory Note in the principal amount of \$2,000,000 on May 29, 2022 to Klutch. The Convertible Promissory Notes have an interest rate of 8% per year, calculated annually, and will be payable on the earlier of (a) the date that is 12 months from the issue date or (b) the date of conversion in full of the outstanding and unpaid principal amount, together with all accrued but unpaid interest under the Convertible Promissory Notes. The Convertible Promissory Notes are convertible into Yerbaé Units at a conversion price of \$0.68 per Yerbaé Unit: (a) automatically upon the occurrence of a liquidity event (as such term is defined in the Convertible Promissory Notes); or (b) at the sole discretion of the holder, upon maturity. Each Yerbaé Unit consists of one Voting Common Stock – Class A Yerbaé Share and one Yerbaé Warrant, with each Yerbaé Warrant entitling the holder thereof to purchase one additional Yerbaé Share at a price of US\$0.85 per Yerbaé Share for a period of 3 years. On September 22, 2022, Klutch assigned and transferred an aggregate principal amount of US\$1,900,000 of the second Convertible Promissory Note to Mae Suffron, an Insider of the Company.

### ***Yerbaé Options***

Yerbaé currently has in effect the EAR Plan, dated May 1, 2017. Yerbaé has also adopted the Yerbaé Brands Co. 2022, the purpose of which is to encourage successful long-term company growth by providing and incentive to key employees to continue in the employ of, and increase their efforts on behalf of, Yerbaé and to strengthen the ability of Yerbaé to attract and retain high-caliber personnel who can make substantial contributions to the long-term success of Yerbaé. Under the Yerbaé Brands Co. 2022 Stock Option Plan, Yerbaé can grant Yerbaé Options to acquire Yerbaé Shares to employees and consultants of Yerbaé and its subsidiary. Directors of Yerbaé are considered “Consultants” under the Yerbaé Brands Co. 2022 Stock Option Plan. For greater certainty, the payment by Yerbaé of a director’s fee shall not be sufficient to constitute “employment” of such director by Yerbaé or its subsidiary.

The Yerbaé Brands Co. 2022 Stock Option Plan is intended to replace and supersede the EAR Plan and all equity appreciation rights under the EAR Plan will be converted into stock option rights under the Yerbaé Brands Co. 2022 Stock Option Plan. As of the date of this Information Circular, no such conversions have taken place and both plans exist concurrently.

### ***Terms of the Yerbaé Brands Co. 2022 Stock Option Plan***

The following is a summary of the material terms of the Yerbaé Brands Co.2022 Stock Option Plan:

- The Yerbaé Brands Co. 2022 Stock Option Plan will be administered by the Yerbaé Board, or a committee appointed by the Yerbaé Board, or any combination thereof, as defined by the Yerbaé Board;
- The aggregate number of Yerbaé Shares that may be issued under the Yerbaé Brands Co. 2022 Stock Option Plan is 1,406,762 Yerbaé Shares, all of which shares may be issued under the Yerbaé Brands Co.2022 Stock Option Plan pursuant to Yerbaé Options that qualify as an incentive stock option within the meaning of Section 422 of the Code (or converted from equity appreciation rights under the EAR Plan);
- If a Yerbaé Option or Yerbaé Shares are acquired pursuant to a right to purchase or receive common stock granted under the Yerbaé Brands Co. 2022 Stock Option Plan (each, a “**Restricted Stock**”) under the Yerbaé Brands Co. 2022 Stock Option Plan or the EAR Plan (each, an “**Award**”) should expire or become unexercisable for any reason without having been exercised in full, or is

surrendered pursuant to an Option Exchange Program (as defined in the Yerbaé Brands Co. 2022 Stock Option Plan), the unissued shares that were subject thereto shall, unless the Yerbaé Brands Co. 2022 Stock Option Plan shall have been terminated, continue to be available under the Yerbaé Brands Co. 2022 Stock Option Plan for issuance pursuant to future Awards;

- Yerbaé Options that do not qualify as an incentive stock option (each, a “**Non-statutory Stock Option**”) and Restricted Stock may be granted to employees and Consultants (as defined in the Yerbaé Brands Co. 2022 Stock Option Plan). Incentive Stock Options may be granted only to employees; provided that employees of Affiliates shall not be eligible to receive Incentive Stock Options;
- Each Option will be designated as either an Incentive Stock Option or a Non-statutory Stock Option in the written document reflecting the terms of an Option granted under the Yerbaé Brands Co. 2022 Stock Option Plan;
- The term of the Yerbaé Brands Co. 2022 Stock Option Plan will be in effective for a term of ten years unless sooner terminated in accordance with the Yerbaé Brands Co. 2022 Stock Option Plan;
- The exercise price for the shares to be issued pursuant to the exercise of an Option will be determined by the Administrator of the Yerbaé Brands Co. 2022 Stock Option Plan and will be set forth in the option agreement;
- In the case of an Incentive Stock Option: (i) granted to an employee who at the time of grant is a person who owns stock representing more than 10% of the voting power of all classes of stock of Yerbaé or is subsidiary, measured as of an Award’s date of grant, the per Share exercise price shall be no less than 110% of the per share fair market value of the common stock, as determined by the Administrator on the date of grant; and (ii) granted to any other employee, the per Share exercise price shall be no less than 100% of the Fair Market Value on the date of grant;
- Except as provided in the Yerbaé Brands Co. 2022 Stock Option Plan, in the case of a Non-statutory Stock Option, the per Share exercise price shall be such price as is determined by the Administrator; provided that, if the per Share exercise price is less than 100% of the fair market value on the date of grant, it shall otherwise comply with all applicable laws, including Section 409A of the Code;
- The term of each Yerbaé Option will not be more than 10 years from the date of grant;
- In the case of an Incentive Stock Option granted to a person who at the time of such grant is a 10% holder, the term of the Option shall be 5 years from the date of grant thereof or such shorter term as may be provided in the Option Agreement;
- The Administrator shall establish and set forth in the applicable Option Agreement the terms and conditions upon which an Option shall remain exercisable, if at all, following termination of service of an employee or Consultant, which provisions may be waived or modified by the Administrator at any time;
- When a right to purchase or receive Restricted Stock is granted under the Yerbaé Brands Co. 2022 Stock Option Plan, Yerbaé shall advise the recipient in writing of the terms, conditions and restrictions related to the offer, including the number of shares that such person shall be entitled to purchase, the price to be paid, if any (which shall be as determined by the Administrator, subject to applicable laws, including any applicable securities laws), and the time within which such person must accept such offer;

- Subject to the terms of the Yerbaé Brands Co. 2022 Stock Option Plan, the Awards are non-assignable and non-transferable;
- Unless approved by Yerbaé, no shares (or any rights of or interests in such shares) acquired pursuant to an Award (including shares acquired upon exercise of a Yerbaé Option) may be transferred, such approval may be granted or withheld in Yerbaé's sole and absolute discretion;
- The Yerbaé Board may at any time amend or terminate the Yerbaé Brands Co. 2022 Stock Option Plan.
- If required by applicable laws, the Yerbaé Brands Co. 2022 Stock Option Plan may be subject to approval by the holders of capital stock of Yerbaé within 12 months before or after the Yerbaé Brands Co. 2022 Stock Option Plan is adopted or amended.

As at the date of this Information Circular, Yerbaé has 1,406,745 Yerbaé Options outstanding.

### Consolidated Capitalization

The following table sets out any material change in, and the effect of the material change on, the share and loan capital of Yerbaé, on a consolidated basis, since December 31, 2021:

Designation of Security	Amount Authorized	No. of Securities of Yerbaé outstanding as at June 30, 2022 <sup>(1)</sup>	No. of Securities of Yerbaé outstanding as at the date of this Information Circular
Voting Common Stock – Class A Yerbaé Shares	17,545,000	14,300,402	11,974,792
Voting Common Stock – Class B Yerbaé Shares	9,570,000	8,754,027	9,603,947 <sup>(4)</sup>
Non-Voting Common Stock – Class D-1 Yerbaé Shares	3,190,000	1,909,605	2,181,569
Non-Voting Common Stock – Class D-2 Yerbaé Shares	3,595,000	3,571,382	4,917,363 <sup>(4)</sup>
Non-Voting Common Stock – Class D-3 Yerbaé Shares	1,000,000	Nil	524,479
Non-Voting Common Stock – Class 2020-1 Yerbaé Shares	849,000	847,967	847,416
Non-Voting Common Stock – Class 2022-1 Yerbaé Shares	4,068,500	Nil	107,752
Yerbaé Options	-	1,406,762	1,406,745
Yerbaé Warrants <sup>(2)</sup>	-	Nil	Nil
Convertible Promissory Notes <sup>(3)</sup>	-	Nil	3

<sup>(1)</sup> Presented on a post-Yerbaé Stock Split basis.

<sup>(2)</sup> Pursuant to the terms of the Roth Engagement Agreement, Yerbaé is expected to issue 308,823 Yerbaé Warrants to Roth Canada at the time of Closing. Yerbaé will also issue an aggregate of 1,754,464 Yerbaé Warrants on Closing, pursuant to performance agreements and which are exercisable into Non-Voting Common Stock – Class D-2 Yerbaé Shares at an exercise price of \$0.95 per Yerbaé Share and are subject to vesting. See "Schedule "C" – Information Concerning Yerbaé Brands Co. – Description of the Securities – Yerbaé Warrants" above for more details. An additional 4,411,764 Yerbaé Warrants are issuable to Klutch upon the automatic conversion of the Convertible Promissory Notes

concurrent to the Closing. The Yerbaé Warrants are exercisable Yerbaé Shares at an exercise price of \$0.85 per Yerbaé Share.

- (3) In connection with the Bridge Loan, Yerbaé issued the Convertible Promissory Notes in the aggregate principal amount of \$3,000,000 to Klutch following which \$1,900,000 in principal amount has since been assigned to Mae Suffron. See “Schedule “C” – Information Concerning Yerbaé Brands Co. – Description of the Securities – Convertible Promissory Notes” above for more details on the conversion terms of the Convertible Promissory Notes.
- (4) Yerbaé’s amended and restated certificate of incorporation dated April 26, 2022, establishes a pool of 3,057,000 undesignated shares from which the Yerbaé Board is authorized to issue such shares in one or more class or series.
- (5) As at June 30, 2022, the date of Yerbaé’s most recent balance sheet, Yerbaé had an accumulated deficit of US\$8,670,685.

## Prior Sales

The following table summarizes the issuances of Yerbaé Shares or securities convertible into Yerbaé Shares in the 12-month period prior to the date of this Information Circular.

Date Issued	Type of Security	Price or Exercise Price	Number of Securities
August 16, 2021	Yerbaé Options <sup>(1)</sup>	\$0.627	15,949
October 7, 2021	Voting Common Stock – Class A Yerbaé Shares	\$0.677	310,764
October 11, 2021	Yerbaé Options <sup>(2)</sup>	\$0.953	31,899
October 18, 2021	Yerbaé Options <sup>(2)</sup>	\$0.953	318,993
October 25, 2021	Yerbaé Options <sup>(2)</sup>	\$0.953	15,949
December 6, 2021	Yerbaé Options <sup>(2)</sup>	\$0.953	15,949
January 24, 2022	Yerbaé Options <sup>(2)</sup>	\$0.953	15,949
February 10, 2022	Convertible Promissory Note <sup>(2)</sup>	-	1
February 22, 2022	Non-Voting Common Stock – Class D-2 Yerbaé Shares	\$0.677	29,535
February 28, 2022	Yerbaé Options <sup>(2)</sup>	\$0.953	31,899
April 11, 2022	Yerbaé Options <sup>(2)</sup>	\$0.953	15,949
May 20, 2022	Convertible Promissory Note <sup>(3)(4)</sup>	-	1
June 6, 2022	Yerbaé Options <sup>(2)</sup>	\$0.953	15,949
June 20, 2022	Yerbaé Options <sup>(2)</sup>	\$0.953	39,874
September 1, 2022	Yerbaé Shares <sup>(5)</sup>	\$1.37	291,968
September 8, 2022	Yerbaé Shares <sup>(5)</sup>	\$1.37	200,728
September 13, 2022	Yerbaé Shares <sup>(5)</sup>	\$1.37	13,535
September 15, 2022	Yerbaé Shares <sup>(5)</sup>	\$1.37	18,248
September 19, 2022	Yerbaé Shares <sup>(6)</sup>	\$1.23	20,325
September 23, 2022	Yerbaé Shares <sup>(6)</sup>	\$1.23	40,650
September 30, 2022	Yerbaé Shares <sup>(7)</sup>	\$1.14	11,028
September 30, 2022	Yerbaé Shares <sup>(7)</sup>	\$1.15	1,048

Date Issued	Type of Security	Price or Exercise Price	Number of Securities
September 30, 2022	Yerbaé Shares <sup>(7)</sup>	\$1.25	50,286
September 30, 2022	Yerbaé Shares <sup>(7)</sup>	\$1.29	2,514
September 30, 2022	Yerbaé Shares <sup>(7)</sup>	\$1.37	40,895
September 30, 2022	Yerbaé Shares <sup>(8)</sup>	\$1.28	1,981
October 19, 2022	Yerbaé Shares <sup>(9)</sup>	\$1.23	81,300

- (1) The Yerbaé Options are exercisable at an exercise price of \$0.627 per Yerbaé Share until August 16, 2026.
- (2) The Yerbaé Options are exercisable at an exercise price of \$0.953 per Yerbaé Share until for 10 years after their respective dates of issue.
- (3) In connection with the Bridge Loan, Yerbaé issued one of the Convertible Promissory Notes on February 10, 2022 in the principal amount of \$1,000,000 to Klutch. See “Schedule C” – Information Concerning Yerbaé Brands Co. – Description of the Securities – Convertible Promissory Notes” above for more details on the conversion terms of the Convertible Promissory Notes.
- (4) In connection with the Bridge Loan, Yerbaé issued one of the Convertible Promissory Notes on May 20, 2022 in the principal amount of \$2,000,000 to Klutch. See “Schedule C” – Information Concerning Yerbaé Brands Co. – Description of the Securities – Convertible Promissory Notes” above for more details on the conversion terms of the Convertible Promissory Notes.
- (5) In connection with a financing to accredited investors, Yerbaé issued an aggregate of 524,479 Non-Voting Common Stock – Class D-3 Yerbaé Shares at a price of US\$1.37 per Yerbaé Share for gross proceeds of US\$718,536.52.
- (6) In connection with a financing to accredited investors, Yerbaé issued an aggregate of 60,975 Non-Voting Common Stock – Class D-1 Yerbaé Shares at a price of US\$1.23 per Yerbaé Share for gross proceeds of US\$75,000.
- (7) In connection with a crowdfunding financing, Yerbaé issued an aggregate of 105,771 Non-Voting Common Stock - Class 2022-1 Yerbaé Shares for gross proceeds of US\$135,903.83, as to (i) 11,028 Non-Voting Common Stock – Class D-1 Yerbaé Shares at a price of US\$1.14 per Yerbaé Share for aggregate proceeds of US\$12,571.92, (ii) 1,048 Non-Voting Common Stock – Class D-1 Yerbaé Shares at a price of US\$1.15 per Yerbaé Share for aggregate proceeds of US\$1,205.20, (iii) 50,286 Non-Voting Common Stock – Class D-1 Yerbaé Shares at a price of US\$1.25 per Yerbaé Share for aggregate proceeds of US\$62,857.50, (iv) 2,514 Non-Voting Common Stock – Class D-1 Yerbaé Shares at a price of US\$1.29 per Yerbaé Share for aggregate proceeds of US\$3,243.06, and (v) 40,895 Non-Voting Common Stock – Class D-1 Yerbaé Shares at a price of US\$1.37 per Yerbaé Share for aggregate proceeds of US\$56,026.15.
- (8) In connection with a crowdfunding financing, Yerbaé issued 1,981 Non-Voting Common Stock – Class 2022-1 Yerbaé Shares at a deemed price of US\$1.28 to the crowdfunding platform.
- (9) In connection with a financing to accredited investors, Yerbaé issued an aggregate of 81,300 Non-Voting Common Stock – Class D-2 Yerbaé Shares at a price of US\$1.23 per Yerbaé Share for gross proceeds of US\$99,999.

### Stock Exchange Price

The Yerbaé Shares are not listed on the TSXV or any other Canadian or foreign stock exchange and are not traded on any Canadian or foreign market.

### Executive Compensation

As of the date of this Information Circular, Yerbaé was not a reporting issuer in any jurisdiction. Accordingly, and in accordance with Form 51-102F6, the following is a discussion of all significant elements of compensation to be awarded to, earned by, paid to or payable to NEOs of Yerbaé, once the Transaction is completed, to the extent this compensation has been determined.

For the purposes hereof, the term Named Executive Officer, or NEO, means each CEO, each CFO and Yerbaé’s most highly compensated executive officer, other than the CEO and the CFO, who was serving as an executive officer as at the end of Yerbaé’s most recently completed financial year and whose total compensation exceeds \$150,000 and any additional individuals for whom disclosure would have been provided except that the individual was not serving as an officer of Yerbaé at the end of its most recently completed financial year.

As at December 31, 2021, the end of the most recently completed financial year of Yerbaé, Yerbaé had five NEOs, whose names and positions held within Yerbaé are further described below at *“Schedule “C” – Information Concerning Yerbaé Brands Co. – Executive Compensation – Compensation Discussion”*.

### ***Compensation Discussion and Analysis***

At its present stage of development, Yerbaé does not have any formal objectives, criteria and analysis for determining the compensation of its NEOs and primarily relies on the discussions and determinations of the Yerbaé Board.

Yerbaé compensates its executive officers based on their skill, qualifications, experience level, level of responsibility involved in their position, the existing stage of development of Yerbaé, Yerbaé’s resources, industry practice and regulatory guidelines regarding executive compensation levels.

### ***Share-Based and Option-Based Awards***

The Yerbaé Board believes that encouraging its directors, employees, and consultants to become shareholders is the best way of aligning their interests with those of its shareholders. Equity participation is accomplished through the prior EAR Plan and Yerbaé Brands Co. 2022 Stock Option Plan. The amounts and terms of Awards granted will be determined by the Yerbaé Board. See *“Schedule “C” – Information Concerning Yerbaé Brands Co. – Description of the Securities – Yerbaé Options”*.

### ***Compensation Governance***

Yerbaé does not currently have any arrangements, standard or otherwise, pursuant to which directors are compensated by Yerbaé for their services in their capacity as directors, or for committee participation, involvement in special assignments or for services as consultants or experts. As with the NEOs, the Yerbaé Board intends to compensate directors and advisory board members primarily through restricted stock grants with values of \$100,000 per year for the full year of completed board service, and reimbursement of expenses incurred by such persons acting as directors of Yerbaé.

Upon closing of the Transaction, the Yerbaé Board intends to implement a compensation program for its executive officers and all employees of the company which consists primarily of base salary and performance-based incentive compensation through payment in Options, PSUs, or RSUs. Executive officers and employees are eligible to earn a percentage of their base salary in the form of a bonus upon the achievement of certain annual sales, profitability, market share and other financial performance metrics determined by the Yerbaé Board. Yerbaé’s compensation program encourages performance with respect to annual corporate objectives and incentivizes continued employment and align the interests of executive officers and employees with the long-term interests of shareholders.

Pursuant to the compensation program, executive officers and all employees will have the opportunity to earn a percentage of their respective annual base salaries in the form of Options, PSUs, or RSUs as follows:



Executive Officers and Employees	Maximum Performance Based Incentive (% of Base Salary)	Type of Performance Based Award	Performance Objective
Tier 6 – Co-Founders	Up to 100%	Stock Options	Achievement of certain company-wide and market-specific sales metrics.
	Up to 100%	RSUs	
Tier 5 – Executive Team	Up to 100%	Stock Options	
	Up to 50%	PSUs	
Tier 4 – Key Leadership	Up to 50%	Stock Options	
	Up to 40%	PSUs	
Tier 3 – Region Manager Level	Up to 35%	Stock Options	
Tier 2 – Area Manager/ FEM Level	Up to 25%	Stock Options	
Tier 1 – Trade Development Level	Up to 10%	Stock Options	

The Options, PSUs, or RSUs will be granted pursuant to the New Equity Incentive Plan and are subject to the vesting conditions determined by the Board at the time of their issuance and in accordance with TSXV policy. See “*Particulars of Matters to be Acted Upon – Adoption of New Equity Incentive Plan*” for more information as well as “*Schedule “D” – Information Concerning the Resulting Issuer – Options to Purchase Securities*” for more information.

Under Yerbaé’s compensation program, it is possible for the executive officers and employees to earn no performance-based incentive payment if they fail to meet the minimum performance objectives set by the Yerbaé Board.

### **Compensation Discussion**

At its present stage of development, Yerbaé does not have any formal objectives, criteria and analysis for determining the compensation of its Named Executive Officers and primarily relies on the discussions and determinations of the board of directors. Given Yerbaé’s size and its stage of development, Yerbaé has not appointed a compensation committee or formalized any guidelines with respect to compensation at this time. It is anticipated that the Resulting Issuer will appoint a compensation committee and will adopt any necessary guidelines if and when such compensation committee is to be constituted.

It is anticipated, however, that the compensation committee of the Resulting Issuer, if constituted, will be comprised of two or more “independent” directors, whose primary function is to monitor and make recommendations to the Resulting Issuer Board in respect of the total compensation paid by the Resulting Issuer to its directors and senior executives. Accordingly, the functions of the compensation committee will be governed by a compensation committee charter once adopted by the Resulting Issuer Board. That said, it is anticipated that the compensation committee will review and consider corporate goals and objectives relevant to compensation for all executive officers of the Resulting Issuer, evaluate the performance of each executive officer in light of those corporate goals and objectives, and determine and/or make recommendations to the Resulting Issuer Board with respect to the level of compensation for the executive officers based on this evaluation. It is anticipated that the compensation committee will review such compensation annually, and submit to the Resulting Issuer Board for its approval, the compensation to be paid to the directors of the Resulting Issuer, in light of director compensation guidelines established by the Resulting Issuer Board.

### *Current Employment Agreements*

As of the date of this Information Circular, Yerbaé has entered into employment agreements with its NEOs and in determining the compensation for their services, Yerbaé considered the total compensation (including direct salary and bonuses as well as benefits) paid to each NEO so that it is at a level that is both in line with its financial resources and such that Yerbaé remains competitive with other beverage companies of a similar size at a similar stage of development.

On January 1, 2022, Yerbaé entered into the Yerbaé CEO Agreement with Todd Gibson, pursuant to which Mr. Gibson, amongst other things, agreed to provide his services as CEO of Yerbaé for a term of four years in consideration for: (i) \$225,000 per annum base salary (which shall be increased at a minimum rate of 5% annually through the duration of the Yerbaé CEO Agreement); (ii) participation in Yerbaé's bonus program of 40% of base compensation with goals to be determined by the Yerbaé Board annually; (iii) participation in Yerbaé's health insurance, 401(k), and other benefit plans; (iv) participate in the Yerbaé Brands Co. 2022 Stock Option Plan; and (v) receive performance stock.

On January 1, 2022, Yerbaé entered into the Yerbaé COO Agreement with Karrie Gibson, pursuant to which Ms. Gibson, amongst other things, agreed to provide her services as COO of Yerbaé in consideration for: (i) \$200,000 per annum base salary (which shall be increased at a minimum rate of 5% annually through the duration of the Yerbaé COO Agreement); (ii) participation in Yerbaé's bonus program of 40% of base compensation with goals to be determined by the Yerbaé Board annually; (iii) participation in Yerbaé's health insurance, 401(k), and other benefit plans; (iv) participate in the Yerbaé Brands Co. 2022 Stock Option Plan; and (v) receive performance stock.

On January 1, 2022, Yerbaé entered into the Director of Finance Agreement with Nicholas Cranny, pursuant to which Mr. Cranny, amongst other things, agreed to provide services as Director of Finance of Yerbaé in consideration for: (i) \$125,000 per annum base salary; (ii) receive a discretionary cash bonus of up to 20% of his base compensation with company objectives to be determined by the CEO and COO from time to time; and (iii) participation in Yerbaé's health insurance, 401(k), and other benefit plans.

On July 10, 2018, Yerbaé entered into the Yerbaé VP Agreement with Seth Smith, pursuant to which Mr. Smith, amongst other things, agreed to provide services as VP, New Business Development of Yerbaé in consideration for: (i) \$200,000 per annum base salary; (ii) receive a discretionary cash bonus in 2018, and receive a cash bonus of up to 25% of his base compensation with company objectives to be determined by the CEO from time to time; and (iii) participation in Yerbaé's health insurance, 401(k), and other benefit plans.

On October 15, 2021, Yerbaé entered into the Yerbaé CMO Agreement with Brian Neumann, pursuant to which Mr. Neumann, through Globalization Partners, an entity which provides globally compliant payroll and benefit plan services, agreed, amongst other things, to provide services as CMO of Yerbaé in consideration for: CAD\$226,000 per annum as a base salary; (ii) received a one-time sign on bonus of CAD\$25,000; (iii) is eligible to receive a bonus of up to 25% of his base salary as Globalization Partners and Yerbaé may determine in their absolute discretion; and (iv) is eligible to participate in Globalization Partners' benefit plans, including its RRSP contribution program. Mr. Neumann's contract with Globalization Partners will be terminated on July 31, 2022. As of August 2, 2022 Mr. Neumann will provide services to Yerbaé through a services agreement with Deel Inc., an entity which provides companies specialized consulting services. Pursuant to Mr. Neumann's agreement with Deel Inc. and Yerbaé, Mr. Neumann is entitled to CAD\$235,000 as a base annual salary. Accordingly, Yerbaé anticipates that Mr. Neumann will be employed by the Resulting Issuer after Closing.

Upon completion of the Transaction, it is expected that the Resulting Issuer will implement compensation policies and programs designed to be competitive with similar companies and to recognize and reward executive performance consistent with the success of the Resulting Issuer's business. These policies and programs are intended to attract and retain capable and experienced people while complying with regulatory requirements. The Resulting Issuer Board may also consider appointing such a compensation committee to formalize guidelines with respect to compensation.

It is expected that in the future the directors and officers of the Resulting Issuer will be granted, from time to time, incentive Kona Bay Options, RSUs, PSUs and DSUs in accordance with the New Equity Incentive Plan, if adopted. See *Particulars of Matters to be Acted Upon – Adoption of New Equity Incentive Plan* for more details on the New Equity Incentive Plan.

#### ***Outstanding Share-Based Awards and Option-Based Awards***

As at the date of this Information Circular, Yerbaé has not granted any share-based awards or option-based awards to its NEOs or directors.

#### ***Defined Benefit Plans***

Yerbaé implemented a 401(K) profit sharing plan (the “**Retirement Plan**”), effective January 1, 2020, pursuant to which eligible employees can elect to defer up to 100% of their compensation and make a contribution to the Retirement Plan on a pre-tax basis (the “**Elective Deferral Contributions**”) and receive safe harbor matching contributions and retirement plan contributions from Yerbaé. If the employees do not make an Elective Deferral Contributions, they will be deemed as non-participating members. The Retirement Plan permits Elective Deferral Contributions to be made as Roth Contributions (which are Elective Deferral Contributions made to the Profit Sharing Plan on an after-tax basis). Yerbaé may match contributions that are made as Roth Contributions. Pursuant to the Retirement Plan, Yerbaé will contribute a safe harbor matching contribution on the employee’s behalf if the employee has made a matched employee contribution (which is any Elective Deferral Contributions or catch-up contributions available to employees over the age of 50), during the Retirement Plan year. Under the Retirement Plan, Yerbaé may also, in its sole discretion, make a Retirement Plan contribution (“**Retirement Plan Contribution**”) to the Retirement Plan on the employee’s behalf, and will be allocated to the Retirement Plan Contribution account of each participant eligible to share in such allocations after the end of the Retirement Plan year.

Yerbaé has also implemented a medical, dental, vision, and life plan dated April 1, 2022, which provide for certain health and welfare plan benefits to eligible employees of Yerbaé.

#### ***Termination and Change of Control Benefits***

Other than disclosed herein, Yerbaé and its subsidiary are not parties to any contracts, and have not entered in to any plans or arrangements which require compensation to be paid to any of the NEOs in the event of: (a) resignation, retirement or any other termination of employment (whether voluntary, involuntary or constructive) with Yerbaé or one of its subsidiaries; (b) a change of control of Yerbaé or one of its subsidiaries; or (c) a change in the director, officer or employee’s responsibilities.

Pursuant to the Yerbaé CEO Agreement and the Yerbaé COO Agreement, Todd Gibson and Karrie Gibson, respectively, will each be compensated 100% of their annual salary plus bonus in the form of separation compensation within 14 days of termination for any reason of separation from Yerbaé. All stock option grants or other awards will automatically vest in full on the day of separation to Mr. Gibson or Ms. Gibson no matter the status of the award earned or potential earning.

Pursuant to the Director of Finance Agreement, Nicholas Cranny’s employment may be terminated by either party at any time, with or without advance notice, for convenience or no reason, by death or permanent disability, or for cause (as determined solely by the CEO).

Pursuant to the Yerbaé VP Agreement, Seth Smith’s employment may be terminated by either party at any time, with or without advance notice, for convenience or no reason, by death or permanent disability, or for cause (as determined solely by the CEO).

Pursuant to the Yerbaé CMO Agreement, upon the termination by Globalization Partners of Mr. Neumann’s employment without cause (as defined in the employment agreement), Globalization Partners shall be required to

provide Mr. Neumann with the greater of: (a) 8 weeks' written notice or pay in lieu of notice and severance pay (if applicable); or (b) such minimum notice of termination, or pay in lieu thereof, and severance pay (if applicable) to which Mr. Neumann is entitled under applicable provincial minimum employment standards legislation.

### **Director and NEO Compensation Table**

The following table sets forth all compensation paid, payable, awarded, granted, given or otherwise provided, directly or indirectly, to each director and NEO of Yerbaé for the financial year ended December 31, 2021 and December 31, 2020:

<b>Name</b>	<b>Period</b>	<b>Fees earned (\$)</b>	<b>Share-based awards (\$)</b>	<b>Option-based awards (\$)</b>	<b>Non-equity incentive plan compensation (\$)</b>	<b>Pension value (\$)</b>	<b>All other compensation (\$)</b>	<b>Total (\$)</b>
Todd Gibson <i>CEO and Director</i>	2021	\$100,000 <sup>(1)</sup>	Nil	Nil	Nil	Nil	Nil	\$100,000
	2020	\$100,000 <sup>(1)</sup>	Nil	Nil	Nil	Nil	Nil	\$100,000
Karrie Gibson <i>COO and Director</i>	2021	\$100,000 <sup>(2)</sup>	Nil	Nil	Nil	Nil	Nil	\$100,000
	2020	\$100,000 <sup>(2)</sup>	Nil	Nil	Nil	Nil	Nil	\$100,000
Brian Neumann <i>CMO</i>	2021	\$226,000 <sup>(3)</sup>	Nil	Nil	Nil	Nil	Nil	\$226,000
	2020	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Seth Smith <i>VP Sales</i>	2021	\$180,000 <sup>(4)</sup>	Nil	Nil	Nil	Nil	Nil	\$180,000
	2020	\$125,000 <sup>(4)</sup>	Nil	Nil	Nil	Nil	Nil	\$125,000
Nick Cranny <i>Director of Financing</i>	2021	\$100,000 <sup>(5)</sup>	Nil	Nil	Nil	Nil	Nil	\$100,000
	2020	\$87,000 <sup>(5)</sup>	Nil	Nil	Nil	Nil	Nil	\$87,000

<sup>(1)</sup> Represents the fees paid to Mr. Gibson in his position as a director and CEO of Yerbaé. Fees earned in U.S. dollars.

<sup>(2)</sup> Represents the fees paid to Ms. Gibson in her position as a director and COO of Yerbaé. Fees earned in U.S. dollars.

<sup>(3)</sup> Represents the fees paid to Mr. Neumann in his position as CMO of Yerbaé. Fees earned in Canadian dollars.

<sup>(4)</sup> Represents the fees paid to Mr. Smith in her position as VP Sales of Yerbaé. Fees earned in U.S. dollars.

<sup>(5)</sup> Represents the fees paid to Mr. Cranny in her position as Director of Financing of Yerbaé. Fees earned in U.S. dollars.

### **Management Contracts**

Except as disclosed herein, Yerbaé is not party to any agreement or arrangement under which compensation was provided during Yerbaé's most recently completed financial year or is payable in respect of services provided to Yerbaé or any of its subsidiaries that were performed by a director or NEO, or performed by any other party but are services typically provided by a director or a NEO or a person performing services of a similar capacity.

### **Non-Arm's Length Party Transactions**

Except as disclosed herein, Yerbaé has not acquired any assets or services or provision of assets or services in any transactions within the 5 years before the date of this Information Circular where Yerbaé has obtained such assets or services from (a) any director, officer or promoter of Yerbaé; (b) a securityholder disclosed in this Information Circular, either before or after giving effect to the Transaction; or (c) an associate or affiliate of any of the persons or companies referred to in (a) and (b).

Pursuant to certain vehicle loans of the Company, the line of credit serviced by Ampla LLC and the U.S. Government SBA loan for which Todd and/or Karrie Gibson are personal guarantors, Yerbaé has agreed to indemnify Mr. and Ms. Gibson for any losses sustained thereunder. There have been no losses incurred by Mr. Gibson, Ms. Gibson or Yerbaé to date in connection with these loans. See “*Schedule “C” – Information Concerning Yerbaé Brands Co. – Materials Contracts – SBA Loan*” for more information on the SBA loan.

### **Legal Proceedings**

There are no material pending legal proceedings to which Yerbaé is a party, or of which any of its property is the subject matter, nor is Yerbaé aware that any such proceedings are contemplated.

### **Auditors**

The auditor of Yerbaé is Sikich LLP, at its Naperville office located at 1415 West Diehl Road, Suite 400, Naperville, Illinois, 60563.

### **Material Contracts**

During the two years prior to the date of this Information Circular, Yerbaé has entered into the following material contracts:

1. the Arrangement Agreement, referred to under “*Particulars of Matters to be Acted Upon – The Transaction*”;
2. the Voting Shareholders Agreement, referred to under “*Schedule “C” – Information Concerning Yerbaé Brands Co. – Description of the Securities – Common Stock*”;
3. the Non-Voting Shareholders Agreement, referred to under “*Schedule “C” – Information Concerning Yerbaé Brands Co. – Description of the Securities*”;
4. the Growth Line of Credit Agreement, referred to under “*Schedule “C” – Information Concerning Yerbaé Brands Co. – General Development of the Business – History – Growth Line of Credit Agreement*”;
5. the SBA loan dated October 19, 2020 between Administration of the Small Business Act and Yerbaé LLC wherein the Administration of the Small Business Act granted Yerbaé LLC a loan for \$150,000, referred to under “*Schedule “C” – Information Concerning Yerbaé Brands Co. – Non-Arms Length Party Transactions*”;
6. the SmartRent Sublease. See below for more information on the terms of the SmartRent Sublease;
7. the Upcountry Agreement. See below for more information on the terms of the Upcountry Agreement;
8. the Cartograph Agreement. See below for more information on the terms of the Cartograph Agreement;
9. the Yerbaé Brands Co. 2022 Stock Option Plan, referred to under “*Schedule “C” – Information Concerning Yerbaé Brands Co. – Terms of the Yerbaé Brands Co. 2022 Stock Option Plan*”;
10. the General Business Security Agreement, referred to under “*Schedule “C” – Information Concerning Yerbaé Brands Co. – General Development of the Business – History – Capital Asset Promissory Note*”;

11. the Settlement Agreement. See below for more information on the terms of the Settlement Agreement;
12. a trademark licensing agreement dated May 4, 2017 between Yerbaé and the Non-GMO Project wherein Yerbaé is licensed to use the certification mark of the Non-GMO Project, referred to under "*Schedule "C" – Information Concerning Yerbaé Brands Co. – Narrative Description of the Business – Proprietary Protection*";
13. the Clinton Agreement. See below for more information on the terms of the Clinton Agreement; and
14. the Roth Engagement Agreement, referred to under "*Particulars of Matters to be Acted Upon – The Transaction – Concurrent Financing and Amalgamation*".

Copies of the material contracts noted above are available for inspection during normal business hours at Yerbaé's registered office located at Corporation Trust Center, 1209 Orange Street, Wilmington, County of New Castle, Delaware, 19801.

#### ***SmartRent Sublease***

On February 10, 2022, Yerbaé LLC entered into the SmartRent Sublease. The original lease is between Canyon Village Partners, Yerbaé LLC and SmartRent Technologies Inc. The term expires November 30, 2022 and the monthly rent is \$8,293.42 plus applicable rental taxes. The security deposit paid is \$8,293.42.

#### ***Upcountry Agreement***

On September 2, 2021, Yerbaé LLC and Upcountry Strategy Ltd. entered into the Upcountry Agreement, whereby Yerbaé LLC retained Upcountry Strategy Ltd. to perform marketing services, as an independent contractor. The services include digital and traditional marketing advisory, social media management, digital product launch campaigns, digital sales and execution assistance and monitoring, art creation, advice and services designed to reduce customer acquisition costs. Yerbaé LLC agreed to pay a combination of cash compensation in the form of the Fixed Monthly Payment (\$12,500 each month due the first day of each month), and non-cash compensation in the form of five year warrants to purchase shares of the Non-Voting Common Stock – Class D-2 Yerbaé Shares at the purchase price of \$1.51 per Yerbaé Share. The Yerbaé shall issue Yerbaé Warrants to purchase a total of up to 75,000 Yerbaé Warrants each year. The term of the Upcountry Agreement is 3 years.

#### ***Cartograph Agreement***

On April 28, 2022, Yerbaé LLC and Cartograph LLC entered into the Cartograph Agreement, pursuant to which Cartograph LLC agreed to provide Yerbaé LLC strategic management and administration of Amazon business across Amazon Retail, Amazon Direct Fulfillment, Fulfillment by Amazon, Amazon Fresh, and Marketplace Sales, and related platforms. In connection therewith, Yerbaé LLC agreed to handle shipping, accounting, invoicing, providing content developed and maintained by Yerbaé LLC, approving pricing, and other internal matters. The term of the Cartograph Agreement is six months until October 31, 2022 and will automatically renew for an additional one year term at the end of each term. Yerbaé LLC will pay Cartograph LLC a commission of 3% on the first \$100,000 in monthly sales of all gross invoice receipts and reverting to the standard 6% on every dollar above \$100,000.01 or a minimum of \$6,000 for the first 3 months of engagement and reverting to \$7,500 minimum after first 3 months of engagement, whichever is greater.

#### ***Settlement Agreement***

On April 11, 2022, Yerbaé entered into the Settlement Agreement with Todd Gibson, Karrie Gibson, Capital Asset, Canal Yerbaé LLC, Krey Investments LLC, Harbor Investments LLC, BEA Investments LLC, certain shareholders holding

Voting Common Stock – Class B Yerbaé Shares, and certain shareholders holding certain classes of Class D non-voting Yerbaé Shares, the purposes of which pertained to the termination of all outstanding shareholders' agreements, side letters and any and all claims or understanding regarding the foregoing.

***Clinton Agreement***

On February 1, 2020, Yerbaé LLC and Clinton's Ditch Cooperative Company, Inc. entered into the Clinton Agreement, whereby Clinton's Ditch Cooperative Company, Inc. agreed to provide bottling and manufacturing services to Yerbaé LLC. The term of the Clinton Agreement automatically renews for consecutive one year terms.

**SCHEDULE “D”****INFORMATION CONCERNING THE RESULTING ISSUER**

*The following information is presented on a post-Transaction basis and is reflective of the projected pro forma business, financial and share capital position of the Resulting Issuer assuming completion of the Transaction. It should be read in conjunction with the information concerning the Transaction appearing elsewhere in this Information Circular. As the Resulting Issuer will be the same corporate entity as Kona Bay, this section only includes information respecting Kona Bay (and Yerbaé, as applicable) after the Transaction that is materially different from information provided elsewhere in the Information Circular regarding Kona Bay and Yerbaé pre-Closing. See Schedule “B” – Information Concerning Kona Bay Technologies Inc.” and “Schedule “C” – Information Concerning Yerbaé Brands Co.” for additional information regarding Kona Bay and Yerbaé, respectively.*

**Corporate Structure*****Name and Incorporation***

Following the Closing, the Resulting Issuer’s jurisdiction of incorporation is to be British Columbia under the provisions of the BCBCA. The Resulting Issuer will continue under the name “Yerbaé Brands Corp.” The Resulting Issuer will continue operations of Yerbaé.

In connection therewith, the Resulting Issuer Shares are expected to be listed on the TSXV under the trading symbol “YERB.U” to reflect the change of name of Kona Bay to “Yerbaé Brands Corp.”

It is expected that the head office and principal address of the Resulting Issuer will be 18801 N Thompson Peak Parkway, Suite 380, Scottsdale, Arizona, 85255 and that its registered and records office will be located at 800 – 885 West Georgia Street, Vancouver, British Columbia, V6C 3H1.

***Intercorporate Relationships***

The following chart illustrates the Resulting Issuer’s principal subsidiaries after completion of the Transaction. All subsidiaries are wholly-owned. The Operating Subsidiary is organized under the State of Delaware *Limited Liability Company Act* and was created as a result of the Merger. Yerbaé LLC will be a wholly-owned subsidiary of the Operating Subsidiary.

<b>Name of Subsidiary</b>	<b>Percentage of Voting Securities Owned</b>	<b>Jurisdiction of Incorporation or Continuance</b>
Newport Concept Corporation	100%	British Columbia
Operating Subsidiary	100%	Delaware
Yerbaé LLC	100%	Delaware

See “Schedule “B” – Information Concerning Kona Bay Technologies Inc. – Corporate Structure – Intercorporate Relationships” for more information.

**Narrative Description of the Business*****Principal Business***

After completion of the Transaction, the business of the Resulting Issuer will be the business of Yerbaé. See “Schedule “C” – Information Concerning Yerbaé Brands Co. – Narrative Description of the Business” for additional information regarding Yerbaé’s principal business.



### **Stated Business Objectives**

The business of the Resulting Issuer following Closing will be the business of Yerbaé. In addition to the business objectives stated below, please also see “*Schedule “C” – Information Concerning Yerbaé Brands Co.– Narrative Description of the Business*” for additional information regarding Yerbaé’s business objectives.

### **Milestones**

#### **Milestones and Business Objectives**

The Resulting Issuer’s intended use of available funds is consistent with its strategy of achieving growth through building brand awareness, pursuing market expansion opportunities, and growing its online digital presence in order to acquire new consumers in North America and other markets.

The Resulting Issuer expects to accomplish the following business objectives and milestones using the available funds (including the net proceeds of the crowdfunding financing and the Concurrent Financing). See “*Schedule “D” – Information Concerning the Resulting Issuer – Available Funds and Principal Purposes – Funds Available*” for additional information of the funds expected to be available to the Resulting Issuer.

The following table sets out the Resulting Issuer’s short to medium targeted business milestones, as well as the expected timeframe for, and cost of, achieving same following the Closing:

<b>Timeframe</b>	<b>Business Objectives</b>	<b>Estimated Costs<sup>(1)</sup> (US\$)</b>
0 to 12 months	Market Expansion (Distribution and Retail): Entering New Regions & Acquiring New Retailers	\$800,000
0 to 12 months	Sales and Marketing (to build brand awareness)	\$1,070,000
0 to 12 months	Innovation and Research and Development	\$80,000

<sup>(1)</sup> Excluding working capital and general corporate purposes.

In order to meet these business objectives, the Resulting Issuer will need to initiate or complete the following milestones in the same twelve-month period:

- ***Business Objective #1 – Market Expansion (Distribution and Retail)***

The Resulting Issuer plans to expand its distribution and retail footprint by increasing the number of retail locations, online sellers, and distributors. Yerbaé’s omni-channel distribution strategy has been the foundation for its success to date and provides a unique opportunity to accelerate growth with additional investment in both digital and traditional retail expansion. Additionally, the Resulting Issuer intends to acquire new customers by strategically sampling at retail locations, events, gyms, and other field marketing activities.

- ***Business Objective #2 – Sales and Marketing***

The Resulting Issuer’s future growth and competitive position depends on the Resulting Issuer’s ability to develop and market its new and current products in line with consumer preferences. As part of its marketing strategy, the Resulting Issuer plans to continue to build brand awareness and undertake various promotions and activities to connect with the target audience. The Resulting Issuer believes the allocation of additional funding will allow the Resulting Issuer to accelerate the sales and marketing of its products. See “*Schedule “C” – Information Concerning Yerbaé Brands Co.– Narrative Description of the Business – Marketing Plans and Strategies*”.

- *Business Objective #3 – Innovation and Research and Development*

The Resulting Issuer plans to use the funds available to support its new product development activities.

While the Resulting Issuer believes that it has the skills and resources necessary to accomplish these business objectives, there is no guarantee that the Resulting Issuer will be able to do so within the timeframes indicated above, or at all. In particular, future developments relating to the ongoing COVID-19 pandemic as well as the evolving international dispute between Russia and the sovereign state of the Ukraine, which the Resulting Issuer cannot currently predict, may require the Resulting Issuer to adjust, delay or postpone, either temporarily or permanently, activities required to achieve its business objectives.

The Resulting Issuer intends to spend the funds available to it as stated above. However, there may be circumstances where, for sound business reasons, a reallocation of the net proceeds may be necessary. The actual amount that the Resulting Issuer spends in connection with each of the intended uses of proceeds will depend on several factors, including those referred to under “*Schedule “A” – Risk Factors*”.

While the Resulting Issuer intends to pursue these milestones, there may be circumstances where, for valid business reasons, a re-allocation of efforts may be necessary or advisable.

### **Description of the Securities**

The authorized capital of the Resulting Issuer will consist of an unlimited number of Resulting Issuer Shares without par value and 100,000,000 Resulting Issuer Preferred Shares without par value.

#### ***Resulting Issuer Shares***

The rights and restrictions attached to the Resulting Issuer Shares are expected to be the same as those of the Kona Bay Shares, as described under “*Schedule “B” – Information Concerning Kona Bay Technologies Inc. – Description of Securities*”.

Upon the completion of the Transaction, the conversion of the outstanding Kona Bay Warrants, and the completion of the Concurrent Financing, a minimum of 54,551,210 Resulting Issuer Shares are expected to be issued and outstanding, of which approximately 15.21% Resulting Issuer Shares will be held by the current shareholders of the Company, approximately 53.98% (excluding those current Yerbaé Shareholders who subscribed under the Concurrent Financing) will be held by the former Yerbaé Shareholders, and 7.22% will be held by the subscribers under the Concurrent Financing.

#### ***Resulting Issuer Options***

In connection with the Closing, it is expected that the 1,406,745 Yerbaé Options currently outstanding will be exchanged for Resulting Issuer Options such that an aggregate of 1,406,745 Resulting Issuer Options will be outstanding effective as of the date of the Final Exchange Bulletin. Each of these Resulting Issuer Options will be exercisable into one Resulting Issuer Share at the respective prices set forth under “*Schedule “C” – Information Concerning Yerbaé Brands Co. – Consolidated Capitalization*”. It is anticipated that 661,912 of these Resulting Issuer Options granted in connection with the Closing will be subject to a Tier 2 value security agreement.

#### ***Resulting Issuer Warrants***

In connection with the Closing, it is expected that the 6,475,051 Yerbaé Warrants will be exchanged for Resulting Issuer Warrants such that an aggregate of 6,475,051 Resulting Issuer Warrants will be outstanding effective as of the date of the Final Exchange Bulletin. Each of these Resulting Issuer Options will be exercisable into one Resulting Issuer Share at the respective prices set forth under “*Schedule “C” – Information Concerning Yerbaé Brands Co. Consolidated Capitalization*”. In addition, the Company currently has 3,277,294 post-Consolidation Kona Bay Warrants outstanding, which are to be exercised into an aggregate of 3,277,294 post-Consolidation Kona Bay Shares on or before the Closing.

## Pro Forma Consolidated Capitalization

The following table sets out the undiluted pro forma share capitalization of the Resulting Issuer, on a consolidated basis, following the Closing. The information should be read in conjunction with the Pro Forma Financial Statements attached as Schedule "I", which provide additional information.

Designation of Security	Amount authorized or to be authorized	Amount outstanding after giving effect to the Transaction <sup>(1)</sup>
Resulting Issuer Shares <sup>(2)</sup>	Unlimited	54,551,210
Resulting Issuer Preferred Shares	100,000,000	Nil
Resulting Issuer Options	-	1,406,745
Resulting Issuer Warrants <sup>(3)</sup>	-	6,475,051

<sup>(1)</sup> Calculated on a post-Consolidation basis.

<sup>(2)</sup> Calculated based on 4,969,074 post-Consolidation Kona Bay Shares currently outstanding and assuming: (a) the issuance of 8,000,000 Performance Shares on or before Closing; (b) the issuance of an aggregate of up to 3,277,294 post-Consolidation Kona Bay Shares in connection with the exercise, on or before the Closing, of the outstanding Kona Bay Warrants; (c) the issuance of 30,157,318 Resulting Issuer Shares to the former Yerbaé Shareholders pursuant to the terms of the Arrangement Agreement, which includes the 693,206 Yerbaé Shares issued as to an aggregate of 585,454 Yerbaé Shares issued under the Yerbaé accredited investor financing and 107,752 Yerbaé Shares issued through crowdfunding concurrent to the Transaction; (d) assuming the issuance of 4,411,764 Resulting Issuer Shares in connection with the conversion, concurrent to Closing, of the Convertible Promissory Notes; (e) assuming a minimum of 3,228,098 Resulting Issuer Shares are issued in connection with the remaining subscription proceeds under the Concurrent Financing; (f) the issuance of 507,662 Resulting Issuer Shares to Roth Canada pursuant to the terms of the Roth Engagement Agreement; and (g) that no other convertible securities of the Company or Yerbaé are exercised.

<sup>(3)</sup> Excludes the issuance of up to 3,277,294 post-Consolidation Kona Bay Warrants, which are to be exercised into an aggregate of 3,277,294 post-Consolidation Kona Bay Shares on or before the Closing. See "Schedule "D" – Information Concerning the Resulting Issuer – Description of the Securities – Resulting Issuer Warrants" for more information.

## Fully Diluted Share Capital

The following table sets out the expected fully diluted share capital of the Resulting Issuer following the Closing:

Description of Security	Number <sup>(1)</sup>	Percentage (%) <sup>(2)</sup>
Resulting Issuer Shares outstanding <sup>(2)</sup>	54,551,210	87.38
Resulting Issuer Shares issuable upon exercise of the Resulting Issuer Options <sup>(3)</sup>	1,406,745	2.25
Resulting Issuer Shares issuable upon exercise of the Resulting Issuer Warrants <sup>(4)</sup>	6,475,051	10.37
<b>Fully-Diluted Total:</b>	<b>62,433,006</b>	<b>100%</b>

<sup>(1)</sup> Calculated on a post-Consolidation basis.

<sup>(2)</sup> Calculated based on 4,969,074 post-Consolidation Kona Bay Shares currently outstanding and assuming: (a) the issuance of 8,000,000 Performance Shares on or before Closing; (b) the issuance of an aggregate of up to 3,277,294 post-Consolidation Kona Bay Shares in connection with the exercise, on or before the Closing, of the outstanding Kona Bay Warrants; (c) the issuance of 30,157,318 Resulting Issuer Shares to the former Yerbaé Shareholders pursuant to the terms of the Arrangement Agreement, which includes the 693,206 Yerbaé Shares issued as to an aggregate of 585,454 Yerbaé Shares issued under the Yerbaé accredited investor financing and 107,752 Yerbaé Shares issued through crowdfunding concurrent to the Transaction; (d) assuming the issuance of 4,411,764 Resulting Issuer Shares in connection with the conversion, concurrent to Closing, of the Convertible Promissory Notes; (e) assuming a minimum of 3,228,098 Resulting Issuer Shares are issued in connection with the remaining subscription proceeds under the Concurrent Financing; (f) the issuance of 507,662 Resulting Issuer Shares to Roth Canada pursuant to the terms of the Roth Engagement Agreement; and (g) that no other convertible securities of the Company or Yerbaé are exercised.

<sup>(3)</sup> See "Schedule "C" – Information Concerning Yerbaé Brands Co. – Consolidated Capitalization" for more information on the Yerbaé Options, which, upon Closing, will constitute all of the outstanding Resulting Issuer Options.

- (4) Excludes up to an aggregate of 3,277,294 post-Consolidation Kona Bay Shares in connection with the exercise, on or before the Closing, of 3,277,294 post-Consolidation Kona Bay Warrants. See also “*Schedule “C” – Information Concerning Yerbaé Brands Co. – Consolidated Capitalization*” for more information on the Yerbaé Warrants, which, upon Closing, will constitute all of the outstanding Resulting Issuer Warrants.

## Available Funds and Principal Purposes

### Funds Available

Kona Bay and Yerbaé had a combined working capital deficit (on an unaudited basis) of approximately US\$1,552,524 as at October 31, 2022, based on an estimated working capital deficit of Kona Bay of US\$118,080 and an estimated working capital deficit of Yerbaé of US\$1,434,444. It is anticipated, however, that the Resulting Issuer will have total funds of approximately US\$3,233,532 available upon completion of the Transaction, which funds shall include aggregate gross proceeds of US\$3,970,561 from the remainder of the Concurrent Financing and anticipated aggregate gross proceeds of US\$815,495 from the exercise of the Kona Bay Warrants.

The breakdown of these funds are as follows:

Sources	(US\$)
Estimated working capital deficit of Kona Bay as at October 31, 2022 (unaudited) <sup>(1)</sup>	(118,080)
Estimated working capital deficit of Yerbaé as at October 31, 2022 (unaudited) <sup>(2)</sup>	(1,434,444)
Gross proceeds from the Concurrent Financing <sup>(3)</sup>	3,970,561
Gross proceeds from the exercise of Kona Bay Warrants <sup>(4)</sup>	815,495
<b>Estimated funds available to the Resulting Issuer upon completion of the Transaction<sup>(1)(5)</sup></b>	<b>3,233,532</b>

(1) Based on the Bank of Canada exchange rate dated September 12, 2022.

(2) Calculated by removing the \$3,000,000 in principal amount owing under the Convertible Promissory Notes payable to Klutch, as such notes are to be effectively eliminated as a liability upon their conversion concurrent with the Closing, and including an aggregate of US\$1,029,438 raised by Yerbaé through a financing of Non-Voting Common Stock – Class D-1 Yerbaé Shares, Non-Voting Common Stock – Class D-2 Yerbaé Shares and Non-Voting Common Stock – Class D-3 Yerbaé Shares to accredited investors, and its crowdfunding financing completed prior to the Closing.

(3) Represents subscription proceeds to be received under the Concurrent Financing, calculated without deducting any cash commissions potentially payable in connection with the Concurrent Financing, less an aggregate of US\$1,029,438 raised by Yerbaé through a financing of Non-Voting Common Stock – Class D-1 Yerbaé Shares, Non-Voting Common Stock – Class D-2 Yerbaé Shares and Non-Voting Common Stock – Class D-3 Yerbaé Shares to accredited investors, and its crowdfunding financing completed prior to the Closing. For more information on Yerbaé’s concurrent financing, see “*Schedule “B” – Information Concerning Kona Bay Technologies Inc. – General Development of the Business – Concurrent Financing and Amalgamation*”.

(4) The 3,277,294 outstanding post-Consolidation Kona Bay Warrants as at the date of this Information Circular, if exercised in full, would generate aggregate proceeds of US\$905,495. Kona Bay anticipates all of the outstanding Kona Bay Warrants will be exercised on or before Closing except for an aggregate of 123,562 Kona Bay Warrants held by Kona Bay Warrant holders who are unfamiliar to current Kona Bay management, reducing the anticipated exercise proceeds available at Closing to US\$815,495. Kona Bay will use its best efforts to obtain the requisite exercise notices and proceeds from those Kona Bay Warrant holders holding the 123,562 Kona Bay Warrants, however Kona Bay cannot guarantee each respective Kona Bay Warrants’ due exercise prior to Closing.

(5) The Resulting Issuer anticipates sufficient revenue from sales to maintain its operating costs for the 12 month period following the completion of the Transaction as set out in this table.

### Principal Purposes of Funds

The following table sets out the principal purposes, using approximate amounts, for which the Resulting Issuer currently intends to use its available funds on completion of the Transaction. The amounts shown in the table are estimates only and are based on the information available to Kona Bay and Yerbaé as of the date hereof. For additional information with respect to the expected use of funds, see the section entitled “*Schedule “D” – Information Concerning the Resulting Issuer – Milestones – Milestones and Business Objectives*”.

Use of Funds	(US\$)
Payments related to the completion of the Transaction <sup>(1)</sup>	390,000
Sales and Marketing	1,070,000
Innovation and Research and Development	80,000
Market Expansion	800,000
General and Administrative Expenses and Payroll <sup>(2)</sup>	800,000
Unallocated working capital <sup>(3)</sup>	93,532
<b>Total:</b>	<b>3,233,532</b>

<sup>(1)</sup> Includes legal fees, auditor review fees, TSXV filing fees, transfer agent fees and other expenses incurred or expected to be incurred in connection with the Transaction, including approximately US\$42,625 payable to Klutch for its reasonable expenses incurred in connection with the negotiation of the Arrangement Agreement and the consummation of the Merger. See “*Particulars of Matters to be Acted Upon – Approval of the Transaction – Fees and Expenses*” for more information.

<sup>(2)</sup> Includes US\$18,750 per month payable to the Resulting Issuer’s CEO, US\$10,416 per month payable to the Resulting Issuer’s CFO, US\$15,000 per month payable to the Resulting Issuer’s VP of Sales; US\$14,175 per month payable to the Resulting Issuer’s CMO; and US\$16,666 per month for the Resulting Issuer’s COO.

<sup>(3)</sup> Unallocated working capital may be allocated to corporate expenses, business development, potential future acquisitions, inventory, general administrative expenses, and other purposes.

The Resulting Issuer anticipates that it will have sufficient cash available to execute its business plan and objectives and to pay its operating and administrative costs for at least 12 months following completion of the Transaction. See *Schedule “C” – Information Concerning Yerbaé Brands Co. – Narrative Description of the Business* and *Schedule “D” – Information Concerning the Resulting Issuer – Milestones – Milestones and Business Objectives* for more information.

Unallocated working capital funds are intended to be for contingency purposes and will be deposited in the Resulting Issuer’s bank account and added to the working capital of the Resulting Issuer. The CFO of the Resulting Issuer will be responsible for the supervision of all financial assets of the Resulting Issuer. Based on the anticipated requirements of the Resulting Issuer, management will determine the appropriate level of liquidity required for operations and will draw down such funds as necessary. There may be circumstances, where for business reasons, a reallocation of funds may be necessary in order for the Resulting Issuer to achieve its stated business objectives.

The Resulting Issuer may decide to raise additional funds through equity financings in the next 12 months, if the Resulting Issuer Board believes it is in the best interests of the Resulting Issuer to do so.

The Resulting Issuer’s intended use of funds accounts for the impacts and effects of COVID-19 that are currently known. Future developments, which the Resulting Issuer cannot currently predict, including those further related to COVID-19 or the evolving international dispute between Russia and the sovereign state of the Ukraine, which the Resulting cannot currently predict, may require the Resulting Issuer to adjust, delay or postpone, either temporarily or permanently, any one of the principal purposes set out above. New or revised directives of various levels of the U.S. government and public health authorities in such jurisdictions, the status of labor, cans, and freight are all factors that could have an adverse impact on the Resulting Issuer’s plans. See *“Schedule “A” – Risk Factors*” for more information.

### ***Dividends or Distributions***

The Resulting Issuer does not currently intend to declare any dividends payable to the holders of the Resulting Issuer Shares. The Resulting Issuer has no restrictions on paying dividends, but if the Resulting Issuer generates earnings in the foreseeable future, it expects that they will be retained to finance growth. The Resulting Issuer Board will determine if and when dividends should be declared and paid in the future based upon the Resulting Issuer’s financial position at the relevant time.

## Principal Securityholders

Following the Closing, it is expected that each of the following persons are expected to own, of record or beneficially, directly or indirectly, or exercise control or direction over, more than 10% of the Resulting Issuer Shares, following the Closing:

Name	Number <sup>(1)</sup>	Percentage (%) <sup>(2)</sup>
Todd Gibson	8,487,396 <sup>(3)</sup>	15.56
Karrie Gibson	8,487,396 <sup>(3)</sup>	15.56

<sup>(1)</sup> Calculated on a post-Consolidation basis.

<sup>(2)</sup> Calculated on an undiluted basis based on 54,551,210 Resulting Issuer Shares expected to be issued and outstanding following completion of the Transaction, assuming: (a) the issuance of 8,000,000 Performance Shares on or before Closing; (b) the issuance of an aggregate of up to 3,277,294 post-Consolidation Kona Bay Shares in connection with the exercise, on or before the Closing, of the outstanding Kona Bay Warrants; (c) the issuance of 30,157,318 Resulting Issuer Shares to the former Yerbaé Shareholders pursuant to the terms of the Arrangement Agreement, which includes the 693,206 Yerbaé Shares issued as to an aggregate of 585,454 Yerbaé Shares issued under the Yerbaé accredited investor financing and 107,752 Yerbaé Shares issued through crowdfunding concurrent to the Transaction; (d) assuming the issuance of 4,411,764 Resulting Issuer Shares in connection with the conversion, concurrent to Closing, of the Convertible Promissory Notes; (e) assuming a minimum of 3,228,098 Resulting Issuer Shares are issued in connection with the remaining subscription proceeds under the Concurrent Financing; (f) the issuance of 507,662 Resulting Issuer Shares to Roth Canada pursuant to the terms of the Roth Engagement Agreement; and (g) that no other convertible securities of the Company or Yerbaé are exercised.

<sup>(3)</sup> Includes the issuance of 2,500,000 Performance Shares on or before Closing.

## Directors, Officers and Promoters

The table below sets out the name, municipality and province of residence, position with the Resulting Issuer, current principal occupation, and the number and percentage of Resulting Issuer Shares which will be beneficially owned, directly or indirectly, or over which control or direction is proposed to be exercised, by each of the Resulting Issuer's proposed directors and officers following the completion of the Transaction.

Name, Municipality and Province of Residence, and Position to be held at Closing	Principal Occupation During Last Five Years	Date Appointed as Director or Officer of Kona Bay or Yerbaé	Resulting Issuer Shares Outstanding on Closing <sup>(1)</sup>	
			Number	Percentage (%)
Todd Gibson <sup>(3)</sup> <i>Arizona, USA</i> <i>CEO and Director</i>	CEO of Yerbaé	CEO of Yerbaé (2017 – Present) Director of Yerbaé (2017 – Present)	8,487,396 <sup>(4)</sup>	15.56%
Karrie Gibson <sup>(2)</sup> <i>Arizona, USA</i> <i>COO and Director</i>	COO of Yerbaé	COO of Yerbaé (2017 – Present) Director of Yerbaé (2017 – Present)	8,487,396 <sup>(4)</sup>	15.56%
William Finn <i>Illinois, USA</i> <i>CFO</i>	Chief Financial Officer and Corporate Secretary of Yerbaé and commercial banking and capital markets consultant.	CFO and Corporate Secretary of Yerbaé (2022 – Present)	Nil	Nil

Name, Municipality and Province of Residence, and Position to be held at Closing	Principal Occupation During Last Five Years	Date Appointed as Director or Officer of Kona Bay or Yerbaé	Resulting Issuer Shares Outstanding on Closing <sup>(1)</sup>	
			Number	Percentage (%)
Renata Kubicek <i>British Columbia, Canada</i> <i>Corporate Secretary</i>	Corporate Secretary of Trillion Energy International Inc., a CSE listed oil and gas producing company with multiple assets throughout Turkey and Bulgaria. She has over 30 years' experience in the corporate and securities industry and has worked at several boutique law firms specializing in corporate securities. Ms. Kubicek has extensive knowledge and expertise in corporate governance continuous disclosure requirements and stock exchange compliance. She is the founder and principal of ArtemisWest Corporate Services Inc., a corporate services company based in Burnaby, British Columbia.	Proposed Corporate Secretary	Nil	Nil
Brian Neumann <i>Ontario, Canada</i> <i>CMO</i>	Held various roles (brand manager, senior brand manager and associate director) at The Kraft Heinz Company from April 2017 to October 2021 and CMO of Yerbaé since October 2021	CMO of Yerbaé (2021 – Present)	Nil	Nil
Seth Smith <i>Illinois, USA</i> <i>VP of Sales</i>	Business Development Director of Diamond Assets LLC from February 2015 to June 2018 and VP of Sales of Yerbaé since June 2018	VP of Sales of Yerbaé (2018 – Present)	159,496	0.29%
Carl Sweat <sup>(2)</sup> <i>Georgia, USA</i> <i>Director</i>	Global CMO of HOA Restaurant Group, LLC from January 2015 to January 2020, Found and CEO of Brand Sherpas, LLC since January 2020, and Co-CEO of ThermaMEDx LLC since April 2020	Proposed Director	Nil	Nil
Andy Dratt <sup>(3)</sup> <i>Illinois, USA</i> <i>Director</i>	Chief Commercial Officer of Imbibe since February 2010 and Operating Partner of Shore Capital Partners since November 2020	Proposed Director	79,748	0.15%
Rose Zanic <sup>(2)</sup> <i>British Columbia, Canada</i> <i>Director</i>	Ms. Zanic has over 24 years' experience in capital markets. Since 2016, she has been self-employed as president of RCF Advisors Ltd., a private company that provides corporate finance consulting services to public and private companies. From January 1997 until July 2016, Ms. Zanic worked with Wolverton Securities Ltd. where she was Senior VP, Corporate Finance in charge of the firm's corporate finance and syndication department. Since 2016, Ms. Zanic has been a director or CFO of several public companies.	Director of Kona Bay (2021 – Present)	Nil	Nil

<sup>(1)</sup> Calculated on an undiluted basis based on 54,551,210 Resulting Issuer Shares expected to be issued and outstanding following completion of the Transaction, assuming: (a) the issuance of 8,000,000 Performance Shares on or before Closing; (b) the issuance of an aggregate of up to 3,277,294 post-Consolidation Kona Bay Shares in connection with the

exercise, on or before the Closing, of the outstanding Kona Bay Warrants; (c) the issuance of 30,157,318 Resulting Issuer Shares to the former Yerbaé Shareholders pursuant to the terms of the Arrangement Agreement, which includes the 693,206 Yerbaé Shares issued as to an aggregate of 585,454 Yerbaé Shares issued under the Yerbaé accredited investor financing and 107,752 Yerbaé Shares issued through crowdfunding concurrent to the Transaction; (d) assuming the issuance of 4,411,764 Resulting Issuer Shares in connection with the conversion, concurrent to Closing, of the Convertible Promissory Notes; (e) assuming a minimum of 3,228,098 Resulting Issuer Shares are issued in connection with the remaining subscription proceeds under the Concurrent Financing; (f) the issuance of 507,662 Resulting Issuer Shares to Roth Canada pursuant to the terms of the Roth Engagement Agreement; and (g) that no other convertible securities of the Company or Yerbaé are exercised.

- (2) Proposed member of Audit Committee.
- (3) Proposed member of the Resulting Issuer's compensation committee, if constituted.
- (4) Includes the issuance of 2,500,000 Performance Shares on or before Closing.

Following the Closing, the proposed directors and officers of the Resulting Issuer as a group are expected to beneficially own, directly or indirectly, or exercise control or direction over, an aggregate of 17,214,036 Resulting Issuer Shares (on an undiluted basis), representing 31.56% of the issued and outstanding Resulting Issuer Shares on an undiluted basis, assuming there are 54,551,210 Resulting Issuer Shares outstanding at Closing.

Each director's term of office will expire at the next annual meeting of the shareholders of the Resulting Issuer, unless they are re-elected at such meeting.

## **Management**

The following is a brief description of the proposed key members of management of the Resulting Issuer:

### ***Todd Gibson – Age: 45 – Arizona, USA – CEO and Director***

Mr. Gibson is an accomplished beverage industry entrepreneur, with over 24 years of experience as an innovator, business builder, and sales leader.

Mr. Gibson is regarded as an execution leader in the beverage industry. Mr. Gibson was distribution manager at Hansen's Energy, better known as Monster Energy who sold the first energy drinks in the US marketplace. Mr. Gibson served in various roles at South Beach Beverage Company (SoBe) prior to the sale of the brand to Pepsi Co. After the sale of SoBe to Pepsi Co., Mr. Gibson served as EVP of Sales at Fuze & Nos Beverage company. During his tenure, from 2001 to 2007, Fuze and Nos Energy brands were listed and sold to Coca Cola. After guiding Fuze & Nos Beverage company to a successful sale to the Coca Cola Company, from 2007 to 2010, Mr. Gibson assumed the role of Division VP and General Manager for the Still Beverage group, a newly formed organization within Coca Cola. In this role, Mr. Gibson's responsibilities included distributor, marketing and retailer relations. Additionally, he led the sales and field marketing teams to provide thought leadership, brand marketing and P&L responsibilities for a significant portfolio, within Coca Cola, exceeding \$1.5 Billion in revenue for the company. He managed a team of over 500 field managers and 112 distribution partners. Following the sale of his beverage businesses and his time at Coca Cola, Mr. Gibson joined Vintage Tech Recyclers in 2010, a private company founded by Karrie Gibson in 2005, and served as the Executive VP of Sales and Marketing and a member of Vintage Tech Recyclers' board of directors until 2015.

It is expected that Mr. Gibson will devote 100% of his time to the business of the Resulting Issuer to effectively fulfill his duties as CEO of the Resulting Issuer. Mr. Gibson has not entered into any non-competition or non-disclosure agreement with Yerbaé nor does he propose to enter into such an agreement with the Resulting Issuer.

### ***Karrie Gibson – Age: 50 – Arizona, USA – COO and Director***

Ms. Gibson is an award-winning entrepreneur with over fifteen years of experience as founder and CEO of Vintage Tech Recyclers (VT), a private company. VT was an award-winning, certified woman-owned asset recovery and electronics recycling firm that services were offered nationwide. The company became the third largest electronic recycling company in the U.S. by the time Ms. Gibson sold the company in 2015. As CEO, from 2005 to 2015, she built and led a talented and dedicated team of over 300 employees, successfully wrote and won seven grants to fund the business, served as an advisor and lobbied for new e-scrap legislation in several states, created over 1,000



government hosted consumer collection sites, implemented a full service fleet, managed 1,000's of staged trailers, chosen by the Federal Environmental Protection Agency to host the launch of the new Sustainable Material Management Electronics Challenge at Vintage Tech Recyclers' HQ, recycled over 1B pounds of materials, and truly became an expert in the e-scrap recycling industry creating a positive impact for the team and the environment. Ms. Gibson previously served as Vice Chairman of the Board & Member of the Executive Committee- The BBB of Chicago, from 2010 to 2018, and served as a member of the board of Vintage Tech Recyclers, VTKK LLC, Illinois Recycling Association from 2019 to 2013, and The Habitat for Humanity of Illinois from 2010 to 2012.

It is expected that Ms. Gibson will devote 100% of her time to the business of the Resulting Issuer to effectively fulfill her duties as COO of the Resulting Issuer. Ms. Gibson has not entered into any non-competition or non-disclosure agreement with Yerbaé nor does she propose to enter into such an agreement with the Resulting Issuer.

***William Finn – Age: 61 – Illinois, USA – CFO***

Mr. Finn has 25 years' experience in the commercial finance industry, where he primarily focused on the traditional commercial banking and capital markets industries. Having worked for large institutions such as GE Capital, National City Bank and Fifth Third as well as smaller regional institutions, Mr. Finn has had the privilege of working with over 500 privately held and publicly traded companies whose annual revenues ranged anywhere between \$10,000,000 to \$10,000,000,000. In early 2016, Mr. Finn shifted his focus from traditional commercial banking to assume a more active role related to operations and commercialization of several companies, including: Isovac Products, LLC, a company which designs, develops, manufactures and commercializes products that provide chemical/biological/radiological (CBR) isolation; GSD Innovations, LLC, a global challenge solutions focused enterprise which seeks to tailor and create customized solutions in the areas of organic waste-to-energy, plastic waste-to-energy, waste tire processing, waste-water treatment and sanitation and prefabricated construction related to housing and commercial buildings; and W.C. Financial, a boutique consulting firm focused on debt advisory and project financing for domestic and international opportunities related to renewable energy, clean water and infrastructure. In addition, Mr. Finn along with a group of former executives from Proctor and Gamble formed Legacy Acquisition Corporation; a Special Purpose Acquisition Company listed on the NYSE. In November of 2017, Legacy Acquisition Corporation raised \$300,000,000 with its initial public offering and in late 2020 the company successfully completed an acquisition of a privately held consumer after-market auto parts company, Onyx/Parts-ID.

It is expected that Mr. Finn will devote 25% of his time to the business of the Resulting Issuer to effectively fulfill his duties as CFO of the Resulting Issuer. Mr. Finn has not entered into any non-competition or non-disclosure agreement with Yerbaé nor does he propose to enter into such an agreement with the Resulting Issuer.

***Renata Kubicek – Age: 53 – British Columbia, Canada – Corporate Secretary***

Ms. Kubicek is the current Corporate Secretary of Trillion Energy International Inc., a CSE listed oil and gas producing company with multiple assets throughout Turkey and Bulgaria. She has over 30 years' experience in the corporate and securities industry and has worked at several boutique law firms specializing in corporate securities. Ms. Kubicek has extensive knowledge and expertise in corporate governance continuous disclosure requirements and stock exchange compliance. She is the founder and principal of ArtemisWest Corporate Services Inc., a corporate services company based in Burnaby, British Columbia.

It is expected that Ms. Kubicek will devote 5% of her time to the business of the Resulting Issuer to effectively fulfill her duties as Corporate Secretary of the Resulting Issuer. Ms. Kubicek has not entered into any non-competition or non-disclosure agreement with Yerbaé nor does she propose to enter into such an agreement with the Resulting Issuer.

***Brian Neumann – Age: 30 – Ontario, Canada – CMO***

Mr. Neumann is a highly decorated and accomplished marketer having led iconic brands in the OTC, Beauty and Food & Beverage industries. Brian currently serves as Yerbaé's CMO after spending his entire career in consumer-packaged goods at world renown companies such as Unilever (in 2014), Johnson & Johnson (from 2015 to 2017) and Kraft Heinz (from 2017 to 2021). Throughout his career, Mr. Neumann has demonstrated a proven track record of success developing products from concept to launch, creating marketing plans that have significant impact and

motivating teams to be their best. In the year before joining Yerbaé, Brian received significant industry recognition at both local and global award shows winning four Lions at the renowned Cannes Lions International Festival of Creativity, three awards at The Clios Awards and Grand Prix at the Epica awards for a total of 110 awards. His Gold Lion at Cannes remains the first and only Gold Lion won by Kraft Heinz in Canada.

It is expected that Mr. Neumann will devote 100% of his time to the business of the Resulting Issuer to effectively fulfill his duties as CMO of the Resulting Issuer. Mr. Neumann has not entered into any non-competition or non-disclosure agreement with Yerbaé nor does he propose to enter into such an agreement with the Resulting Issuer.

***Seth Smith – Age: 34 – Illinois, USA – VP of Sales***

Mr. Smith currently serves as Yerbaé’s VP of Sales after spending more than a decade in global reclaimed IT Distribution within organizations such as Vintage Tech Recyclers (from 2008 to 2015) and Diamond Assets (from 2015 to 2018), both of which were acquired during his tenure. Over the course of his fourteen-year sales career, Mr. Smith has demonstrated an incredible record of success in developing companies and brands from launch to final acquisition, creating sales procedures and plans, building collaborative working relationships and creating a culture of personnel, inspired to win, learn and grow. Mr. Smith brings to Yerbaé’s team his extensive knowledge of business operations, retail programming, distribution management and field execution.

It is expected that Mr. Smith will devote 100% of his time to the business of the Resulting Issuer to effectively fulfill his duties as VP of Sales of the Resulting Issuer. Mr. Smith has not entered into any non-competition or non-disclosure agreement with Yerbaé nor does he propose to enter into such an agreement with the Resulting Issuer.

***Carl Sweat – Age: 58– Georgia, USA – Director***

Carl Sweat is an American entrepreneur and business leader with over 30 years’ experience creating and growing brands spanning the food & beverage and medical device industries. In 2020, Mr. Sweat co-founded a medical device private company, ThermaMEDx LLC, where he serves as co-CEO with a team of doctors, researchers and industry veterans on a mission to provide an accessible and effective treatment to address Meibomian Gland Dysfunction, the primary cause for Dry Eye Disease among over 340 million adults. Mr. Sweat formerly served as Global CMO for HOA Restaurants, a private company, from 2015 to 2020, and also served as President and CEO at The FRS Company, a privately held California beverage and supplement company that produces healthy alternatives to traditional energy drinks. Prior to joining FRS, Mr. Sweat served as Senior VP of Global Beverage at Starbucks after 22 years with The Coca-Cola Company. His final position at Coca-Cola was President and General Manager of the acquired FUZE Beverage Company, from 2007 to 2009.

It is expected that Mr. Sweat will devote at least 5% of his time to the business of the Resulting Issuer to effectively fulfill his duties as a director of the Resulting Issuer. Mr. Sweat has not entered into any non-competition or non-disclosure agreement with Yerbaé nor does he propose to enter into such an agreement with the Resulting Issuer.

***Andy Dratt – Age: 50 – Illinois, USA – Director***

Mr. Dratt is an experienced food industry executive and leader of commercial and technical teams, with a proven track record of building teams, designing go-to-market strategies, identifying and exploiting meaningful points of differentiation, and growing the businesses he’s worked for. From 2010 to present, Andy has served as Chief Commercial Officer of Imbibe, a private industry-leading beverage development company in Chicago. For the last 2 years, Andy also serves as an Operating Partner for Shore Capital Partners, a Chicago-based private equity firm. He also sits on the board of directors for Old World Spice, and is the lead independent director for BevSource, both Shore Capital portfolio companies. Mr. Dratt has an MBA in management – earned in French – from Ecole Supérieure de Commerce de Paris while working for Slim Fast in Paris, and has an undergraduate degree in Economics and Business French from the University of Illinois. Andy is a frequent speaker at food industry events, including Supply Side West, Research Chefs Association, Beverage Forum, and the Prepared Foods New Products Conference.

It is expected that Mr. Dratt will devote at least 5% of his time to the business of the Resulting Issuer to effectively fulfill his duties as a director of the Resulting Issuer. Mr. Dratt has not entered into any non-competition or non-disclosure agreement with Yerbaé nor does he propose to enter into such an agreement with the Resulting Issuer.

**Rose Zanic – Age: 56 – British Columbia, Canada – Director**

Ms. Zanic has over 24 years' experience in the capital markets. She is self-employed as president of RCF Advisors Ltd., a private company that provides corporate finance consulting services to public and private companies. From January 1997 until July 2016, Ms. Zanic worked with Wolverton Securities Ltd. where she was Senior Vice President, Corporate Finance in charge of the firm's corporate finance and syndication department. She is currently a director or officer of several public and private companies. Ms. Zanic holds a Chartered Professional Accountant designation from the Chartered Professional Accountants of British Columbia in 1991. Since September 2016, Ms. Zanic has been a member of the TSXV's Vancouver Local Advisory Committee.

It is expected that Ms. Zanic will devote at least 5% of her time to the business of the Resulting Issuer to effectively fulfill her duties as a director of the Resulting Issuer. Ms. Zanic has not entered into any non-competition or non-disclosure agreement with Yerbaé nor does she propose to enter into such an agreement with the Resulting Issuer.

**Promoter Consideration**

Karrie Gibson, a resident of United States, is a Promoter of the Resulting Issuer. As at the date of this Information Circular, Ms. Gibson, beneficially owns, controls or directs, directly or indirectly, no Kona Bay Shares, however, Ms. Gibson is expected to own 8,487,396 Resulting Issuer Shares representing, on an undiluted basis, approximately 15.56% of the issued and outstanding Resulting Issuer Shares. See "*Schedule "D" – Information Concerning the Resulting Issuer – Directors, Officers and Promoters*" for additional information.

Todd Gibson, a resident of United States, is a Promoter of the Resulting Issuer. As at the date of this Information Circular, Mr. Gibson, beneficially owns, controls or directs, directly or indirectly, no Kona Bay Shares, however, Ms. Gibson is expected to own 8,487,396 Resulting Issuer Shares representing, on an undiluted basis, approximately 15.56% of the issued and outstanding Resulting Issuer Shares. See "*Schedule "D" – Information Concerning the Resulting Issuer – Directors, Officers and Promoters*" for additional information.

**Corporate Cease Trade Orders or Bankruptcies**

No proposed director, officer or promoter of the Resulting Issuer, or a securityholder anticipated to hold a sufficient number of securities of the Resulting Issuer to materially affect control of the Resulting Issuer, is, as at the date of this Information Circular, or has been, within 10 years before the date of this Information Circular, a director, officer or promoter of any company that, while that person was acting in that capacity:

- (a) was subject to (i) a CTO; (ii) an order similar to a CTO; or (iii) an order that denied the relevant company access to any exemptions under applicable securities law, that was in effect for a period of more than 30 consecutive days; or
- (b) became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or was subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold its assets.

**Penalties or Sanctions**

No proposed director, officer or promoter of the Resulting Issuer, or a securityholder anticipated to hold a sufficient number of securities of the Resulting Issuer to materially affect control of the Resulting Issuer, has been subject to:

- (a) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or
- (b) any other penalties or sanctions imposed by a court or regulatory body, including a self-regulatory body, that would be likely to be considered important to a reasonable securityholder making a decision about the Transaction.

### Personal Bankruptcies

No proposed director, officer or promoter of the Resulting Issuer, or a securityholder anticipated to hold a sufficient number of securities of the Resulting Issuer to materially affect control of the Resulting Issuer, or a personal holding company of any such persons, has, within 10 years before the date of this Information Circular, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of such director, officer, promoter or securityholder.

### Conflicts of Interest

The directors of the Resulting Issuer are required by law to act honestly and in good faith with a view to the best interests of the Resulting Issuer and to disclose any interests, which they may have in any project or opportunity of the Resulting Issuer. If a conflict of interest arises at a meeting of the board, any director in a conflict will disclose his interest and abstain from voting on such matter.

As of the date of this Information Circular, there are no known existing or potential conflicts of interest among the Resulting Issuer, any proposed promoter, director, officer or other member of management as a result of their outside business interests except that certain of the directors and officers may serve as directors and officers of other companies, and therefore it is possible that a conflict may arise between their duties to the Company and their duties as a director or officer of such other companies.

### Other Reporting Issuer Experience

The following table sets out the proposed directors, officers and promoters of the Resulting Issuer that are, or have been within the last five years, directors, officers or promoters of other reporting issuers:

Name	Name and Jurisdiction of Reporting Issuer	Trading Market	Position	From	To
Rose Zanic	Clarity Gold Corp.	CSE	Director	October 2021	Present
	FendX Technologies Inc.	N/A	CFO	February 2022	Present
	Marble Financial Inc.	CSE	CFO	November 2021	Present
	Sanatana Resources Inc.	TSXV	Director	September 2021	Present
	Sanibel Ventures Corp.	NEX	Director	October 2017	Present
	VAR Resources Corp. (now Grounded Lithium Corp.)	TSXV	Director	February 2021	August 2022
	Winfield Resources Limited	N/A	Director	August 2022	Present
	Zoomd Technologies Ltd.(formerly Dataminers Capital Corp.)	TSXV	Director	January 2017	August 2019
Renata Kubicek	Surge Battery Metals Inc.	TSXV	Corporate Secretary	June 2022	Present
	Trillion Energy International Inc.	CSE	Corporate Secretary	August 2022	Present

## Executive Compensation

It is anticipated that the Resulting Issuer's three most highly compensated executive officers, in addition to its proposed CEO and CFO will be as follows: (i) Todd Gibson, CEO and director, (ii) Karrie Gibson, COO and director, (iii) Seth Smith, VP of Sales, (iv) Brian Neumann, CMO, and (v) William Finn, CFO. Please see "Schedule "C" – Information concerning Yerbaé Brands Co. – Executive Compensation" regarding the anticipated compensation to be payable to the Named Executive Officers of the Resulting Issuer for the 12-month period after giving effect to the Transaction.

## Indebtedness of Directors and Officers

No director or officer of Kona Bay or Yerbaé, nor any proposed director or officer of the Resulting Issuer, is or has been indebted to Kona Bay or Yerbaé at any time.

## Investor Relations Arrangements

It is the Resulting Issuer's intent to hire and retain Investor relation services to educate and inform the public markets of the companies achievements and information related to the company's financial and milestone performance. As at the date of this Information Circular, Yerbaé has not entered into any written or oral agreement or understanding with any persons to provide any promotional or investor relations services for the Resulting Issuer.

## Options to Purchase Securities

The following table sets forth all Resulting Issuer Options that are expected to be outstanding upon the completion of the Transaction:

Persons who will Receive Stock Options (as a group)	Number of Resulting Issuer Shares Under Option	Exercise Price per Resulting Issuer Share Under Option	Expiration Date	Market Value of Resulting Issuer Shares Under Option on the date of this Information Circular
All proposed officers of the Resulting Issuer (3 persons)	159,496	US\$0.627	July 10, 2028	US\$98,090.04
	103,672	US\$0.627	January 1, 2030	US\$127,517.79
	79,748	US\$0.627	March 25, 2030	US\$196,181.31
	318,993	US\$0.953	October 18, 2031	US\$392,362.62
All proposed directors of the Resulting Issuer (who will not also be executive officers)	Nil	N/A	N/A	N/A
All other persons <sup>(2)</sup> (23 persons)	199,371	US\$0.627	January 1, 2027	US\$245,226.33
	3,189	US\$0.627	August 7, 2027	US\$3,923.70
	39,874	US\$0.627	January 22, 2028	US\$49,045.02
	79,748	US\$0.627	June 20, 2028	US\$98,090.04
	31,899	US\$0.627	January 1, 2029	US\$39,235.77
	15,946	US\$0.652	January 1, 2029	US\$19,618.50
	79,748	US\$0.627	August 1, 2029	US\$98,090.04
	31,899	US\$0.627	October 31, 2029	US\$39,235.77
	63,798	US\$0.627	March 1, 2030	US\$78,472.77
	15,949	US\$0.627	August 16, 2031	US\$19,618.50
	31,899	US\$0.953	October 11, 2031	US\$39,237

	15,949	US\$0.953	October 25, 2031	US\$19,618.50
	15,949	US\$0.953	December 6, 2031	US\$19,618.50
	15,949	US\$0.953	January 24, 2032	US\$19,618.50
	31,899	US\$0.953	February 28, 2032	US\$39,237
	15,949	US\$0.953	April 11, 2032	US\$19,618.50
	15,949	US\$0.953	June 6, 2032	US\$19,618.50
	39,874	US\$0.953	June 20, 2032	US\$49,045.02
<b>Total</b>	<b>1,406,745</b>			

(1) Calculated by multiplying the number of Resulting Issuer Options by the Concurrent Financing price of US\$1.23.

(2) Includes all employees and consultants of the Resulting Issuer as a group.

### **Stock Option Plan**

If the New Equity Incentive Plan is adopted by the Kona Bay Shareholders at the Meeting, the Resulting Issuer will adopt the New Equity Incentive Plan. See “Particulars of Matters to be Acted Upon – Adoption of New Equity Incentive Plan” for more information.

### **Escrowed Securities**

#### **Surplus Escrow Securities**

All of the securities of the Resulting Issuer held by Principals (as defined in TSXV Policy 1.1 – *Interpretation*) following the issuance of the Final Exchange Bulletin will be Surplus Escrow Securities, and will be held in escrow subject to the Surplus Security Escrow Agreement based on TSXV Form 5D – *Escrow Agreement*. The Surplus Security Escrow Agreement will be entered into by the Resulting Issuer, the Transfer Agent or an alternate transfer agent as approved by the Resulting Issuer and the TSXV, and each of the Principals of the Resulting Issuer. The following table sets out details of the number of securities of the Resulting Issuer expected to be held in escrow following the Closing:

<b>Name and Municipality of Residence of Principal</b>	<b>Designation of Security</b>	<b>Number of Securities</b>	<b>Percentage (%)<sup>(1)</sup></b>
Todd Gibson <i>Arizona, USA</i>	Resulting Issuer Shares	8,487,396 <sup>(2)</sup>	15.56%
Karrie Gibson <i>Arizona, USA</i>	Resulting Issuer Shares	8,487,396 <sup>(2)</sup>	15.56%
Seth Smith <i>Illinois, USA</i>	Resulting Issuer Shares	159,496	0.29%
	Resulting Issuer Options	239,245	-
Andy Dratt <i>Illinois, USA</i>	Resulting Issuer Shares	79,748	0.15%
William Finn <i>Illinois, USA</i>	Resulting Issuer Options	31,889	-
Brian Neumann <i>Ontario, Canada</i>	Resulting Issuer Options	318,994	-
Klutch Financial Corp. <i>British Columbia, Canada</i>	Resulting Issuer Shares	4,772,820 <sup>(3)</sup>	9.31%
Mae Suffron <i>British Columbia, Canada</i>	Resulting Issuer Shares	3,796,389 <sup>(4)</sup>	7.40%

Name and Municipality of Residence of Principal	Designation of Security	Number of Securities	Percentage (%) <sup>(1)</sup>
Anne Keay <i>British Columbia, Canada</i>	Resulting Issuer Shares	1,402,875 <sup>(5)</sup>	2.74%
Frank Keay <i>British Columbia, Canada</i>	Resulting Issuer Shares	36,496	0.07%

- (1) Calculated on an undiluted basis based on 54,551,210 Resulting Issuer Shares expected to be issued and outstanding following completion of the Transaction, assuming: (a) the issuance of 8,000,000 Performance Shares on or before Closing; (b) the issuance of an aggregate of up to 3,277,294 post-Consolidation Kona Bay Shares in connection with the exercise, on or before the Closing, of the outstanding Kona Bay Warrants; (c) the issuance of 30,157,318 Resulting Issuer Shares to the former Yerbaé Shareholders pursuant to the terms of the Arrangement Agreement, which includes the 693,206 Yerbaé Shares issued as to an aggregate of 585,454 Yerbaé Shares issued under the Yerbaé accredited investor financing and 107,752 Yerbaé Shares issued through crowdfunding concurrent to the Transaction; (d) assuming the issuance of 4,411,764 Resulting Issuer Shares in connection with the conversion, concurrent to Closing, of the Convertible Promissory Notes; (e) assuming a minimum of 3,228,098 Resulting Issuer Shares are issued in connection with the remaining subscription proceeds under the Concurrent Financing; (f) the issuance of 507,662 Resulting Issuer Shares to Roth Canada pursuant to the terms of the Roth Engagement Agreement; and (g) that no other convertible securities of the Company or Yerbaé are exercised.
- (2) Includes the issuance of 2,500,000 Performance Shares on or before Closing.
- (3) Comprised of 155,173 post-Consolidation Kona Bay Shares, 1,617,647 Resulting Issuer Shares issuable upon conversion of the Convertible Promissory Notes held by Klutch and 3,000,000 Performance Shares issuable on or before Closing.
- (4) Comprised of 965,776 post-Consolidation Kona Bay Shares, 2,794,117 Resulting Issuer Shares issuable upon conversion of the Convertible Promissory Notes held by Ms. Suffron and 36,496 Yerbaé Shares.
- (5) Comprised of 773,276 post-Consolidation Kona Bay Shares, 593,103 Kona Bay Shares issuable upon conversion of Kona Bay Warrants held by Ms. Keay and 36,496 Yerbaé Shares.

Should the Resulting Issuer be accepted by the TSXV as a Tier 2 Issuer, the Surplus Escrow Securities will be subject to the release schedule set out in Schedule B(4) to the Value Security Escrow Agreement. Pursuant to Schedule B(4) of the Value Security Escrow Agreement, 5% of the Surplus Escrow Securities are to be released upon the date of issuance of the Final Exchange Bulletin, 5% of the Surplus Escrow Securities are to be released upon the date that is 6 months following the date of issuance of the Final Exchange Bulletin, 10% of the Surplus Escrow Securities are to be respectively released upon the dates that are 12 and 18 months following the date of issuance of the Final Exchange Bulletin, 15% of the Surplus Escrow Securities are to be respectively released upon the dates that are 24 and 30 months following the date of issuance of the Final Exchange Bulletin, and the remaining 40% of the Surplus Escrow Securities are to be released upon the date that is 36 months following the date of issuance of the Final Exchange Bulletin. Should the Resulting Issuer be accepted by the TSXV as a Tier 1 Issuer, the Surplus Escrow Securities shall be released on an accelerated schedule, as set out in Schedule B(3) of the Value Security Escrow Agreement. Pursuant to Schedule B(3) of the Value Security Escrow Agreement, 10% of the Surplus Escrow Securities would be released upon the date of issuance of the Final Exchange Bulletin, 20% of the Surplus Escrow Securities would be released upon the date that is 6 months following the date of issuance of the Final Exchange Bulletin, 30% of the Surplus Escrow Securities would be released upon the date that is 12 months following the date of issuance of the Final Exchange Bulletin, and 40% of the Surplus Escrow Securities would be released upon the date that is 18 months following the date of issuance of the Final Exchange Bulletin.

The Surplus Escrow Securities may not be transferred without the approval of the TSXV, other than in specified circumstances set out in the Value Security Escrow Agreement.

In addition to the above, all of the Kona Bay Shares to be issued to the former Yerbaé Shareholders (collectively, the “**Voluntary Escrowed Securities**”) pursuant to the Arrangement Agreement are expected to be subject to a contractual lock-up pursuant to the terms as follows:

- (a) any holders of Voting Common Stock – Class A Yerbaé Shares or Voting Common Stock – Class B Yerbaé Shares will be subject to a voluntary escrow with the Resulting Issuer Shares to be released as follows:

- (i) 33.33% of the Resulting Issuer Shares released eighteen months after the Listing Date; and
- (ii) 33.33% of the Resulting Issuer Shares released every six months thereafter;
- (b) any holders of Non-Voting Common Stock – Class D-1 Yerbaé Shares, Non-Voting Common Stock – Class D-2 Yerbaé Shares, Non-Voting Common Stock – Class 2020-1 Yerbaé Shares and Non-Voting Common Stock – Class 2022-1 Yerbaé Shares will be subject to a voluntary escrow with the Resulting Issuer Shares to be released eighteen months after the Listing Date; and
- (c) any holders of Yerbaé Shares (or any securities convertible into Yerbaé Shares) not subject to the voluntary escrow provisions described above (other than the Yerbaé Shares issued on conversion of the Convertible Promissory Notes and issuable upon the exercise of the Warrants issuable upon conversion of the Convertible Promissory Notes) will be subject to a voluntary escrow with the Resulting Issuer Shares to be released as follows:
  - (i) 25% of the Resulting Issuer Shares released eighteen months after the Listing Date; and
  - (ii) 25% of the Resulting Issuer Shares released every four months thereafter.

**Auditor, Transfer Agent and Registrar**

***Auditor***

The auditors of the Resulting Issuer will be MNP LLP, located at 111 Richmond Street West, Suite 300, Toronto, Ontario, M5H 2G4.

***Transfer Agent and Registrar***

The Resulting Issuer anticipates that the Transfer Agent and registrar for the Resulting Issuer will be Odyssey Trust Company.



**SCHEDULE "E"**

**KONA BAY FINANCIAL STATEMENTS**

*[See attached]*



**KONA BAY TECHNOLOGIES INC.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**YEAR ENDED SEPTEMBER 30, 2020**

p | 604.683.3277  
f | 604.684.8464

SUITE 1735, TWO BENTALL CENTRE  
555 BURRARD STREET  
BOX 243  
VANCOUVER, BC V7X 1M9



charlton & company  
CHARTERED PROFESSIONAL ACCOUNTANTS

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of  
**Kona Bay Technologies Inc.**

### **Opinion**

We have audited the accompanying consolidated financial statements of Kona Bay Technologies Inc. (the "Company"), which comprise the consolidated statements of financial position as at September 30, 2020 and 2019 and the consolidated statements of loss and comprehensive loss, cash flows, and changes in shareholders' deficiency for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

### **Basis for Opinion**

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

### **Material Uncertainty Related to Going Concern**

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company had a deficit of \$3,038,445 at September 30, 2020 and a working capital deficiency of \$571,359. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

### **Other Information**

Management is responsible for the other information. The other information comprises the Management Discussion and Analysis. Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

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

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

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

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

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

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

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

The engagement partner on the audit resulting in this independent auditor's report is Melyssa Charlton.

A handwritten signature in cursive script that reads "Charlton & Company". The signature is written in dark ink on a light-colored background.

**CHARTERED PROFESSIONAL ACCOUNTANTS**

Vancouver, BC

January 28, 2021

**KONA BAY TECHNOLOGIES INC.****CONSOLIDATED STATEMENTS OF FINANCIAL POSITION****AS AT SEPTEMBER 30, 2020 and 2019**

(Expressed in Canadian dollars)

	Note	September 30, 2020	September 30, 2019
<b>Assets</b>			
<b>Current Assets</b>			
Cash		\$ 5,753	\$ 1,642
Accounts receivable	5	22,463	13,358
GST receivable		642	-
Interest receivable - promissory notes	7	-	4,723
Prepaid expenses		525	-
Due from Hapuna	13	84,000	-
Due from Bexar	13	-	9,775
		<u>113,383</u>	<u>29,498</u>
<b>Due from Hapuna</b>	13	-	102,814
<b>Promissory notes receivable</b>	7	2	2
<b>Equipment</b>	6	1,942	-
		<u>\$ 115,327</u>	<u>\$ 132,314</u>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Accounts payable and accrued liabilities	13	\$ 560,064	\$ 440,130
Income tax payable	14	35,542	49,309
Debenture payable	8	-	33,000
Promissory notes payable	9	89,136	-
		<u>684,742</u>	<u>522,439</u>
<b>CEBA loan payable</b>	10	40,000	-
		<u>724,742</u>	<u>522,439</u>
<b>Shareholders' Deficiency</b>			
Share capital	11	2,310,140	2,310,140
Reserves	11,12	108,890	108,890
Share subscriptions received	11	10,000	10,000
Deficit		(3,038,445)	(2,819,155)
<b>Total Shareholders' Deficiency</b>		<u>(609,415)</u>	<u>(390,125)</u>
<b>Total Liabilities and Shareholders' Deficiency</b>		<u>\$ 115,327</u>	<u>\$ 132,314</u>

Nature and continuance of operations (Note 1)

Subsequent events (Note 18)

APPROVED ON BEHALF OF THE BOARD OF DIRECTORS ON JANUARY 28, 2021

"Vincent Wong"

Director

"Charles Jenkins"

Director

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

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**KONA BAY TECHNOLOGIES INC.****CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS****FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019**(Expressed in Canadian dollars)

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		Year ended September 30,	
	Note	2020	2019
<b>Revenues</b>			
Internet applications	17	\$ 114,215	\$ 100,469
Management fees	13	72,000	132,000
Interest	7	4,873	30,206
		<u>\$ 191,088</u>	<u>\$ 262,675</u>
<b>Expenses</b>			
Accounting and legal	13	83,907	130,188
Bad debt expense		-	3,004
Corporate development	13	156,600	84,890
Depreciation	6	388	3,311
Directors fees	13	30,000	60,000
Foreign exchange loss (gain)		3,574	(11,068)
Interest expense	8,9	5,887	5,608
Regulatory and filing fees		14,405	18,134
Selling office and general		53,300	72,001
Wages and benefits	13	39,157	202,623
		<u>(387,218)</u>	<u>(568,691)</u>
Write-down of amounts due from related parties	13	(63,880)	-
Gain on settlement of accounts payable and accrued liabilities	13	9,429	-
Gain on settlement of debentures payable	8	18,886	-
Recovery (write-down) of notes receivable	7	(2,437)	83,955
Write-down of equipment	6	-	(112)
Gain on dissolution of subsidiaries	4	1,581	-
<b>Loss before income tax expense</b>		<u>(232,551)</u>	<u>(222,173)</u>
Income tax recovery	14	13,261	45,116
<b>Net loss and comprehensive loss for the year</b>		<u>\$ (219,290)</u>	<u>\$ (177,057)</u>
<b>Loss per share - basic and diluted</b>		\$ (0.03)	\$ (0.03)
<b>Weighed average number of common shares outstanding</b>		<u>7,495,633</u>	<u>6,933,466</u>

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

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**KONA BAY TECHNOLOGIES INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS****FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019**(Expressed in Canadian dollars)

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	<b>Year ended September 30,</b>	
	<b>2020</b>	<b>2019</b>
<b>Operating Activities</b>		
Loss for the year	\$ (219,290)	\$ (177,057)
<b>Items not involving cash</b>		
Write-down of amounts due from related parties	63,880	-
Gain on settlement of accounts payable and accrued liabilities	(9,429)	-
Gain on settlement of debentures payable	(18,886)	-
Recovery (write-down) of notes receivable	2,437	(83,954)
Interest on promissory notes receivable	(4,873)	(30,206)
Bad debt expense	-	3,004
Write-down of equipment	-	112
Depreciation	388	3,311
Interest expense	5,887	5,608
Gain on dissolution of subsidiaries	(1,581)	-
<b>Changes in non-cash working capital items:</b>		
Accounts receivable	(9,746)	2,329
Prepaid expenses	(525)	-
Accounts payable and accrued liabilities	153,057	106,680
Income tax payable	(13,767)	(43,397)
<b>Cash used in operating activities</b>	<b>(52,448)</b>	<b>(213,570)</b>
<b>Financing Activities</b>		
Repayment of debenture payable	(40,640)	-
Repayment of promissory notes and interest	7,159	134,562
Receipt of promissory note payable	87,661	-
Receipt of CEBA loan payable	40,000	-
Issuance of common shares	-	216,265
Share subscriptions received	-	10,000
<b>Cash provided by financing activities</b>	<b>94,180</b>	<b>360,827</b>
<b>Investment Activities</b>		
Acquisition of equipment	(2,330)	-
Due to/from related companies	(35,291)	(143,730)
<b>Cash used in investment activities</b>	<b>(37,621)</b>	<b>(143,730)</b>
<b>Net change in cash</b>	<b>4,111</b>	<b>3,527</b>
<b>Cash, beginning of year</b>	<b>1,642</b>	<b>(1,885)</b>
<b>Cash, end of the year</b>	<b>\$ 5,753</b>	<b>\$ 1,642</b>
Cash paid for interest expense	\$ 7,697	\$ -
Cash paid for income taxes	\$ -	\$ -

There were no non-cash financing or investing activities for the years ended September 30, 2020 and 2019.

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



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KONA BAY TECHNOLOGIES INC.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIENCY

FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019

(Expressed in Canadian dollars)

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	<u>Common shares</u>			Share		Total
	Number	Amount	Reserves	subscriptions	Deficit	shareholders'
				received		deficiency
<b>Balance, September 30, 2018</b>	<b>5,936,194</b>	<b>\$ 2,063,875</b>	<b>\$ 108,890</b>	<b>\$ 30,000</b>	<b>\$ (2,642,098)</b>	<b>\$ (439,333)</b>
Private placements	1,559,439	246,265	-	(30,000)	-	216,265
Share subscriptions received	-	-	-	10,000	-	10,000
Loss for the year	-	-	-	-	(177,057)	(177,057)
<b>Balance, September 30, 2019</b>	<b>7,495,633</b>	<b>2,310,140</b>	<b>108,890</b>	<b>10,000</b>	<b>(2,819,155)</b>	<b>(390,125)</b>
Loss for the year	-	-	-	-	(219,290)	(219,290)
<b>Balance , September 30, 2020</b>	<b>7,495,633</b>	<b>\$ 2,310,140</b>	<b>\$ 108,890</b>	<b>\$ 10,000</b>	<b>\$ (3,038,445)</b>	<b>\$ (609,415)</b>

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

**KONA BAY TECHNOLOGIES INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019**

(Expressed in Canadian dollars)

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**1. NATURE AND CONTINUANCE OF OPERATIONS**

Kona Bay Technologies Inc. (the "Company") is incorporated under the provisions of the Company Act of British Columbia and is listed on the TSX Venture Exchange ("TSX-V"). The Company's principal business activity consists of providing internet-based training applications and services. The address of the Company's corporate office and its principal place of business is 200-375 Water Street, Vancouver, BC, V6B 0M9.

These consolidated financial statements have been prepared on a going concern basis, assuming that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. As at September 30, 2020, the Company has a deficit of \$3,038,445 (2019 - \$2,819,155) and a working capital deficiency of \$571,359 (2019 - \$492,941). The continuing operations of the Company are dependent upon obtaining, in the short term, the necessary financing to meet the Company's operating commitments as they come due and generating profitable operations in the future. These conditions indicate the existence of material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. Failure to continue as a going concern would require that assets and liabilities be recorded at their liquidation values, which might differ significantly from their carrying values. These financial statements do not include any adjustments relating to the recoverability and classification of the recorded asset amounts and classifications of liabilities that might be necessary should the Company be unable to continue in existence.

To the date of this report, the spread of COVID-19 has severely impacted many local economies around the globe. In many countries, including Canada, businesses are being forced to cease or limit operations for long or indefinite periods of time. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown. Global stock markets have also experienced great volatility and a significant weakening. Governments and central banks have responded with monetary and fiscal interventions to stabilize economic conditions. As at the date of this report, the Company has not been significantly impacted by the spread of COVID-19. The duration and impact of the COVID-19 pandemic, as well as the effectiveness of government and central bank responses, remains unclear at this time. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of the Company for future periods.

**2. BASIS OF PREPARATION**

a) Statement of compliance

These financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

b) Basis of measurement

These consolidated financial statements have been prepared on a historical cost basis which are set out in Note 3. The financial statements are presented in Canadian dollars unless otherwise stated.

c) Consolidation

These consolidated financial statements include the accounts of the Company and its controlled entities as follows:

**KONA BAY TECHNOLOGIES INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019**

(Expressed in Canadian dollars)

	Incorporation Jurisdiction	Percentage owned	
		September 30, 2020	September 30, 2019
ACT360 Media Ltd.	British Columbia	100%	100%
ACT360 Solutions USA Inc.	Delaware	-	100%
Kopiena Holdings LLC	Delaware	-	100%
Newport Concepts Corp.	British Columbia	100%	100%

During the year ended September 30, 2020, management dissolved its inactive subsidiaries ACT360 Solutions USA Inc. and Kopiena Holdings LLC (Note 4).

Inter-company balances and transactions, including unrealized income and expenses arising from inter-company transactions, are eliminated on consolidation.

d) Presentation and functional currency

These consolidated financial statements are presented in Canadian dollars. The Canadian dollar is the functional currency of the Company and its wholly-owned Canadian subsidiaries ACT360 Media Ltd. and Newport Concepts Corporation. The United States Dollar is the functional currency of the Company's former wholly-owned United States subsidiaries Act360 Solutions USA Inc., and Kopiena Holdings LLC.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Critical accounting judgments, estimates and assumptions** – The preparation of the Company's financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Critical Judgments

*Going concern of operations*

Management has made the determination that the Company will continue as a going concern for the next year.

*Functional currencies*

Determination of an entity's functional currency involves judgment taking into account the transactions, events, and conditions relevant to each individual entity. Determination of functional currency involves evaluating evidence about the primary economic environment in which each entity operates and is re-evaluated when facts and circumstances indicate that conditions have changed.

*Allocation of expenses*

The Company incurs, either directly or indirectly, wages, benefits and other costs on behalf of Bexar Ventures Inc. ("Bexar") and ACME Lithium Inc. (formerly Hapuna Ventures Inc.) ("ACME") its former wholly owned subsidiaries (Note 13) and are now entities under common control. Judgement is required in determining the amounts that are allocated to the companies.

**KONA BAY TECHNOLOGIES INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019**

(Expressed in Canadian dollars)

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Estimates

*Deferred income taxes*

The determination of deferred income tax assets or liabilities requires subjective assumptions regarding future income tax rates and the likelihood of utilizing tax carry forwards. Changes in these assumptions could materially affect the recorded amounts, and therefore do not necessarily provide certainty as to their recorded values. There is a possibility of tax liabilities arising on dissolved US subsidiaries. Estimates are may be subject to IRS assessments.

*Expected credit losses on accounts receivable and promissory notes receivable*

When determining expected credit losses (“ECLs”), the Company considers the historic credit losses observed by the Company, customer-specific payment history and economic conditions.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL’s, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company’s historical experience, informed credit assessment ad forward-looking information.

*Useful life of equipment*

Depreciation rates and terms applied to equipment are dependent on estimates of useful lives based on management’s past experience and similar rates applied in the industry.

**Foreign currency translation** – The presentation currency of the Company is the Canadian dollar. The functional currency of the parent entity, ACT360 Media Ltd., and Newport Concepts Corp. is the Canadian dollar. The functional currency of ACT360 Solutions USA Inc. and Kopiena Holdings LLC was the US dollar. The US subsidiaries were inactive and as a result, there were no transactions giving rise to AOCI during the years ended September 30, 2020 and 2019.

Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each financial position reporting date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at the date of the statement of financial position. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Revenues and expenses are translated at the exchange rates prevailing on the dates of the transactions. Exchange gains and losses arising on translation are included in profit or loss.

**Cash and cash equivalents** - The Company considers deposits with banks or highly liquid short-term interest-bearing securities that are readily convertible to known amounts of cash and those that have maturities of three months or less when acquired to be cash equivalents. As at September 30, 2020 and 2019, the Company did not have any cash equivalents.

**Equipment** - Equipment is recorded at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives as follows:

Furniture and fixtures 20%  
Computer equipment 33%  
Computer software 50%.

Subsequent expenditures relating to an item of equipment are capitalized when it is probable that future economic benefits from the use of the assets will be increased. All other subsequent expenditures are recognized as repairs and maintenance expense.

**KONA BAY TECHNOLOGIES INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019**

(Expressed in Canadian dollars)

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**Impairment of non-financial assets** – The Company evaluates, on an ongoing basis, the carrying value of its non-financial assets for indications of impairment at each statement of financial position date. If indication of impairment exists, the asset's recoverable amount is estimated in order to determine the extent of the impairment, if any. An impairment loss is recognized when the carrying amount of an asset, or its cash-generating unit ("CGU"), exceeds its recoverable amount. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Impairment losses are recognized in profit or loss for the period. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then to reduce the carrying amount of the other assets in the unit on a pro-rata basis.

The recoverable amount is the greater of the asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their 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 an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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

**Private placement units** – The Company has adopted a residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates the value to the more easily measurable component based on fair value and then the residual value, if any, to the less measurable component. The Company considers the fair value of common shares issued in a unit private placement to be the more easily measurable component. The balance, if any, is allocated to the attached warrants. Any fair value attributed to the warrants is recorded as reserves.

**Share issuance costs** - Professional, consulting, regulatory and other costs directly attributable to financing transactions are recorded as deferred share issuance costs until the financing transactions are completed, if the completion of the transaction is considered likely; otherwise they are expensed as incurred. Share issuance costs are charged to share capital when the related shares are issued. Deferred share issuance costs related to financing transactions that are not completed are charged to expenses.

**Income taxes** - Income tax expense comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity. Current tax expense is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

The Company provides for income taxes using the liability method of tax allocation. Under this method deferred income tax assets and liabilities are determined based on temporary differences between the accounting and tax bases of existing assets and liabilities and are measured using enacted or substantially enacted tax rates expected to apply when these differences reverse. Deferred income tax assets are recognized to the extent that management has determined it is probable to be realized.

**Revenue recognition** - The Company provides internet-based training applications and services. Revenues are recorded when a customer or direct user receives the activation for their user account for one or more of the Company's products and collection is probable.

**KONA BAY TECHNOLOGIES INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019**

(Expressed in Canadian dollars)

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The Company provides management and administrative services to related companies pursuant to Management Administrative Service Agreements. Management fee revenue is recorded monthly on completion of the service and when collection is probable.

**Share-based payments** - The Company records all share-based payments at their fair value. Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured and are recorded at the date the goods or services are received. The corresponding amount is charged to reserves. The Company uses the Black-Scholes option pricing model to estimate the fair value of share-based payments. The share-based payments costs are charged to operations over the stock option vesting period.

Agents' options and warrants issued in connection with common share placements are recorded at their fair value on the date of issue as share issuance costs. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of stock options expected to vest. On the exercise of stock options and agents' options and warrants, share capital is credited for consideration received and for fair value amounts previously credited to reserves.

**Earnings (Loss) per share** - The Company uses the treasury stock method in computing earnings (loss) per share. Under this method, basic earnings (loss) per share is computed by dividing earnings (loss) available to common shareholders by the weighted average number of common shares outstanding during the year. Diluted earnings (loss) per share is calculated by adjusting the weighted average number of common shares outstanding using the treasury stock method, to reflect the potential dilution of securities that could result from the exercise of in-the-money stock options and warrants. For the years presented, the existence of stock options affects the calculation of loss per share on a fully diluted basis.

**Financial instruments** – A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

#### Classification

The Company classifies its financial instruments in the following categories: at fair value through profit and loss ("FVTPL"), at fair value through other comprehensive income (loss) ("FVOCI"), or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification depends on the Company's business model for managing the financial assets and the contractual terms of the cash flows. For assets measured at fair value, gains and losses are either recorded in profit or loss or OCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or the Company has opted to measure them at FVTPL.

A financial liability is classified as at FVTPL if it is classified as held-for-trading or is designated as such on initial recognition. Directly attributable transaction costs are recognized in profit or loss as incurred. The fair value changes to financial liabilities at FVTPL are presented as follows: the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and the remaining amount of the change in the fair value is presented in profit or loss. The Company does not designate any financial liabilities at FVTPL.

Other non-derivative financial liabilities, are initially measured at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortized cost using the effective interest method.

The Company's financial assets consists of cash, which is classified and measured at FVTPL, and amounts receivable, promissory note receivable, due from related party which are measured at amortized cost using the effective interest

**KONA BAY TECHNOLOGIES INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019**

(Expressed in Canadian dollars)

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method. The Company's financial liabilities consist of accounts payable and accrued liabilities, shareholder loan, due to related party, CEBA loan payable, and promissory note payable, which are classified and measured at amortized cost using the effective interest method. Interest expense is reported in net loss.

#### Measurement

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at FVTPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss. Financial assets are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Subsequent measurement of financial assets depends on their classification. There are three measurement categories under which the Company classifies its debt instruments:

- **Amortized cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. A gain or loss on a debt investment that is subsequently measured at amortized cost is recognized in profit or loss when the asset is derecognized or impaired. Interest income from these financial assets is included as finance income using the effective interest rate method.
- **FVOCI:** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains and losses, interest revenue, and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in other gains (losses). Interest income from these financial assets is included as finance income using the effective interest rate method.
- **FVTPL:** Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVTPL. A gain or loss on an investment that is subsequently measured at FVTPL is recognized in profit or loss and presented net as revenue in the Statement of Loss and Comprehensive Loss in the period in which it arises.

#### Impairment

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses of the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. The Company shall recognize in the statements of loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

#### Derecognition

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are generally recognized in profit or loss.

**Compound financial instruments** – Compound financial instruments issued by the Company comprise convertible debentures that can be converted into share capital at the option of the holder, and the number of shares issued does not vary with changes in their fair value.

**KONA BAY TECHNOLOGIES INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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(Expressed in Canadian dollars)

The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have the conversion option. The equity component is recognized initially as the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition.

**Government assistance** – The Company recognizes government grant assistance when there is reasonable assurance the grant will be received and any conditions associated with the grant will be met.

**Application of new and revised accounting standards effective October 1, 2019**

The following new accounting standards and amendments which the Company adopted and are effective for the Company's annual financial statements commencing October 1, 2019:

In January 2016, the IASB issued IFRS 16, Leases ("IFRS 16") which replaces IAS 17, Leases and its associated interpretative guidance. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset being leased. For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to current finance lease accounting, with limited exceptions for short-term leases or leases of low-value assets. Lessor accounting remains similar to current accounting practice. The standard is effective for annual periods beginning on or after January 1, 2019.

Effective October 1, 2019, the Company adopted IFRS 16. The Company went through the process and identified no contracts that might be relevant under the new standard and the Company determined that the adoption of this standard did not have a significant impact on its consolidated financial statements.

**4. DISSOLUTION OF SUBSIDIARIES**

During the year ended September 30, 2020, the Company dissolved its two wholly-owned US subsidiaries, ACT360 USA Inc. and Kopia Holdings LLC. The operating loss for the years ended September 30, 2020 and 2019 was negligible as the entities were inactive. The Company realized a gain of \$1,581 on disposal.

**5. AMOUNTS RECEIVABLE**

Amounts receivable consist of the following:

	<b>September 30, 2020</b>	<b>September 30, 2019</b>
Trade accounts receivable	\$ 22,463	\$ 13,358



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**6. EQUIPMENT**

	Computer Equipment	Furniture and Fixtures	Total
<b>Cost:</b>			
September 30, 2019	\$ -	\$ -	\$ -
Additions	2,330	-	2,330
<b>September 30, 2020</b>	<b>\$ 2,330</b>	<b>\$ -</b>	<b>\$ 2,330</b>
<b>Depreciation:</b>			
September 30, 2019	\$ -	\$ -	\$ -
Additions	(388)	-	(388)
<b>September 30, 2020</b>	<b>\$ (388)</b>	<b>\$ -</b>	<b>\$ (388)</b>
<b>Net book value:</b>			
<b>At September 30, 2020</b>	<b>\$ 1,942</b>	<b>\$ -</b>	<b>\$ 1,942</b>
	Computer Equipment	Furniture and Fixtures	Total
<b>Cost:</b>			
September 30, 2018	\$ 28,432	\$ 1,967	\$ 30,399
Disposals	(28,432)	(1,967)	(30,399)
<b>September 30, 2019</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Depreciation:</b>			
September 30, 2018	\$ (25,331)	\$ (1,645)	\$ (26,976)
Additions	(3,102)	(209)	(3,311)
Disposals	28,433	1,854	30,287
<b>September 30, 2019</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Net book value:</b>			
<b>At September 30, 2019</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

**7. PROMISSORY NOTES RECEIVABLE**

During the year ended September 30, 2018, the Company issued promissory notes to Bexar and ACME with principal amounts of \$200,000 and \$325,000, respectively, with maturity dates of December 13, 2020. Interest was calculated and accrued daily at 6% per annum from the date of issue, payable on a semi-annual basis commencing on June 13, 2018. During their term, the promissory notes could be negotiated, assigned, discounted or pledged by the Company.

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The amounts receivable consist of the following:

<b>Principal</b>	<b>Bexar</b>	<b>ACME</b>	<b>Total</b>
<b>Balance, September 30, 2018</b>	\$ 1	\$ 1	\$ 2
Repayment	(119,000)	-	(119,000)
Recovery	119,000	-	119,000
<b>Balance, September 30, 2019 and 2020</b>	<b>\$ 1</b>	<b>\$ 1</b>	<b>\$ 2</b>
<b>Accrued Interest</b>			
<b>Balance, September 30, 2018</b>	\$ 9,577	\$ 15,547	\$ 25,124
Accrued interest	10,708	19,498	30,206
Repayment	(15,562)	-	(15,562)
Impairment provision	-	(35,045)	(35,045)
<b>Balance, September 30, 2019</b>	<b>4,723</b>	<b>-</b>	<b>4,723</b>
Accrued interest	4,873	-	4,873
Repayment	(7,159)	-	(7,159)
Impairment provision	(2,437)	-	(2,437)
<b>Balance, September 30, 2020</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

In recent years, the revenues earned in Bexar and ACME's operations have declined significantly. Both companies are economically dependent on its customers; Bexar is economically dependent on a single customer and ACME on three customers. Given that management is not in a position to be able to estimate the future cash flows attributable to the promissory notes with any degree of certainty, the promissory notes were written down to \$1 each at September 30, 2018.

During the year ended September 30, 2019, Bexar repaid \$119,000 of the principal, together with \$15,562 of accrued interest. Accordingly, a recovery of \$119,000 was recorded in the statement of loss and comprehensive loss.

During the year ended September 30, 2020, the Company wrote down the remaining interest receivable on the Bexar loan.

**8. DEBENTURES PAYABLE**

<b>Principal</b>	
<b>Balance, September 30, 2018 and 2019</b>	\$ 33,000
Repayment of principal	(33,000)
<b>Balance September 30, 2020</b>	<b>\$ -</b>
<b>Accrued Interest</b>	
<b>Balance, September 30, 2018</b>	\$ 16,506
Accrued interest	5,608
<b>Balance, September 30, 2019</b>	<b>22,114</b>
Interest accrued	4,412
Interest paid	(7,640)
Recovery	(18,886)
<b>Balance, September 30, 2020</b>	<b>\$ -</b>

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On December 9, 2016, the Company completed a private placement of 120 convertible debenture units (the “Convertible Debenture Units”) for gross proceeds of \$120,000. Each Convertible Debenture Unit consists of a convertible debenture in the principal amount \$1,000 (the “Debentures”) and 6,250 detachable share purchase warrants. The convertible debentures (“Debentures”) are unsecured, bear interest at the rate of 17% per annum, payable semi-annually, and matured on December 9, 2019. The debentures may be converted at the option of the holder to common shares of the Company at a rate of \$0.16 per share.

Convertible debentures are a compound financial instrument with the liability and equity component being classified separately in the consolidated statements of financial position on the date of issuance. The fair value of the liability component is determined first, with the residual value, if any, being allocated to the equity component. At the time of issuance, the fair value of the liability component was determined to be equal to the proceeds received. Accordingly, no amount has been allocated to the equity component.

During the year ended September 30, 2020, the parties agreed to settle the outstanding principal balance of \$33,000 and interest of \$7,640. The Company paid \$40,640 as a final cash settlement of the outstanding balances, and accordingly recognized a gain on settlement of \$18,886 during the year.

**9. PROMISSORY NOTES PAYABLE**

	Due to the CEO and director	Due to the CEO and director	Due to shareholder	Total
<b>Principal</b>				
Balance, September 30, 2019	\$ -	\$ -	\$ -	\$ -
Principal	10,000	57,661	20,000	87,661
<b>Balance, September 30, 2020</b>	<b>10,000</b>	<b>57,661</b>	<b>20,000</b>	<b>87,661</b>
<b>Interest</b>				
Balance, September 30, 2019	-	-	-	-
Accrued	205	882	388	1,475
<b>Balance, September 30, 2020</b>	<b>\$ 205</b>	<b>\$ 882</b>	<b>\$ 388</b>	<b>\$ 1,475</b>
Total September 30, 2019	\$ -	\$ -	\$ -	\$ -
<b>Total September 30, 2020</b>	<b>\$ 10,205</b>	<b>\$ 58,543</b>	<b>\$ 20,388</b>	<b>\$ 89,136</b>

The promissory notes bear interest at a rate of 6% per annum compounded annually, are unsecured, and are due on demand. The notes may be repaid in cash or common shares at the option of the Company.

**10. CEBA LOAN PAYABLE**

On April 14, 2020, the Company received the Canadian Emergency Benefit Account (“CEBA”) loan in the amount of \$40,000. The loan is unsecured, non-interest bearing, matures on December 31, 2022. If 75% (\$30,000) of the balance is repaid by that date, the remaining \$10,000 will be forgiven. If the loan is not repaid by December 31, 2022, the maturity date will be extended to December 31, 2025, and interest of 5% per annum, payable monthly, will accrue beginning January 1, 2023.

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## **11. SHARE CAPITAL**

The Company has authorized share capital of an unlimited number of common shares without par value, and 100,000,000 preferred shares without par value. The issued share capital consists only of common shares.

During the year ended September 30, 2020, the Company did not complete any financings.

During the year ended September 30, 2019, the Company completed the following:

- On May 8, 2019, the Company completed a private placement of 781,665 common shares of the Company at a price of \$0.21 per share for gross proceeds of \$164,150, less offering costs of \$11,218.
- On November 13, 2018, the Company completed a private placement of 777,774 units of the Company at a price of \$0.12 per unit for gross proceeds of \$93,333. Each unit consisted of one common share of the Company and one common share purchase warrant, with each warrant entitling the holder to purchase an additional common share at a price of \$0.16 per share for a period of one year until November 13, 2019. \$30,000 of these proceeds were subscriptions received in the year ended September 30, 2018.

### **Share Subscriptions Received**

During the year ended September 30, 2019, \$10,000 in stock subscriptions were received pursuant to private placements. These subscriptions are for:

- 83,333 units of the Company at a price of \$0.12 per unit for gross proceeds of \$10,000. Each unit consists of one common share of the Company and one share purchase warrant, with each warrant entitling the holder to purchase an additional common share of the Company at a price of \$0.16 per share for a period of one year from the date of issue.

On January 12, 2021, the \$10,000 subscription was refunded to the subscriber.

## **12. STOCK OPTIONS AND WARRANTS**

### **Stock Options**

The Company has a stock option plan for directors, employees, and consultants. The aggregate number of shares issuable pursuant to options granted under the plan is limited to 10% of the Company's issued and outstanding common shares at the time the options are granted. The number of common shares reserved for issuance to any individual director or officer will not exceed 5% of the issued and outstanding common shares, and the number of common shares reserved for issuance to all technical consultants will not exceed 2% of the issued and outstanding common shares. The exercise price of each option is determined by the Board, subject to the pricing policies of the TSX Venture Exchange.

As at September 30, 2020 and 2019, nil options were outstanding.

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**Warrants**

The warrants outstanding at September 30, 2020 have a weighted average remaining contractual life of 1.84 years (2019 - 1.73 years). Warrant transactions are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price
Outstanding , September 30, 2018	3,813,495	\$ 0.16
Granted	<u>777,774</u>	<u>0.16</u>
Outstanding , September 30, 2019	4,591,269	0.16
Expired	<u>(1,944,439)</u>	<u>0.16</u>
Outstanding, September 30, 2020	<u>2,646,830</u>	<u>\$ 0.16</u>

The following table summarizes information about warrants outstanding and exercisable at September 30, 2020:

Expiry Date	Exercise Price per Share	Outstanding and Exercisable
December 9, 2021	\$ 0.16	1,000,000
February 15, 2022	\$ 0.18	113,500
November 27, 2022	\$ 0.16	775,000
March 8, 2023	\$ 0.16	<u>758,330</u>
		<u>2,646,830</u>

**13. RELATED PARTY TRANSACTIONS**

The Company has identified its directors and certain senior officers as its key personnel and the compensation costs for key personnel and companies related to them were recorded at the amounts as agreed upon by transacting parties.

The remuneration of the Company's directors and other key management was as follows during the years ended September 30, 2020 and 2019:

		Year ended September 30,	
		2020	2019
Directors fees	(a)	\$ 30,000	\$ 60,000
Management salary and consulting	(b)	84,000	96,354
Corporate development fees	(c)	72,000	72,000
Professional fees	(d)	<u>36,000</u>	<u>41,300</u>
		<u>\$ 222,000</u>	<u>\$ 269,654</u>

- (a) During the year ended September 30, 2020, the Company incurred directors fees of \$30,000 (2019 - \$60,000). As at September 30, 2020, the Company owed \$155,000 (2019 - \$125,000) in directors fees payable to the CEO and director and former directors which is included in accounts payable and accrued liabilities. The balance is non-interest bearing, unsecured and due on demand.

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- (b) During the year ended September 30, 2020, the Company recorded management fees for the CEO and director of \$84,000 (2019 - \$96,354). During the year, the CEO was removed from payroll and the parties entered into a consulting agreement whereby the CEO's compensation was reduced. On the transition, the CEO forgave \$9,429 in vacation payables owed to him. The remuneration was reclassified to corporate development from wages and benefits. As at September 30, 2020, the Company owed \$94,689 (2019 - \$59,016) to the CEO which is included in accounts payable and accrued liabilities. The balance is non-interest bearing, unsecured and due on demand.
- (c) During the year, the Company recorded \$72,000 (2019 - \$72,000) in corporate development fees to a former director. As at September 30, 2020, there is a balance of \$110,900 (2019 - \$37,800) owing to the former director which is included in accounts payable and accrued liabilities and is non-interest bearing, unsecured and due on demand.
- (d) Professional fees of \$36,000 (2019 - \$41,300) were recorded during the year pursuant to a contract with the Chief Financial Officer and of the Company. As at September 30, 2020, there is a balance of \$28,500 (2019 - \$12,600) owing to the Chief Financial Officer and director which is included in accounts payable and accrued liabilities and is non-interest bearing, unsecured and due on demand.

On December 15, 2017, the Company entered into Management Administrative Services Agreements (the "MASAs") with Bexar and ACME for the purpose of providing certain management and administrative services to the companies. Pursuant to the MASA, the companies paid a monthly service fee that will be reviewed and mutually agreed upon prior to the start of each fiscal year on October 1<sup>st</sup>. The MASAs terminated on September 30, 2019, and were renewed on a month-to-month basis during the period.

During the year ended September 30, 2020, the companies were charged \$72,000 (2019 - \$132,000). As at September 30, 2020, the balances due from Bexar of \$nil (2019 - \$9,775) and ACME \$84,000 (2019 - \$102,814) consisted of management fees charged and expenses incurred on behalf of Bexar and ACME. During the year ended September 30, 2020, the Company provided \$60,000 in consulting services to ACME that were not recognized as revenues as the collectability was deemed to be uncertain.

Subsequent to September 30, 2020, the Company forgave the amounts due from Bexar and entered into a settlement agreement whereby the amounts due from ACME would be settled for cash payments of \$84,000. Consequently, the Company wrote-down \$28,153 and \$35,727 of receivables due from Bexar and ACME.

**14. INCOME TAXES**

The following table reconciles the amount of income tax recoverable on application of the combined statutory Canadian and United States federal and provincial income tax rates:

	<b>2020</b>	<b>2019</b>
Loss for the year	(232,551)	(222,173)
Statutory income tax rate	25.83%	27.02%
Expected income tax recovery	\$ (60,063)	\$ (60,021)
Non-deductible expenses and others	25,268	(23,429)
Change in statutory, foreign tax, foreign exchange rates and other	74	(2)
Change in unrecognized deferred income tax assets	(34,721)	(83,452)
Valuation allowance	21,460	38,336
Income tax recovery	<u>\$ (13,261)</u>	<u>\$ (45,116)</u>

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The significant components of the Company's deferred tax assets are as follows:

Non-capital and net operating losses	\$ 721,826	\$ 706,451
Share issuance costs and others	1,875	2,539
Equipment	2,220	2,727
CEBA loan	2,700	-
	<u>728,621</u>	<u>711,717</u>
Unrecognized deferred income tax assets	(728,621)	(711,717)
Net deferred income tax assets	<u>\$ -</u>	<u>\$ -</u>
Deductible temporary differences:		
Non-capital loss carry-forwards	\$ 2,673,429	\$ 2,613,813
Share issuance costs and others	6,943	9,403
Equipment	8,221	10,101
CEBA loan	10,000	-
Deductible temporary differences	<u>\$ 2,698,593</u>	<u>\$ 2,633,317</u>

Based upon the level of historical taxable income and projections for future taxable income over the years in which the potential deferred tax assets are deductible, management has not recognized any deferred income tax assets.

Subject to certain restrictions, the Company has non-capital losses of \$2,673,000 (2019: \$2,613,000) available to reduce future Canadian taxable income. As at September 30, 2020, the non-capital losses expire between the years of 2026 and 2040.

The application of non-capital losses against future taxable income is subject to final determination of the respective amounts by the Canada Revenue Agency.

## **15. CAPITAL MANAGEMENT**

The Company's capital currently consists of common shares and reserves of \$2,419,030 (September 30, 2019 - \$2,419,030). The Company's objective when managing capital is to safeguard the entity's ability to continue as a going concern, meet financial obligations, have sufficient capital to achieve and maintain profitable operations and to provide returns for shareholders and benefits for other stakeholders. As at September 30, 2020, the Company has a working capital deficiency and requires additional capital. Management expects to raise such additional capital during the current fiscal year.

## **16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

### **Risk Management**

The Company is exposed to risks that arise from its use of financial instruments. The Board of Directors has overall responsibility for the determination of the Company's risk management objectives and policies and, while retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Company's finance function.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Company's competitiveness and flexibility. Further details regarding these policies are set out below.

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**Market Risk**

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices are comprised of three types of risk: foreign currency risk, interest rate risk, and equity price risk.

**Foreign Currency Risk**

Foreign currency risk is the risk that a variation in exchange rates between the Canadian dollar and United States dollar or other foreign currencies will affect the Company's operations and financial results. The Company is exposed to currency risk to the extent that monetary assets and liabilities held by the Company are not denominated in Canadian dollars. The Company has not entered into any foreign currency contracts to mitigate this risk.

The Company holds balances in United States dollars which could give rise to exposure to foreign exchange risk. Sensitivity to a plus or minus 10% change in the foreign exchange rate of the United States dollar to the Canadian dollar would affect the reported loss and comprehensive loss by approximately \$1,390 (September 30, 2019 – \$825), as detailed below:

	<b>September 30,</b>	<b>September 30,</b>
	<b>2020</b>	<b>2019</b>
United States Dollar Denominated Balances		
Cash	1,342	1,272
Accounts Receivable	22,245	13,358
Accounts payable and accrued liabilities	(9,691)	(8,911)
	<u>13,896</u>	<u>5,719</u>
10% change in exchange rate impact	<u>1,859</u>	<u>757</u>

**Credit Risk**

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Financial instruments which are potentially subject to credit risk for the Company consist primarily of cash and cash equivalents and accounts receivable. Cash is maintained with financial institutions of reputable credit and may be redeemed upon demand.

The carrying amount of financial assets represents the maximum credit exposure. The Company has gross credit exposure at September 30, 2020 relating to cash of \$5,753 (2019 - \$1,642) held in deposits at Canadian chartered banks. The Company considers this credit risk to be minimal for all cash assets based on changes that are reasonably possible at the reporting date. The Company has gross credit exposure at September 30, 2020 relating to trade accounts receivable of \$22,463 (2019 - \$13,358), due from related companies \$84,000 (2019 - \$112,489) and promissory notes and accrued interest receivable of \$nil (2019 - \$4,723). There is a concentration risk in accounts receivable. The Company considers this credit risk to be minimal.

**Liquidity Risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The key to success in managing liquidity is the degree of certainty in the cash flow projections. If future cash flows are fairly uncertain, the liquidity risk increases.



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Typically, the Company ensures that it has sufficient cash on demand to meet expected operational expenses. To achieve this objective, the Company prepares annual capital expenditure budgets which are regularly monitored and updated as necessary. The Company monitors its risk of shortage of funds by monitoring the maturity dates of existing trade and other accounts payable and accrued liabilities.

The following table sets out the contractual maturities (representing undiscounted contractual cash flows) of financial liabilities:

	Up to 3 months	Between 3 & 12 months	Between 1 & 3 years	Total
<b>September 30, 2020</b>				
Accounts payable and accrued liabilities	\$ 560,064	\$ -	\$ -	\$ 560,064
Promissory notes payable	89,136	-	-	89,136
CEBA loan payable	-	-	40,000	40,000
	<u>\$ 649,200</u>	<u>\$ -</u>	<u>\$ 40,000</u>	<u>\$ 689,200</u>
<b>September 30, 2019</b>				
Accounts payable and accrued liabilities	\$ 440,130	\$ -	\$ -	\$ 440,130
Debenture payable	-	-	33,000	33,000
	<u>\$ 440,130</u>	<u>\$ -</u>	<u>\$ 33,000</u>	<u>\$ 473,130</u>

**Fair Value of Financial Instruments**

The Company provides information about financial instruments that are measured at fair value, grouped into Level 1 to 3 based on the degree to which the inputs used to determine the fair value are observable.

- Level 1 fair value measurements are those derived from quoted prices in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1, that are observable either directly or indirectly.
- Level 3 fair value measurements are those derived from valuation techniques that include inputs that are not based on observable market data.

	Level 1	Level 2	Total
<b>September 30, 2020</b>			
Cash	\$ 5,753	\$ -	\$ 5,753
Promissory notes receivable	-	2	2
	<u>5,753</u>	<u>2</u>	<u>5,755</u>
<b>September 30, 2019</b>			
Cash	1,642	-	1,642
Promissory notes receivable	-	2	2
Debenture payable	-	(33,000)	(33,000)
	<u>\$ 1,642</u>	<u>\$ (32,998)</u>	<u>\$ (31,356)</u>

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Cash is measured using level 1 fair value inputs. The fair value of the convertible debenture is based on level 2 inputs and estimated using the fair value of a similar liability that does not have the conversion option. The fair values of promissory notes receivable are based on level 2 fair value inputs and estimated using the present value of future cash flows based on current interest rates for financial instruments with similar conditions and maturity. As at September 30, 2020, the Company believes the carrying values of its accounts receivable, interest receivable, due from related companies, accounts payable and accrued liabilities, and promissory notes payable approximate their fair values because of their nature and relatively short maturity dates or durations.

**17. ECONOMIC DEPENDENCE**

During the year ended September 30, 2020, approximately 83% (2019 – 77%) of the Company's internet application revenue was generated from one (2019 - one) customer. The loss of a material amount of revenue from these customers could have a material adverse effect on operations.

**18. SUBSEQUENT EVENTS**

On October 15, 2020, the Company executed a debt settlement agreement with ACME whereby the outstanding promissory note, accrued interest, and outstanding receivables were settled for cash payment of \$84,000. The debt settlement agreement subsequently closed on December 11, 2020 (Note 7, Note 11).

On November 15, 2020, the Company executed and closed a debt settlement agreement with Bexar whereby the outstanding promissory note, accrued interest, and outstanding receivables were settled for cash payment of \$1 (Note 7, Note 11).

On December 29, 2020, the Company closed a private placement of 7,400,000 units for gross proceeds of \$222,000. Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one additional common share of the Company at \$0.05 per share until December 29, 2025.

On January 20, 2021, the Company closed a private placement of 12,000,000 units for gross proceeds of \$600,000. Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one additional common share of the Company at \$0.055 per share until January 20, 2024.



**KONA BAY TECHNOLOGIES INC.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**YEAR ENDED SEPTEMBER 30, 2021**

p | 604.683.3277  
f | 604.684.8464

SUITE 1735, TWO BENTALL CENTRE  
555 BURRARD STREET  
BOX 243  
VANCOUVER, BC V7X 1M9



charlton & company  
CHARTERED PROFESSIONAL ACCOUNTANTS

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of  
**Kona Bay Technologies Inc.**

### Opinion

We have audited the accompanying consolidated financial statements of Kona Bay Technologies Inc. (the "Company"), which comprise the consolidated statements of financial position as at September 30, 2021 and 2020 and the consolidated statements of loss and comprehensive loss, cash flows, and changes in shareholders' equity (deficiency) for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

### Basis for Opinion

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

### Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company had a deficit of \$3,109,950 at September 30, 2021 and a working capital of \$91,435. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

### Other Information

Management is responsible for the other information. The other information comprises the Management Discussion and Analysis. Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

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

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

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

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

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

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

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

The engagement partner on the audit resulting in this independent auditor's report is Melyssa Charlton.

A handwritten signature in dark ink that reads "Charlton & Company". The signature is written in a cursive, flowing style.

**CHARTERED PROFESSIONAL ACCOUNTANTS**

Vancouver, BC

January 26, 2022

**KONA BAY TECHNOLOGIES INC.**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
(Expressed in Canadian Dollars)  
AS AT

	Note	September 30, 2021	September 30, 2020
<b>Assets</b>			
<b>Current Assets</b>			
Cash		\$ 115,285	\$ 5,753
Accounts receivable	5	-	22,463
GST receivable		1,951	642
Prepaid expenses		-	525
Due from ACME	13	-	84,000
		<u>117,236</u>	<u>113,383</u>
<b>Promissory notes receivable</b>	7	-	2
<b>Equipment</b>	6	-	1,942
<b>Total Assets</b>		<u>\$ 117,236</u>	<u>\$ 115,327</u>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Accounts payable and accrued liabilities	13	\$ 25,801	\$ 560,064
Income tax payable		-	35,542
Promissory notes payable	9	-	89,136
		<u>25,801</u>	<u>684,742</u>
<b>CEBA loan payable</b>	10	-	40,000
		<u>25,801</u>	<u>724,742</u>
<b>Shareholders' Equity (Deficiency)</b>			
Share capital	11	3,092,495	2,310,140
Reserves	11,12	108,890	108,890
Share subscriptions received	11	-	10,000
Deficit		(3,109,950)	(3,038,445)
<b>Total Shareholders' Equity (Deficiency)</b>		<u>91,435</u>	<u>(609,415)</u>
<b>Total Liabilities and Shareholders' Equity (Deficiency)</b>		<u>\$ 117,236</u>	<u>\$ 115,327</u>

Nature and continuance of operations (Note 1)

Subsequent event (Note 18)

"Rose Zanic"  
Director

"Ron Schmitz"  
Director

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

**KONA BAY TECHNOLOGIES INC.**

## CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

(Expressed in Canadian dollars)

		Year Ended September 30,	
	Notes	2021	2020
<b>Revenues</b>			
Management fees	13	\$ -	\$ 72,000
		<u>-</u>	<u>72,000</u>
<b>Expenses</b>			
Accounting and legal	13	167,901	83,907
Consulting	13	15,000	-
Corporate development	13	-	156,600
Depreciation	6	194	388
Directors fees	13	6,500	30,000
Foreign exchange (gain) loss		(71)	-
Interest	8, 9	2,364	5,887
Regulatory and filing fees		9,999	11,845
Selling office and general		14,921	18,249
Shareholder costs		322	-
Transfer agent		6,823	2,560
		<u>(223,953)</u>	<u>(309,436)</u>
Gain on sale of subsidiary	4	4,744	-
Gain on dissolution of subsidiaries	4	-	7,970
Gain on settlement of debentures payable	8	-	18,886
Write-down of amounts due from former related parties	13	-	(95,560)
Recovery from former related party	7	110,000	-
Gain on write-down of accounts payable		21,165	9,429
Interest income		-	2,436
Loss on disposal of equipment	6	(1,748)	-
		<u>134,161</u>	<u>(56,839)</u>
<b>Net loss and comprehensive loss from continuing operations</b>		(89,792)	(294,275)
Income from discontinued operations	4	18,287	74,985
<b>Net loss and comprehensive loss for the year</b>		<u>\$ (71,505)</u>	<u>\$ (219,290)</u>
<b>Loss per share - basic and diluted from continuing operations</b>		\$ (0.00)	\$ (0.04)
<b>Income per share - basic and diluted from discontinued operations</b>		\$ 0.01	\$ 0.01
<b>Weighed average number of common shares outstanding</b>		<u>21,388,784</u>	<u>7,495,633</u>

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



**KONA BAY TECHNOLOGIES INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Expressed in Canadian dollars)

	<b>Year Ended September 30,</b>	
	<b>2021</b>	<b>2020</b>
<b>Operating Activities</b>		
Net loss for the year	\$ (71,505)	\$ (219,290)
<b>Items not involving cash:</b>		
Depreciation	194	388
Gain on dissolution of subsidiaries	-	(7,970)
Gain on sale of subsidiary	(4,744)	-
Gain on settlement of debentures	-	(18,886)
Gain on write-down of accounts payable	(21,165)	(9,429)
Interest expense	2,364	5,887
Interest income	-	2,437
Loss on disposal of equipment	1,748	-
Recovery from related party	(110,000)	-
Write-down of amounts due from former related parties	-	95,560
<b>Changes in non-cash working capital items:</b>		
Accounts receivable	(4,048)	(14,619)
Prepaid expenses	525	(525)
GST receivable	(1,309)	-
Accounts payable and accrued liabilities	(501,824)	153,057
<b>Cash used in operating activities - continuing operations</b>	<b>(709,764)</b>	<b>(13,390)</b>
<b>Cash used in operating activities - discontinued operations</b>	<b>(28,914)</b>	<b>(39,058)</b>
	<b><u>(738,678)</u></b>	<b><u>(52,448)</u></b>
<b>Financing Activities</b>		
Receipt (settlement) of promissory note and accrued interest	(91,500)	87,661
Repayment of debenture payable	-	(40,640)
Repayment of promissory notes and interest	-	7,159
Issuance of common shares	822,000	-
Share issue costs	(39,645)	-
Share subscriptions returned	(10,000)	-
<b>Cash provided by financing activities - continuing operations</b>	<b>680,855</b>	<b>54,180</b>
<b>Cash (used in) provided by financing activities - discontinued operations</b>	<b>(26,647)</b>	<b>40,000</b>
	<b><u>654,208</u></b>	<b><u>94,180</u></b>
<b>Investing Activities</b>		
Acquisition of equipment	-	(2,330)
Amounts received from related parties	84,000	(35,291)
Recovery of note receivable	110,002	-
<b>Cash provided by (used in) investment activities</b>	<b><u>194,002</u></b>	<b><u>(37,621)</u></b>
<b>Change in cash during the year</b>	<b>109,532</b>	<b>4,111</b>
<b>Cash, beginning of year</b>	<b>5,753</b>	<b>1,642</b>
<b>Cash, end of the year</b>	<b><u>\$ 115,285</u></b>	<b><u>\$ 5,753</u></b>

Supplemental cash flow information (Note 17)

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

**KONA BAY TECHNOLOGIES INC.****CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)**

(Expressed in Canadian dollars)

	Common shares	Share capital	Reserves	Share subscriptions received	Deficit	Total shareholders' equity (deficiency)
<b>Balance, September 30, 2019</b>	<b>7,495,633</b>	<b>\$ 2,310,140</b>	<b>\$ 108,890</b>	<b>\$ 10,000</b>	<b>\$ (2,819,155)</b>	<b>\$ (390,125)</b>
Loss for the year	-	-	-	-	(219,290)	(219,290)
<b>Balance, September 30, 2020</b>	<b>7,495,633</b>	<b>2,310,140</b>	<b>108,890</b>	<b>10,000</b>	<b>(3,038,445)</b>	<b>(609,415)</b>
Private placements	19,400,000	822,000	-	-	-	822,000
Share issuance costs	-	(39,645)	-	-	-	(39,645)
Share subscription repaid	-	-	-	(10,000)	-	(10,000)
Loss for the year	-	-	-	-	(71,505)	(71,505)
<b>Balance , September 30, 2021</b>	<b>26,895,633</b>	<b>\$ 3,092,495</b>	<b>\$ 108,890</b>	<b>\$ -</b>	<b>\$ (3,109,950)</b>	<b>\$ 91,435</b>

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

## **1. NATURE AND CONTINUANCE OF OPERATIONS**

Kona Bay Technologies Inc. (the "Company") is incorporated under the provisions of the Company Act of British Columbia and is listed on the NEX Board of the TSX Venture Exchange ("TSX-V") under the symbol "KBY.H". The Company's principal business activity consisted of providing internet-based training applications and services until the sale of its subsidiary, ACT360 Media Ltd. ("Act360") on September 3, 2021. The Company is currently seeking new business opportunities. The address of the Company's corporate office and its principal place of business is 588-580 Hornby Street, Vancouver, BC, V6C 3B6.

These consolidated financial statements have been prepared on a going concern basis, assuming that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. As at September 30, 2021, the Company has a deficit of \$3,109,950 (2020 - \$3,038,445) and a working capital (deficiency) of \$91,435 (2020 - (\$571,359)). The continuing operations of the Company are dependent upon obtaining, in the short-term, the necessary financing to meet the Company's operating commitments as they come due and generating profitable operations in the future. These conditions indicate the existence of material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. Failure to continue as a going concern would require that assets and liabilities be recorded at their liquidation values, which might differ significantly from their carrying values. These financial statements do not include any adjustments relating to the recoverability and classification of the recorded asset amounts and classifications of liabilities that might be necessary should the Company be unable to continue in existence.

To the date of this report, the spread of COVID-19 has severely impacted many local economies around the globe. In many countries, including Canada, businesses are being forced to cease or limit operations for long or indefinite periods of time. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown. Global stock markets have also experienced great volatility and a significant weakening. Governments and central banks have responded with monetary and fiscal interventions to stabilize economic conditions. As at the date of this report, the Company has not been significantly impacted by the spread of COVID-19. The duration and impact of the COVID-19 pandemic, as well as the effectiveness of government and central bank responses, remains unclear at this time. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of the Company for future periods.

## **2. BASIS OF PREPARATION**

### **a) Statement of compliance**

These financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and interpretations of International Financial Reporting Interpretations Committee ("IFRIC").

These financial statements were approved by the Board of Directors on January 26, 2022.

### **b) Basis of measurement**

These consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments.

c) Consolidation

These consolidated financial statements include the accounts of the Company and its controlled entities as follows:

	Incorporation Jurisdiction	Percentage owned	
		September 30, 2021	September 30, 2020
ACT360 Media Ltd.	British Columbia	-	100%
Newport Concepts Corp.	British Columbia	100%	100%

During the year ended September 30, 2021, the Company completed a share purchase agreement to sell all of the shares that the Company owns in the capital of its subsidiary, Act360 in exchange for a cash payment of \$1. See Note 4 below.

The results of the subsidiary will continue to be included in the consolidated financial statements of the Company until the date that the Company's control over the subsidiary ceases. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Inter-company balances and transactions, including unrealized income and expenses arising from inter-company transactions, are eliminated on consolidation.

d) Presentation and functional currency

These consolidated financial statements are presented in Canadian dollars. The Canadian dollar is the functional currency of the Company and its wholly-owned Canadian subsidiary Newport Concepts Corporation.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Critical accounting judgments, estimates and assumptions** – The preparation of the Company's financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

#### Critical Judgments

##### *Going concern of operations*

Management has made the determination that the Company will continue as a going concern for the next year.

##### *Functional currencies*

Determination of an entity's functional currency involves judgment taking into account the transactions, events, and conditions relevant to each individual entity. Determination of functional currency involves evaluating evidence about the primary economic environment in which each entity operates and is re-evaluated when facts and circumstances indicate that conditions have changed.

## Estimates

### *Deferred income taxes*

The determination of deferred income tax assets or liabilities requires subjective assumptions regarding future income tax rates and the likelihood of utilizing tax carry forwards. Changes in these assumptions could materially affect the recorded amounts, and therefore do not necessarily provide certainty as to their recorded values.

### *Expected credit losses on accounts receivable and promissory notes receivable*

When determining expected credit losses (“ECLs”), the Company considers the historic credit losses observed by the Company, customer-specific payment history and economic conditions.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL’s, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company’s historical experience, informed credit assessment and forward-looking information.

### *Useful life of equipment*

Depreciation rates and terms applied to equipment are dependent on estimates of useful lives based on management’s past experience and similar rates applied in the industry.

**Foreign currency translation** – The presentation currency of the Company is the Canadian dollar. The functional currency of the parent entity and Newport Concepts Corp. is the Canadian dollar.

Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each financial position reporting date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at the date of the statement of financial position. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Revenues and expenses are translated at the exchange rates prevailing on the dates of the transactions. Exchange gains and losses arising on translation are included in profit or loss.

**Cash and cash equivalents** - The Company considers deposits with banks or highly liquid short-term interest-bearing securities that are readily convertible to known amounts of cash and those that have maturities of three months or less when acquired to be cash equivalents. As at September 30, 2021 and 2020, the Company did not have any cash equivalents.

**Equipment** - Equipment is recorded at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives as follows:

Furniture and fixtures 20%  
Computer equipment 33%  
Computer software 50%.

Subsequent expenditures relating to an item of equipment are capitalized when it is probable that future economic benefits from the use of the assets will be increased. All other subsequent expenditures are recognized as repairs and maintenance expense.

**Impairment of non-financial assets** – The Company evaluates, on an ongoing basis, the carrying value of its non-financial assets for indications of impairment at each statement of financial position date. If indication of impairment exists, the asset's recoverable amount is estimated in order to determine the extent of the impairment, if any.

An impairment loss is recognized when the carrying amount of an asset, or its cash-generating unit ("CGU"), exceeds its recoverable amount. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Impairment losses are recognized in profit or loss for the period. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then to reduce the carrying amount of the other assets in the unit on a pro-rata basis.

The recoverable amount is the greater of the asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their 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 an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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

**Private placement units** – The Company has adopted a residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates the value to the more easily measurable component based on fair value and then the residual value, if any, to the less measurable component. The Company considers the fair value of common shares issued in a unit private placement to be the more easily measurable component. The balance, if any, is allocated to the attached warrants. Any fair value attributed to the warrants is recorded as reserves.

**Share issuance costs** - Professional, consulting, regulatory and other costs directly attributable to financing transactions are recorded as deferred share issuance costs until the financing transactions are completed, if the completion of the transaction is considered likely; otherwise they are expensed as incurred. Share issuance costs are charged to share capital when the related shares are issued. Deferred share issuance costs related to financing transactions that are not completed are charged to expenses.

**Income taxes** - Income tax expense comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity. Current tax expense is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

The Company provides for income taxes using the liability method of tax allocation. Under this method deferred income tax assets and liabilities are determined based on temporary differences between the accounting and tax bases of existing assets and liabilities and are measured using enacted or substantially enacted tax rates expected to apply when these differences reverse. Deferred income tax assets are recognized to the extent that management has determined it is probable to be realized.

**Revenue recognition** - The Company previously provided internet-based training applications and services. Revenues were recorded when a customer or direct user received the activation for their user account for one or more of the Company's products and collection is probable.

The Company provides management and administrative services to related companies pursuant to Management Administrative Service Agreements. Management fee revenue is recorded monthly on completion of the service and when collection is probable.

**Share-based payments** - The Company records all share-based payments at their fair value. Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured and are recorded at the date the goods or services are received. The corresponding amount is charged to reserves. The Company uses the Black-Scholes option pricing model to estimate the fair value of share-based payments. The share-based payments costs are charged to operations over the stock option vesting period.

Agents' options and warrants issued in connection with common share placements are recorded at their fair value using the Black Scholes option pricing model on the date of issue as share issuance costs. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of stock options expected to vest. On the exercise of stock options and agents' options and warrants, share capital is credited for consideration received and for fair value amounts previously credited to reserves.

**Earnings (Loss) per share** - The Company uses the treasury stock method in computing earnings (loss) per share. Under this method, basic earnings (loss) per share is computed by dividing earnings (loss) available to common shareholders by the weighted average number of common shares outstanding during the year. Diluted earnings (loss) per share is calculated by adjusting the weighted average number of common shares outstanding using the treasury stock method, to reflect the potential dilution of securities that could result from the exercise of in-the-money stock options and warrants. Dilutive common shares are excluded from the loss per share calculation when the effect is anti-dilutive. For the years presented, the existence of stock options affects the calculation of loss per share on a fully diluted basis.

**Financial instruments** – A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

#### Classification

The Company classifies its financial instruments in the following categories: at fair value through profit and loss ("FVTPL"), at fair value through other comprehensive income (loss) ("FVOCI"), or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification depends on the Company's business model for managing the financial assets and the contractual terms of the cash flows. For assets measured at fair value, gains and losses are either recorded in profit or loss or OCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or the Company has opted to measure them at FVTPL.

A financial liability is classified as at FVTPL if it is classified as held-for-trading or is designated as such on initial recognition. Directly attributable transaction costs are recognized in profit or loss as incurred. The fair value changes to financial liabilities at FVTPL are presented as follows: the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and the remaining amount of the change in the fair value is presented in profit or loss. The Company does not designate any financial liabilities at FVTPL.

Other non-derivative financial liabilities, are initially measured at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortized cost using the effective interest method.

The Company's financial assets consists of cash, which is classified and measured at FVTPL, and amounts receivable, promissory notes receivable, and due from ACME which are measured at amortized cost using the effective interest method. The Company's financial liabilities consist of accounts payable and accrued liabilities, CEBA loan payable, and promissory notes payable, which are classified and measured at amortized cost using the effective interest method. Interest expense is reported in net loss.

#### Measurement

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at FVTPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss. Financial assets are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Subsequent measurement of financial assets depends on their classification. There are three measurement categories under which the Company classifies its debt instruments:

- Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. A gain or loss on a debt investment that is subsequently measured at amortized cost is recognized in profit or loss when the asset is derecognized or impaired. Interest income from these financial assets is included as finance income using the effective interest rate method.
- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains and losses, interest revenue, and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in other gains (losses). Interest income from these financial assets is included as finance income using the effective interest rate method.
- FVTPL: Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVTPL. A gain or loss on an investment that is subsequently measured at FVTPL is recognized in profit or loss and presented net as revenue in the statement of loss and comprehensive loss in the period in which it arises.

#### Impairment

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses of the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. The Company shall recognize in the statements of loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.



#### De-recognition

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity. Gains and losses on de-recognition are generally recognized in profit or loss.

**Compound financial instruments** – Compound financial instruments issued by the Company comprise convertible debentures that can be converted into share capital at the option of the holder, and the number of shares issued does not vary with changes in their fair value.

The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have the conversion option. The equity component is recognized initially as the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition.

**Government assistance** – The Company recognizes government grant assistance when there is reasonable assurance the grant will be received and any conditions associated with the grant will be met.

**Leases** - At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset over a period of time in exchange for consideration. The Company assesses whether the contract involves the use of an identified asset, whether it has the right to obtain substantially all of the economic benefits from the use of the asset during the term of the contract and it has the right to direct the use of the asset.

The right-of-use asset is subsequently depreciated from the commencement date to the earlier of the end of the lease term, or the end of the useful life of the asset. The right-of-use asset may be reduced due to impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

A lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date discounted by the interest rate implicit in the lease or, if that rate cannot be readily determined the incremental borrowing rate. The lease liability is subsequently measured at amortized cost using the effective interest method. Lease payments included in the measurement of the lease liability comprise fixed payments, variable lease payments, and amounts expected to be payable at the end of the lease term.

The Company does not recognize the right-of-use assets and lease liabilities for short-term leases that have a lease term of twelve months or less. The lease payments associated with these leases are charged directly to income on a straight-line basis over the lease term.

During the years ended September 30, 2021 and 2020, the Company did not enter into or partake in any lease arrangements.

**Discontinued operations** - On September 3, 2021, the Company sold its subsidiary Act360. The decision to sell the subsidiary met the criteria of a discontinued operation, therefore, the financial performance and cashflows of Act360 are presented in these consolidated financial statements as discontinued operations on a retroactive basis. All other notes to the consolidated financial statements include amounts for continuing operations, unless indicated otherwise.

#### 4. DISCONTINUED OPERATIONS

On July 27, 2021, the Company entered into a share purchase agreement to sell all of the shares that the Company owns in the capital of its subsidiary, Act360 in exchange for a cash payment of \$1 (the "Transaction"). The Transaction amounts to a sale of substantially all of the assets of the Company which have been disclosed as discontinued operations. On September 3, 2021, the Company received approval from a majority of the shareholders to complete the Transaction. On completion of the Transaction, the Company's common shares transitioned to the NEX Board of the TSX-V.

The gain on the sale of the subsidiary is as follows:

Cash	\$	26,649
Accounts Receivable		9,844
Accounts Payable		(1,236)
CEBA Loan		(40,000)
Net liabilities disposed of		(4,743)
Proceeds on sale		(1)
Gain on sale of subsidiary	\$	(4,744)

The discontinued results from the Company's sale of Act360 during the years ended September 30, 2021 and 2020 are presented below:

	September 30, 2021	September 30, 2020
Sales	\$ 85,811	\$ 114,215
	85,811	114,215
Bad debt expense	185	-
Foreign exchange	3,034	3,574
Selling office expenses	19,198	35,050
Wages and benefits	98,021	39,157
	(120,438)	(77,781)
Gain on write-down of accounts payable	10,038	31,680
Government assistance (Note 10)	20,000	-
Other income	4,000	-
Loss on disposal of US subsidiaries	-	(6,389)
Loss on write-down on receivables	(16,666)	-
Income tax recovery (Note 14)	35,542	13,260
	52,914	38,551
<b>Net gain from discontinued operations</b>	<b>\$ 18,287</b>	<b>\$ 74,985</b>

During the year ended September 30, 2020, the Company dissolved its two wholly-owned US subsidiaries, ACT360 USA Inc. and Kopia Holdings LLC. The operating loss for the years ended September 30, 2020 and 2019 was negligible as the entities were inactive. The Company realized a gain of \$7,970 on disposal.

## 5. ACCOUNTS RECEIVABLE

Amounts receivable consist of the following:

	September 30, 2021	September 30, 2020
Trade accounts receivable	\$ -	\$ 22,463

## 6. EQUIPMENT

During the year ended September 30, 2021, the Company acquired \$nil (2020 - \$2,330) in computer equipment. Depreciation expense recognized on the computer equipment during the year ended September 30, 2021 was \$194 (2020 - \$388). During the year ended September 30, 2021, the Company disposed of the equipment and recognized a loss on disposal of \$1,748 (2020 - \$nil). The net book value as at September 30, 2021 was \$nil (2020 - \$1,942).

## 7. PROMISSORY NOTES RECEIVABLE

During the year ended September 30, 2018, the Company issued promissory notes to Bexar Ventures Inc. (“Bexar”) and ACME Lithium Inc. (“ACME”) with principal amounts of \$200,000 and \$325,000, respectively, with maturity dates of December 13, 2020. Interest was calculated and accrued daily at 6% per annum from the date of issue, payable on a semi-annual basis commencing on June 13, 2018. During their term, the promissory notes could be negotiated, assigned, discounted or pledged by the Company.

During the year ended September 30, 2018, the revenues earned in Bexar and ACME’s operations declined significantly and management was not in a position to be able to estimate the future cash flows attributable to the promissory notes with any degree of certainty. As a result, the promissory notes were written down to \$2 at September 30, 2018.

During the year ended September 30, 2021, the Company executed and closed a debt settlement agreement with Bexar and ACME whereby the outstanding promissory note, accrued interest, and outstanding receivables were settled for cash payment of \$110,002. A recovery of \$110,000 from former related party was recorded on the transaction.

## 8. DEBENTURES PAYABLE

On December 9, 2016, the Company completed a private placement of 120 convertible debenture units (the “Convertible Debenture Units”) for gross proceeds of \$120,000. Each Convertible Debenture Unit consisted of a convertible debenture in the principal amount \$1,000 (the “Debentures”) and 6,250 detachable share purchase warrants. The convertible debentures (“Debentures”) were unsecured, bear interest at the rate of 17% per annum, payable semi-annually, and matured on December 9, 2019. The debentures may be converted at the option of the holder to common shares of the Company at a rate of \$0.16 per share.

During the year ended September 30, 2020, the parties agreed to settle the outstanding principal balance of \$33,000 and interest of \$26,526 by paying a final cash settlement of \$40,640 the outstanding balances. The Company recognized a gain on settlement of \$18,886 during the year ended September 30, 2020. During the year ended September 30, 2020, the Company incurred \$4,412 in interest expense up until the date of settlement.

**9. PROMISSORY NOTES PAYABLE**

	Due to the former CEO and former director		Due to the former CEO and former director		Due to shareholder	Total
<b>Principal</b>						
Balance, September 30, 2019	\$	-	\$	-	\$	-
Additions		10,000		57,661	20,000	87,661
Balance, September 30, 2020		10,000		57,661	20,000	87,661
Repayment		(10,000)		(57,661)	(20,000)	(87,661)
<b>Balance, September 30, 2021</b>	<b>\$</b>	<b>-</b>	<b>\$</b>	<b>-</b>	<b>\$</b>	<b>-</b>
<b>Interest</b>						
Balance, September 30, 2019	\$	-	\$	-	\$	-
Expense		205		882	388	1,475
Balance, September 30, 2020		205		882	388	1,475
Expense		301		1,735	329	2,364
Repayment		(506)		(2,616)	(717)	(3,839)
<b>Balance, September 30, 2021</b>	<b>\$</b>	<b>-</b>	<b>\$</b>	<b>-</b>	<b>\$</b>	<b>-</b>
Total September 30, 2020	\$	10,205	\$	58,543	\$	20,388
<b>Total September 30, 2021</b>	<b>\$</b>	<b>-</b>	<b>\$</b>	<b>-</b>	<b>\$</b>	<b>-</b>

During the year ended September 30, 2020, the Company entered into promissory notes with former related parties. Each of the promissory notes accrued interest at a rate of 6% per annum, were unsecured, and were due on demand. The notes could be repaid in cash or common shares at the option of the Company.

During the year ended September 30, 2021, the Company recognized \$2,364 (2020 - \$ 1,475) in interest expense. During the year ended September 30, 2021, the Company repaid \$91,500 to settle the outstanding principle and accrued interest on the notes.

**10. CEBA LOAN PAYABLE**

On April 14, 2020, the Company received the Canadian Emergency Benefit Account ("CEBA") loan in the amount of \$40,000. The loan is unsecured, non-interest bearing, matures on December 31, 2022. If 75% (\$30,000) of the balance is repaid by that date, the remaining \$10,000 will be forgiven. If the loan is not repaid by December 31, 2022, the maturity date will be extended to December 31, 2025, and interest of 5% per annum, payable monthly, will accrue beginning January 1, 2023. On July 15, 2021 the Company received an additional \$20,000 as part of the CEBA loan program, of which \$10,000 will be forgiven if repaid by December 31, 2022.

During the year ended September 30, 2021, management determined the full balance of the loan would be repaid by the maturity date and a \$20,000 gain was recognized in income from discontinued operations (Note 4). The total net CEBA loan of \$40,000 was transferred to Act360 upon the sale of the subsidiary completed on September 3, 2021 (Note 4). As at September 30, 2021, there is \$nil (2020 - \$40,000) outstanding in CEBA loan payable.

## **11. SHARE CAPITAL**

The Company has authorized share capital of an unlimited number of common shares without par value, and 100,000,000 preferred shares without par value. The issued share capital consists only of common shares.

During the year ended September 30, 2021, the Company issued the following common shares:

- a) On December 29, 2020, the Company closed a private placement of 7,400,000 units at \$0.03 per unit for gross proceeds of \$222,000. Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one additional common share of the Company at \$0.05 per share until December 29, 2025. The Company paid share issuance costs of \$23,695 on the closing of the financing.
- b) On January 20, 2021, the Company closed a private placement of 12,000,000 units at \$0.05 per unit for gross proceeds of \$600,000. Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one additional common share of the Company at \$0.055 per share until January 20, 2024. The Company paid share issuance costs of \$15,950 on the closing of the financing.

During the year ended September 30, 2020, the Company did not complete any financings.

### **Share Subscriptions Received**

During the year ended September 30, 2019, \$10,000 in stock subscriptions were received pursuant to private placements. On January 12, 2021, the \$10,000 subscription was refunded to the subscriber.

## **12. STOCK OPTIONS AND WARRANTS**

### **Stock Options**

The Company has a stock option plan for directors, employees, and consultants. The aggregate number of shares issuable pursuant to options granted under the plan is limited to 10% of the Company's issued and outstanding common shares at the time the options are granted. The number of common shares reserved for issuance to any individual director or officer will not exceed 5% of the issued and outstanding common shares, and the number of common shares reserved for issuance to all technical consultants will not exceed 2% of the issued and outstanding common shares. The exercise price of each option is determined by the Board, subject to the pricing policies of the TSX Venture Exchange.

As at September 30, 2021, 2020, and 2019, there were nil options outstanding.

### **Warrants**

The warrants outstanding at September 30, 2021 have a weighted average remaining contractual life of 2.78 years (2020 - 1.84 years). Warrant transactions are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price
Outstanding, September 30, 2019	4,591,269	\$ 0.16
Expired	<u>(1,944,439)</u>	<u>0.16</u>
Outstanding, September 30, 2020	2,646,830	0.16
Issued	<u>19,400,000</u>	<u>0.05</u>
Outstanding, September 30, 2021	<u>22,046,830</u>	<u>\$ 0.07</u>

The following table summarizes information about warrants outstanding and exercisable at September 30, 2021:

Expiry Date	Exercise Price per Share	Outstanding and Exercisable
December 9, 2021	\$ 0.16	1,000,000
February 15, 2022	\$ 0.18	113,500
November 27, 2022	\$ 0.16	775,000
March 8, 2023	\$ 0.16	758,330
January 20, 2024	\$ 0.055	12,000,000
December 29, 2025	\$ 0.050	<u>7,400,000</u>
		<u>22,046,830</u>

### 13. RELATED PARTY TRANSACTIONS

The Company has identified its directors and certain senior officers as its key personnel and the compensation costs for key personnel and companies related to them were recorded at the amounts as agreed upon by transacting parties.

The remuneration of the Company's directors and other key management was as follows during the periods ended September 30, 2021 and 2020:

		Year ended September 30,	
		<u>2021</u>	<u>2020</u>
Directors fees	(a)	\$ 6,500	\$ 30,000
Management consulting fees	(b)	15,000	84,000
Corporate development fees	(c)	-	72,000
Accounting fees	(d)	<u>70,458</u>	<u>36,000</u>
		<u>\$ 91,958</u>	<u>\$ 222,000</u>

- (a) During the year ended September 30, 2021, the Company incurred directors' fees of \$6,500 (2020 - \$30,000).
- (b) During the year ended September 30, 2021, the Company recorded management consulting fees to the former CEO, former director and a current officer of \$15,000 (2020 - \$84,000).

- (c) During the year ended September 30, 2021, the Company recorded \$nil (2020 - \$72,000) in corporate development fees to a former director.
- (d) During the year ended September 30, 2021, the Company recorded \$70,458 (2020 - \$36,000) in professional fees to a company controlled by the CEO and director and a company controlled by the former CFO of the Company.

During the year ended September 30, 2021, the Company paid \$360,589 (2020 - \$nil) to settle amounts due to former directors in settlement of directors fees and other amounts due. The Company also recovered \$110,000 from Bexar, a former related party, in costs from prior fiscal periods (Note 7).

Included in accounts payable and accrued liabilities at September 30, 2021 is \$5,000 (2020 - \$389,089) due to current directors and officers and companies controlled by current directors and officers. These amounts are non-interest bearing, unsecured and due on demand.

On December 15, 2017, the Company entered into Management Administrative Services Agreements (the "MASAs") with Bexar and ACME for the purpose of providing certain management and administrative services to the companies. Pursuant to the MASA, the companies paid a monthly service fee that will be reviewed and mutually agreed upon prior to the start of each fiscal year on October 1<sup>st</sup>. The MASAs terminated on September 30, 2019, and were renewed on a month-to-month basis during the period.

During the year ended September 30, 2020, the companies were charged \$72,000. As at September 30, 2020, the balances due from Bexar of \$nil and ACME \$84,000 consisted of management fees charged and expenses incurred on behalf of Bexar and ACME. During the year ended September 30, 2021, the Company collected the full receivable balance due from ACME of \$84,000.

During the year ended September 30, 2020, the Company provided \$60,000 in consulting services to ACME that were not recognized as revenues as the collectability was deemed to be uncertain.

#### 14. INCOME TAXES

The following table reconciles the amount of income tax recoverable on application of the combined statutory Canadian and United States federal and provincial income tax rates:

	2021	2020
Loss for the year before income taxes	\$ (107,046)	\$ (232,551)
Statutory income tax rate	27%	25.83%
Expected income tax recovery	(28,903)	(60,063)
Non-deductible expenses and others	(8,732)	25,519
Change in statutory, foreign tax, foreign exchange rates and other	-	73
Application of non-capital losses	(7,452)	(13,260)
Recovery of taxes payable from a prior year	(35,542)	-
Change in unrecognized deferred income tax assets	(80,629)	(47,731)
Valuation allowance	45,087	34,471
Income tax recovery attributed to discontinued operation	<u>\$ (35,542)</u>	<u>\$ (13,260)</u>

The significant components of the Company's deferred tax assets are as follows:

	2021	2020
Non-capital and net operating losses	\$ 633,000	\$ 722,000
Share issuance costs and others	10,000	2,000
Equipment	2,000	2,000
CEBA loan	-	3,000
	<u>645,000</u>	<u>729,000</u>
Unrecognized deferred income tax assets	<u>(645,000)</u>	<u>(729,000)</u>
Net deferred income tax assets	<u>\$ -</u>	<u>\$ -</u>
Deductible temporary differences:		
Non-capital loss carry-forwards	\$ 2,346,000	\$ 2,673,000
Share issuance costs and others	36,000	7,000
Equipment	6,000	8,000
CEBA loan	-	10,000
Deductible temporary differences	<u>\$ 2,388,000</u>	<u>\$ 2,698,000</u>

Based upon the level of historical taxable income and projections for future taxable income over the years in which the potential deferred tax assets are deductible, management has not recognized any deferred income tax assets.

Subject to certain restrictions, the Company has non-capital losses of \$2,346,000 (2020: \$2,673,000) available to reduce future Canadian taxable income. As at September 30, 2021, the non-capital losses expire between the years of 2026 and 2041.

The application of non-capital losses against future taxable income is subject to final determination of the respective amounts by the Canada Revenue Agency.

## 15. CAPITAL MANAGEMENT

The Company's capital currently consists of common shares and reserves of \$3,201,385 (2020 - \$2,419,030). The Company's objective when managing capital is to safeguard the entity's ability to continue as a going concern, meet financial obligations, have sufficient capital to achieve and maintain profitable operations and to provide returns for shareholders and benefits for other stakeholders. As at September 30, 2021, the Company has positive working capital and will require additional capital in the future.

## 16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

### Risk Management

The Company is exposed to risks that arise from its use of financial instruments. The Board of Directors has overall responsibility for the determination of the Company's risk management objectives and policies and, while retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Company's finance function.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Company's competitiveness and flexibility. Further details regarding these policies are set out below.



### Market Risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices are comprised of three types of risk: foreign currency risk, interest rate risk, and equity price risk.

### Foreign Currency Risk

Foreign currency risk is the risk that a variation in exchange rates between the Canadian dollar and United States dollar or other foreign currencies will affect the Company's operations and financial results. The Company is exposed to currency risk to the extent that monetary assets and liabilities held by the Company are not denominated in Canadian dollars. The Company has not entered into any foreign currency contracts to mitigate this risk.

The Company held balances in United States dollars which could give rise to exposure to foreign exchange risk. Sensitivity to a plus or minus 10% change in the foreign exchange rate of the United States dollar to the Canadian dollar would affect the reported loss and comprehensive loss by approximately \$nil (2020 – \$1,390), as detailed below:

<b>United States Dollar Denominated Balances</b>	<b>September 30, 2021</b>	<b>September 30, 2020</b>
Cash	\$ -	\$ 1,342
Accounts Receivable	-	22,245
Accounts payable and accrued liabilities	-	(9,691)
	-	13,896
10% change in exchange rate impact	\$ -	\$ 1,390

### Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Financial instruments which are potentially subject to credit risk for the Company consist primarily of cash. Cash is maintained with financial institutions of reputable credit and may be redeemed upon demand.

The carrying amount of financial assets represents the maximum credit exposure. The Company has gross credit exposure at September 30, 2021 relating to cash of \$115,285 (2020 - \$5,753) held in deposits at Canadian chartered banks. The Company considers this credit risk to be minimal for all cash assets based on changes that are reasonably possible at the reporting date. The Company has gross credit exposure at September 30, 2021 relating to trade accounts receivable of \$nil (2020 - \$22,463), and due from related companies of \$nil (2020 - \$84,000). There is a concentration of risk in accounts receivable. The Company considers this credit risk to be minimal.

### Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The key to success in managing liquidity is the degree of certainty in the cash flow projections. If future cash flows are fairly uncertain, the liquidity risk increases.

Typically, the Company ensures that it has sufficient cash on demand to meet expected operational expenses. To achieve this objective, the Company prepares annual capital expenditure budgets which are regularly monitored and updated as necessary. The Company monitors its risk of shortage of funds by monitoring the maturity dates of existing trade and other accounts payable and accrued liabilities.

The following table sets out the contractual maturities (representing undiscounted contractual cash flows) of financial liabilities:

	Up to 3 months	Between 3 & 12 months	Between 1 & 3 years	Total
<b>September 30, 2021</b>				
Accounts payable and accrued liabilities	\$ 25,801	\$ -	\$ -	\$ 25,801
	<u>\$ 25,801</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 25,801</u>
<b>September 30, 2020</b>				
Accounts payable and accrued liabilities	\$ 560,064	\$ -	\$ -	\$ 560,064
Promissory notes payable	89,136			89,136
CEBA loan payable	-	-	40,000	40,000
	<u>\$ 649,200</u>	<u>\$ -</u>	<u>\$ 40,000</u>	<u>\$ 689,200</u>

#### Fair Value of Financial Instruments

The Company provides information about financial instruments that are measured at fair value, grouped into Level 1 to 3 based on the degree to which the inputs used to determine the fair value are observable.

- Level 1 fair value measurements are those derived from quoted prices in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1, that are observable either directly or indirectly.
- Level 3 fair value measurements are those derived from valuation techniques that include inputs that are not based on observable market data.

Cash is measured using level 1 fair value inputs.

As at September 30, 2021, the Company believes the carrying values of its accounts payable and accrued liabilities, approximate their fair values because of their nature and relatively short maturity dates or durations.

#### 17. SUPPLEMENTAL CASH FLOW INFORMATION

Investing and financing activities that do not have a direct impact on current cash flows are excluded from the consolidated statements of cash flow. During the year ended September 30, 2021, the net liabilities disposed of in the sale of Act360 were excluded from the statement of cash flows.

During the year ended September 30, 2021, the Company paid \$3,839 (2020 - \$nil) in interest and \$nil (2020 - \$13,767) in taxes.

**18. SUBSEQUENT EVENT**

- a) 1,000,000 warrants exercisable at \$0.16 per warrant expired unexercised on December 9, 2021.



**KONA BAY TECHNOLOGIES INC.**

**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**(Unaudited - Prepared by Management)**

**NINE-MONTH PERIOD ENDED JUNE 30, 2022**

**KONA BAY TECHNOLOGIES INC.**  
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION  
(Unaudited – Prepared by Management)  
(Expressed in Canadian Dollars)  
AS AT

	Notes	<u>June 30, 2022</u>	<u>September 30, 2021</u>
<b>Assets</b>			
<b>Current Assets</b>			
Cash		\$ 8,089	\$ 115,285
GST receivable		3,096	1,951
Prepays		488	-
		<u>\$ 11,673</u>	<u>\$ 117,236</u>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Accounts payable and accrued liabilities	7	\$ 67,666	\$ 25,801
		<u>67,666</u>	<u>25,801</u>
<b>Shareholders' Equity (Deficiency)</b>			
Share capital	5	3,092,495	3,092,495
Reserves	5,6	108,890	108,890
Deficit		(3,257,378)	(3,109,950)
<b>Total Shareholders' Equity (Deficiency)</b>		<u>(55,993)</u>	<u>91,435</u>
<b>Total Liabilities and Shareholders' Equity (Deficiency)</b>		<u>\$ 11,673</u>	<u>\$ 117,236</u>

**Nature and continuance of operations (Note 1)**

**Subsequent events (Note 12)**

“Ron Schmitz”  
Director

“Rose Zanic”  
Director

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

**KONA BAY TECHNOLOGIES INC.****CONDENSED CONSOLIDATED INTERIM STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)**

(Unaudited – Prepared by Management)

(Expressed in Canadian dollars)

	Note	Three-month period ended		Nine-month period ended	
		June 30, 2022	June 30, 2021	June 30, 2022	June 30, 2021
<b>Expenses</b>					
Accounting and legal	7	\$ 61,849	\$ 49,982	\$ 107,965	\$ 126,532
Consulting	7	1,500	1,500	4,500	13,500
Depreciation		-	-	-	194
Directors fees	7	6,500	3,000	13,125	3,500
Office and general		4,699	4,329	12,621	13,139
Regulatory and filing fees		1,987	1,382	6,316	13,917
Shareholder costs		266	-	266	857
Transfer agent		760	1,063	2,635	5,655
		<u>(77,561)</u>	<u>(61,256)</u>	<u>(147,428)</u>	<u>(177,294)</u>
Interest income		-	-	-	602
Recovery of debt	7	-	110,000	-	110,000
Gain on write-down of accounts payable		-	3,896	-	3,896
Write-down of notes receivable		-	-	-	(599)
Write-down of equipment		-	-	-	(1,748)
		<u>-</u>	<u>113,896</u>	<u>-</u>	<u>112,151</u>
<b>Net income (loss) and comprehensive income (loss) from continuing operations</b>		(77,561)	52,640	(147,428)	(65,143)
<b>Net income (loss) from discontinued operations</b>	4	-	(6,940)	-	2,560
<b>Net income (loss) and comprehensive income (loss) for the period</b>		\$ (77,561)	\$ 45,700	\$ (147,428)	\$ (62,583)
<b>Income (loss) per share - basic and diluted from continuing operations</b>		\$ (0.00)	\$ 0.00	\$ (0.01)	\$ (0.00)
<b>Income (loss) per share - basic and diluted from discontinued operations</b>		\$ -	\$ (0.00)	\$ -	\$ 0.00
<b>Weighed average number of common shares outstanding</b>		26,895,633	26,895,633	26,895,633	19,532,996

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

**KONA BAY TECHNOLOGIES INC.**

## CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

(Unaudited – Prepared by Management)

(Expressed in Canadian dollars)

	<b>Nine Month Period Ended</b>	
	<b>June 30, 2022</b>	<b>June 30, 2021</b>
<b>Operating Activities</b>		
Net loss from for the period	\$ (147,428)	\$ (62,583)
<b>Items not involving cash</b>		
Write-down of notes receivable	-	599
Write-down of equipment	-	1,748
Gain on write-down of accounts payable	-	(3,896)
Depreciation	-	194
Interest accrued on promissory notes payable	-	2,364
Recovery of debt	-	(110,000)
<b>Changes in non-cash working capital items:</b>		
GST receivable	(1,145)	(2,137)
Prepays	(488)	525
Accounts payable and accrued liabilities	41,865	(517,640)
<b>Cash used in operating activities - continuing operations</b>	(107,196)	(690,826)
<b>Cash used in operating activities - discontinued operations</b>	-	(22,394)
	<b>(107,196)</b>	<b>(713,220)</b>
<b>Financing Activities</b>		
Issuance of common shares	-	822,000
Share issue costs	-	(33,807)
Share subscriptions returned	-	(10,000)
Settlement of promissory notes and accrued interest	-	(91,500)
<b>Cash provided by financing activities</b>	-	<b>686,693</b>
<b>Investing Activities</b>		
Amount received from former related party	-	84,000
Recovery of note receivable	-	110,000
<b>Cash provided by investing activities</b>	-	<b>194,000</b>
<b>Change in cash during the period</b>	(107,196)	167,473
<b>Cash, beginning of the period</b>	115,285	5,753
<b>Cash, end of the period</b>	<b>\$ 8,089</b>	<b>\$ 173,226</b>
<b>Cash paid for interest</b>	\$ -	\$ 3,839
<b>Cash paid for income taxes</b>	\$ -	\$ -

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

**KONA BAY TECHNOLOGIES INC.**

## CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)

(Unaudited – Prepared by Management)

(Expressed in Canadian dollars)

	<b>Common Shares</b>	<b>Amount</b>	<b>Reserves</b>	<b>Share subscriptions received</b>	<b>Deficit</b>	<b>Total shareholders' equity (deficiency)</b>
<b>Balance, September 30, 2020</b>	<b>7,495,633</b>	<b>\$ 2,310,140</b>	<b>\$ 108,890</b>	<b>\$ 10,000</b>	<b>\$ (3,038,445)</b>	<b>\$ (609,415)</b>
Private placements	19,400,000	822,000	-	-	-	822,000
Share issuance costs	-	(33,807)	-	-	-	(33,807)
Share subscription repaid	-	-	-	(10,000)	-	(10,000)
Loss for the period	-	-	-	-	(62,583)	(62,583)
<b>Balance, June 30, 2021</b>	<b>26,895,633</b>	<b>3,098,333</b>	<b>108,890</b>	<b>-</b>	<b>(3,101,028)</b>	<b>106,195</b>
Share issuance costs	-	(5,838)	-	-	-	(5,838)
Loss for the period	-	-	-	-	(8,922)	(8,922)
<b>Balance, September 30, 2021</b>	<b>26,895,633</b>	<b>3,092,495</b>	<b>108,890</b>	<b>-</b>	<b>(3,109,950)</b>	<b>91,435</b>
Loss for the period	-	-	-	-	(147,428)	(147,428)
<b>Balance, June 30, 2022</b>	<b>26,895,633</b>	<b>\$ 3,092,495</b>	<b>\$ 108,890</b>	<b>\$ -</b>	<b>\$ (3,257,378)</b>	<b>\$ (55,993)</b>

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



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**KONA BAY TECHNOLOGIES INC.**

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited – Prepared by Management)

(Expressed in Canadian Dollars)

JUNE 30, 2022

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**1. NATURE AND CONTINUANCE OF OPERATIONS**

Kona Bay Technologies Inc. (the “Company”) is incorporated under the provisions of the Company Act of British Columbia and is listed on the NEX Board of the TSX Venture Exchange (“TSX-V”) under the symbol “KBY.H”. The Company is currently seeking new business opportunities and, once identified or evaluated, to negotiate an acquisition or participation in a business asset subject to receipt of shareholder approval, if required, and acceptance by regulatory authorities. The address of the Company’s corporate office and its principal place of business is Suite 250-750 West Pender Street, Vancouver, BC, V6C 2T7.

On May 19, 2022, the Company entered into a definitive arrangement agreement (the “Arrangement Agreement”) related to the proposed merger and business combination of the Company with Yerbaé Brands Co. (“Yerbaé”). Refer to Note 11.

These condensed consolidated interim financial statements have been prepared on a going concern basis, assuming that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. As at June 30, 2022, the Company has a deficit of \$3,257,378 (September 30, 2021 - \$3,109,950) and a working capital (deficiency) of (\$55,993) (September 30, 2021 – \$91,435). The continuing operations of the Company are dependent upon obtaining, in the short-term, the necessary financing to meet the Company’s operating commitments as they come due and generating profitable operations in the future. These conditions indicate the existence of material uncertainty which may cast significant doubt about the Company’s ability to continue as a going concern. Failure to continue as a going concern would require that assets and liabilities be recorded at their liquidation values, which might differ significantly from their carrying values. These condensed consolidated interim financial statements do not include any adjustments relating to the recoverability and classification of the recorded asset amounts and classifications of liabilities that might be necessary should the Company be unable to continue in existence.

To the date of this report, the spread of COVID-19 has severely impacted many local economies around the globe. In many countries, including Canada, businesses are being forced to cease or limit operations for long or indefinite periods of time. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown. Global stock markets have also experienced great volatility and a significant weakening. Governments and central banks have responded with monetary and fiscal interventions to stabilize economic conditions. As at the date of this report, the Company has not been significantly impacted by the spread of COVID-19. The duration and impact of the COVID-19 pandemic, as well as the effectiveness of government and central bank responses, remains unclear at this time. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of the Company for future periods.

**2. BASIS OF PREPARATION**

## a) Statement of compliance

These condensed consolidated interim financial statements are prepared in accordance with International Accounting Standard (“IAS”) 34 Interim Financial Reporting. These unaudited condensed consolidated interim financial statements follow the same accounting policies and methods of application as the Company’s most recent annual financial statements for year ended September 30, 2021, but do not contain all of the information required for full annual financial statements. Accordingly, these condensed consolidated interim financial statements should be read in conjunction with the Company’s most recent annual financial statements, which were prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

These condensed consolidated interim financial statements were approved by the Board of Directors on August 24, 2022.

b) Basis of measurement

These condensed consolidated interim financial statements have been prepared on a historical cost basis except for certain financial instruments.

c) Consolidation

These condensed consolidated interim financial statements include the accounts of the Company and its controlled entity as follows:

	Incorporation Jurisdiction	Percentage owned	
		June 30, 2022	September 30, 2021
Newport Concepts Corporation	British Columbia	100%	100%
1362283 BC Ltd.	British Columbia	100%	-
Kona Bay Technologies (Delaware) Inc.	Delaware, United States	100%	-

1362283 BC Ltd was newly incorporated on May 11, 2022 under the Business Corporation Act of British Columbia. The Company also incorporated Kona Bay Technologies (Delaware) Inc. on May 6, 2022 in the State of Delaware in the United States. All inter-company balances and transactions, including unrealized income and expenses arising from inter-company transactions, are eliminated on consolidation.

d) Presentation and functional currency

These condensed consolidated interim financial statements are presented in Canadian dollars. The Canadian dollar is the functional currency of the Company and its wholly-owned subsidiaries.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Critical accounting judgments, estimates and assumptions** – The preparation of the Company’s financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management’s experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

#### Critical Judgments

##### *Going concern of operations*

Management has made the determination that the Company will continue as a going concern for the next year.

### *Functional currencies*

Determination of an entity's functional currency involves judgment taking into account the transactions, events, and conditions relevant to each individual entity. Determination of functional currency involves evaluating evidence about the primary economic environment in which each entity operates and is re-evaluated when facts and circumstances indicate that conditions have changed.

### Estimates

#### *Deferred income taxes*

The determination of deferred income tax assets or liabilities requires subjective assumptions regarding future income tax rates and the likelihood of utilizing tax carry forwards. Changes in these assumptions could materially affect the recorded amounts, and therefore do not necessarily provide certainty as to their recorded values.

#### *Expected credit losses on accounts receivable and promissory notes receivable*

When determining expected credit losses ("ECLs"), the Company considers the historic credit losses observed by the Company, customer-specific payment history and economic conditions.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL's, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience, informed credit assessment and forward-looking information.

**Foreign currency translation** – The presentation currency of the Company is the Canadian dollar. The functional currency of the parent entity and its subsidiaries is the Canadian dollar.

Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each financial position reporting date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at the date of the statement of financial position. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Revenues and expenses are translated at the exchange rates prevailing on the dates of the transactions. Exchange gains and losses arising on translation are included in profit or loss.

**Cash and cash equivalents** - The Company considers deposits with banks or highly liquid short-term interest-bearing securities that are readily convertible to known amounts of cash and those that have maturities of three months or less when acquired to be cash equivalents. As at June 30, 2022 and 2021, the Company did not have any cash equivalents.

**Impairment of non-financial assets** – The Company evaluates, on an ongoing basis, the carrying value of its non-financial assets for indications of impairment at each statement of financial position date. If indication of impairment exists, the asset's recoverable amount is estimated in order to determine the extent of the impairment, if any.

An impairment loss is recognized when the carrying amount of an asset, or its cash-generating unit ("CGU"), exceeds its recoverable amount. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Impairment losses are recognized in profit or loss for the period. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then to reduce the carrying amount of the other assets in the unit on a pro-rata basis.

The recoverable amount is the greater of the asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their 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 an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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

**Private placement units** – The Company has adopted a residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates the value to the more easily measurable component based on fair value and then the residual value, if any, to the less measurable component. The Company considers the fair value of common shares issued in a unit private placement to be the more easily measurable component. The balance, if any, is allocated to the attached warrants. Any fair value attributed to the warrants is recorded as reserves.

**Share issuance costs** - Professional, consulting, regulatory and other costs directly attributable to financing transactions are recorded as deferred share issuance costs until the financing transactions are completed, if the completion of the transaction is considered likely; otherwise they are expensed as incurred. Share issuance costs are charged to share capital when the related shares are issued. Deferred share issuance costs related to financing transactions that are not completed are charged to expenses.

**Income taxes** - Income tax expense comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity. Current tax expense is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

The Company provides for income taxes using the liability method of tax allocation. Under this method deferred income tax assets and liabilities are determined based on temporary differences between the accounting and tax bases of existing assets and liabilities and are measured using enacted or substantially enacted tax rates expected to apply when these differences reverse. Deferred income tax assets are recognized to the extent that management has determined it is probable to be realized.

**Revenue recognition** – The Company previously provided internet-based training applications and services. Revenues were recorded when a customer or direct user received the activation for their user account for one or more of the Company's products and collection is probable.

**Share-based payments** - The Company records all share-based payments at their fair value. Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured and are recorded at the date the goods or services are received. The corresponding amount is charged to reserves. The Company uses the Black-Scholes option pricing model to estimate the fair value of share-based payments. The share-based payments costs are charged to operations over the stock option vesting period.

Agents' options and warrants issued in connection with common share placements are recorded at their fair value using the Black Scholes option pricing model on the date of issue as share issuance costs. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of stock options expected to vest. On the exercise of stock options and agents' options and warrants, share capital is credited for consideration received and for fair value amounts previously credited to reserves.

**Earnings (Loss) per share** - The Company uses the treasury stock method in computing earnings (loss) per share. Under this method, basic earnings (loss) per share is computed by dividing earnings (loss) available to common shareholders by the weighted average number of common shares outstanding during the year. Diluted earnings (loss) per share is calculated by adjusting the weighted average number of common shares outstanding using the treasury stock method, to reflect the potential dilution of securities that could result from the exercise of in-the-money stock options and warrants. Dilutive common shares are excluded from the loss per share calculation when the effect is anti-dilutive. For the years presented, the existence of stock options affects the calculation of loss per share on a fully diluted basis.

**Financial instruments** – A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

#### *Classification*

The Company classifies its financial instruments in the following categories: at fair value through profit and loss ("FVTPL"), at fair value through other comprehensive income (loss) ("FVOCI"), or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification depends on the Company's business model for managing the financial assets and the contractual terms of the cash flows. For assets measured at fair value, gains and losses are either recorded in profit or loss or OCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or the Company has opted to measure them at FVTPL.

A financial liability is classified as at FVTPL if it is classified as held-for-trading or is designated as such on initial recognition. Directly attributable transaction costs are recognized in profit or loss as incurred. The fair value changes to financial liabilities at FVTPL are presented as follows: the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and the remaining amount of the change in the fair value is presented in profit or loss. The Company does not designate any financial liabilities at FVTPL.

Other non-derivative financial liabilities, are initially measured at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortized cost using the effective interest method.

The Company's financial assets consist of cash, which is classified and measured at FVTPL. The Company's financial liabilities consist of accounts payable and accrued liabilities.

#### *Measurement*

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at FVTPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss. Financial assets are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Subsequent measurement of financial assets depends on their classification. There are three measurement categories under which the Company classifies its debt instruments:

- **Amortized cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. A gain or loss on a debt investment that is subsequently measured at amortized cost is recognized in profit or loss when the asset is derecognized or impaired. Interest income from these financial assets is included as finance income using the effective interest rate method.
- **FVOCI:** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains and losses, interest revenue, and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in other gains (losses). Interest income from these financial assets is included as finance income using the effective interest rate method.
- **FVTPL:** Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVTPL. A gain or loss on an investment that is subsequently measured at FVTPL is recognized in profit or loss and presented net as revenue in the statement of loss and comprehensive loss in the period in which it arises.

#### *Impairment*

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses of the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. The Company shall recognize in the statements of loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

#### *De-recognition*

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity. Gains and losses on de-recognition are generally recognized in profit or loss.

**Leases** - At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset over a period of time in exchange for consideration. The Company assesses whether the contract involves the use of an identified asset, whether it has the right to obtain substantially all of the economic benefits from the use of the asset during the term of the contract and it has the right to direct the use of the asset.

The right-of-use asset is subsequently depreciated from the commencement date to the earlier of the end of the lease term, or the end of the useful life of the asset. The right-of-use asset may be reduced due to impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

A lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date discounted by the interest rate implicit in the lease or, if that rate cannot be readily determined the incremental borrowing rate. The lease liability is subsequently measured at amortized cost using the effective interest method. Lease payments included in the measurement of the lease liability comprise fixed payments, variable lease payments, and amounts expected to be payable at the end of the lease term.

The Company does not recognize the right-of-use assets and lease liabilities for short-term leases that have a lease term of twelve months or less. The lease payments associated with these leases are charged directly to income on a straight-line basis over the lease term.

During the nine months ended June 30, 2022 and 2021, the Company did not enter into or partake in any lease arrangements.

#### 4. DISCONTINUED OPERATIONS

On September 3, 2021, the Company sold its subsidiary Act360 Media Ltd (“Act360”). The decision to sell the subsidiary met the criteria of a discontinued operation. Therefore, the financial performance and cashflows of Act360 are presented in the comparative amounts of these condensed consolidated interim financial statements as discontinued operations on a retroactive basis. All other notes to the condensed consolidated interim financial statements include amounts for continuing operations, unless indicated otherwise.

The following summarizes operating information relating to discontinued operations:

	3 months ended		9 months ended	
	June 30, 2022	June 30, 2021	June 30, 2022	June 30, 2021
Sales	\$ -	\$ 18,678	\$ -	\$ 74,479
Other income	-	4,000	-	4,000
	-	22,678	-	78,479
Foreign exchange	-	(1,231)	-	1,282
Selling office expenses	-	13,929	-	20,329
Wages and benefits	-	25,040	-	81,305
	-	(37,738)	-	(102,916)
Write down of amounts due from former related parties	-	-	-	35,542
Gain on write-down of accounts payable	-	8,120	-	(16,665)
	-	8,120	-	26,997
Net income from discontinued operations	\$ -	\$ (6,940)	\$ -	\$ 2,560

## 5. SHARE CAPITAL

The Company has authorized share capital of an unlimited number of common shares without par value, and 100,000,000 preferred shares without par value. The issued share capital consists only of common shares.

During the nine-month period ended June 30, 2022, the Company did not issue any common shares.

During the year ended September 30, 2021, the Company issued the following common shares:

- a) On December 29, 2020, the Company closed a private placement of 7,400,000 units at \$0.03 per unit for gross proceeds of \$222,000. Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one additional common share of the Company at \$0.05 per share until December 29, 2025. The Company paid share issuance costs of \$23,695 on the closing of the financing.
- b) On January 20, 2021, the Company closed a private placement of 12,000,000 units at \$0.05 per unit for gross proceeds of \$600,000. Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one additional common share of the Company at \$0.055 per share until January 20, 2024. The Company paid share issuance costs of \$15,950 on the closing of the financing.

## 6. STOCK OPTIONS AND WARRANTS

### Stock Options

The Company has a stock option plan for directors, employees, and consultants. The aggregate number of shares issuable pursuant to options granted under the plan is limited to 10% of the Company's issued and outstanding common shares at the time the options are granted. The number of common shares reserved for issuance to any individual director or officer will not exceed 5% of the issued and outstanding common shares, and the number of common shares reserved for issuance to all technical consultants will not exceed 2% of the issued and outstanding common shares. The exercise price of each option is determined by the Board, subject to the pricing policies of the TSX Venture Exchange.

As at June 30, 2022 there were nil options outstanding.

### Warrants

The warrants outstanding at June 30, 2022 have a weighted average remaining contractual life of 2.17 years (September 30, 2021 - 2.78 years). Warrant transactions are summarized as follows:

	<b>Number of Warrants</b>	<b>Weighted Average Exercise Price</b>
Outstanding, September 30, 2020	2,646,830	\$ 0.16
Issued	19,400,000	0.05
Outstanding, September 30, 2021	22,046,830	0.07
Expired	(1,113,500)	0.16
Outstanding, June 30, 2022	<u>20,933,330</u>	<u>\$ 0.06</u>



The following table summarizes information about warrants outstanding and exercisable at June 30, 2022:

Expiry Date	Exercise Price per Share	Outstanding and Exercisable
November 27, 2022	\$ 0.16	775,000
March 8, 2023	\$ 0.16	758,330
January 20, 2024	\$ 0.055	12,000,000
December 29, 2025	\$ 0.050	7,400,000
		20,933,330

## 7. RELATED PARTY TRANSACTIONS

The Company has identified its directors and certain senior officers as its key personnel and the compensation costs for key personnel and companies related to them were recorded at the amounts as agreed upon by the transacting parties.

The remuneration of the Company's directors and other key management was as follows during the periods ended June 30, 2022 and 2021:

		<b>Nine Months ended June 30,</b>	
		<b>2022</b>	<b>2021</b>
Directors fees	(a)	\$ 13,125	\$ 3,500
Consulting	(b)	4,500	13,500
Accounting and legal	(c)	34,150	45,713
		\$ 51,775	\$ 62,713

- (a) During the nine-month period ended June 30, 2022, the Company recorded directors' fees of \$13,125 (2021 - \$3,500).
- (b) During the nine-month period ended June 30, 2022, the Company recorded management consulting fees of \$4,500 (2021 - \$13,500) to the current CFO and the former CEO.
- (c) During the nine-month period ended June 30, 2022, the Company recorded \$34,150 (2021 - \$45,713) in professional fees to a company controlled by the CEO and director and a company controlled by the former CFO of the Company.

Included in accounts payable and accrued liabilities at June 30, 2022 is \$16,330 (September 30, 2021 - \$5,000) due to current directors and officers and companies controlled by current directors and officers. These amounts are non-interest bearing, unsecured and due on demand.

During the year ended September 30, 2021, the Company paid \$360,589 to settle amounts due to former directors in settlement of directors fees and other amounts due. The Company also recovered \$110,000 from Bexar, a former related party, in costs from prior fiscal periods.

During the year ended September 30, 2021, the Company collected an outstanding receivable \$84,000 from a former related party related to management fees charged and expenses incurred on behalf of the related party.

## 8. PROMISSORY NOTES PAYABLE

	Due to the former CEO and former director	Due to the former CEO and former director	Due to shareholder	Total
<b>Principal</b>				
Balance, September 30, 2020	\$ 10,000	\$ 57,661	\$ 20,000	\$ 87,661
Repayment	(10,000)	(57,661)	(20,000)	(87,661)
<b>Balance, September 30, 2021 and June 30, 2022</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Interest</b>				
Balance, September 30, 2020	\$ 205	\$ 882	\$ 388	\$ 1,475
Expense	301	1,735	329	2,364
Repayment	(506)	(2,616)	(717)	(3,839)
<b>Balance, September 30, 2021 and June 30 2022</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Total September 30, 2021 and June 30, 2022</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

During the year ended September 30, 2020, the Company entered into promissory notes with former related parties. Each of the promissory notes accrued interest at a rate of 6% per annum, were unsecured, and were due on demand. The notes could be repaid in cash or common shares at the option of the Company.

During the period ended June 30, 2022, the Company recognized \$Nil (year ended September 30, 2021 - \$2,364) in interest expense. During the year period ended June 30, 2022, the Company repaid \$Nil (year ended September 30, 2021 - \$91,500) to settle the outstanding principle and accrued interest on the notes.

## 9. CAPITAL MANAGEMENT

The Company's capital currently consists of common shares and reserves of \$3,201,385 (September 30, 2021 - \$3,201,385). The Company's objective when managing capital is to safeguard the entity's ability to continue as a going concern, meet financial obligations, have sufficient capital to achieve and maintain profitable operations and to provide returns for shareholders and benefits for other stakeholders. As at June 30, 2022, the Company has negative working capital and will require additional capital.

## **10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

### **Risk Management**

The Company is exposed to risks that arise from its use of financial instruments. The Board of Directors has overall responsibility for the determination of the Company's risk management objectives and policies and, while retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Company's finance function.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Company's competitiveness and flexibility. Further details regarding these policies are set out below.

### **Market Risk**

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices are comprised of three types of risk: foreign currency risk, interest rate risk, and equity price risk. The Company is not subject to interest rate risk or equity price risk as at the date of these condensed consolidated interim financial statements.

#### Foreign Currency Risk

Foreign currency risk is the risk that a variation in exchange rates between the Canadian dollar and United States dollar or other foreign currencies will affect the Company's operations and financial results. The Company is exposed to currency risk to the extent that monetary assets and liabilities held by the Company are not denominated in Canadian dollars. The Company has not entered into any foreign currency contracts to mitigate this risk.

### **Credit Risk**

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Financial instruments which are potentially subject to credit risk for the Company consist primarily of cash. Cash is maintained with financial institutions of reputable credit and may be redeemed upon demand.

The carrying amount of financial assets represents the maximum credit exposure. The Company has gross credit exposure at June 30, 2022 relating to cash of \$8,089 (September 30, 2021 - \$115,285) held in deposit at a Canadian chartered bank. The Company considers this credit risk to be minimal for all cash assets based on changes that are reasonably possible at the reporting date.

### **Liquidity Risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The key to success in managing liquidity is the degree of certainty in the cash flow projections. If future cash flows are fairly uncertain, the liquidity risk increases.

Typically, the Company ensures that it has sufficient cash on demand to meet expected operational expenses. The Company monitors its risk of shortage of funds by monitoring the maturity dates of existing trade and other accounts payable and accrued liabilities.

The following table sets out the contractual maturities (representing undiscounted contractual cash flows) of financial liabilities:

	Up to 3 months	Between 3 & 12 months	Between 1 & 3 years	Total
<b>June 30, 2022</b>				
Accounts payable and accrued liabilities	\$ 67,666	\$ -	\$ -	\$ 67,666
	<u>\$ 67,666</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 67,666</u>
<b>September 30, 2021</b>				
Accounts payable and accrued liabilities	\$ 25,801	\$ -	\$ -	\$ 25,801
	<u>\$ 25,801</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 25,801</u>

#### Fair Value of Financial Instruments

The Company provides information about financial instruments that are measured at fair value, grouped into Level 1 to 3 based on the degree to which the inputs used to determine the fair value are observable.

- Level 1 fair value measurements are those derived from quoted prices in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1, that are observable either directly or indirectly.
- Level 3 fair value measurements are those derived from valuation techniques that include inputs that are not based on observable market data.

Cash is measured using level 1 fair value inputs.

As at June 30, 2022, the Company believes the carrying values of its accounts payable and accrued liabilities, approximate their fair values because of their nature and relatively short maturity dates or durations.

#### 11. ARRANGEMENT AGREEMENT

On May 19, 2022 the Company entered into a Arrangement Agreement related to the proposed merger and business combination of the Company with Yerbaé , a Delaware incorporated naturally caffeinated, zero calorie, plant-based energy beverage company operating out of Scottsdale, Arizona (the “Transaction”). In connection with the Transaction, a wholly-owned British Columbia subsidiary of the Company, 1362283 BC Ltd. (“FinCo”) intends to complete a concurrent financing to raise minimum gross proceeds of US\$5,000,000 (less any amounts raised by Yerbaé in an anticipated crowdfunding financing to be completed prior to closing of the Transaction) (the “Concurrent Financing”).

The Transaction is subject to the approval of the TSX-V and is intended to constitute a reverse takeover (a “RTO”) of the Company by Yerbaé as defined in TSX-V Policy 5.2 – *Change of Business and Reverse Takeovers* (“Policy 5.2”). The combined company that will result from the completion of the Transaction (the “Resulting Issuer”) will be renamed “Yerbaé Brands Co.” or such other name as agreed to by the Company and Yerbaé. Subject to TSX-V approval, the common shares of the Resulting Issuer will trade on the TSX-V under a new trading symbol to be determined by the parties and the Resulting Issuer will continue to be listed on Tier 2 of the TSX-V as an industrial issuer.

In connection with closing of the Transaction, the Company intends to consolidate its outstanding Shares on the basis of 5.8 pre-consolidation Shares for every one post-consolidation Share prior to the completion of the business combination.

The Transaction is an Arm's Length Transaction and, in connection with the announcement of the Transaction, trading in the Shares has been halted and is expected to remain halted until the closing of the Transaction.

Pursuant to the terms of the Arrangement Agreement, the Company proposes to acquire all of the issued and outstanding shares (collectively, the "Yerbaé Shares") of Yerbaé (including any restricted Yerbaé Shares, as applicable) in exchange for the right to receive common shares of the Company (each, a "Share") on the basis of one post-Consolidation (as defined below) Share for each one Yerbaé Share (the "Exchange Ratio"). Accordingly, the Transaction is to be completed by way of a reverse triangular merger conducted pursuant to (i) the provisions of the Delaware *General Corporations Law* (the "DGCL") in which Kona Bay Technologies (Delaware) Inc., a newly incorporated wholly-owned subsidiary of the Company (the "Merger Sub"), will merge (the "Merger") with and into Yerbaé, and (ii) a plan of arrangement (the "Arrangement") conducted pursuant to the provisions of the *Business Corporations Act* (British Columbia) ("BCBCA").

In connection with, and prior to the closing of the Transaction, FinCo intends to conduct the Concurrent Financing; a private placement of subscription receipts of FinCo (each, a "FinCo Subscription Receipt") at a price of US\$1.23 per FinCo Subscription Receipt to raise minimum gross proceeds of US\$5,000,000 (less any amounts raised by Yerbaé in an anticipated crowdfunding financing to be completed prior to closing of the Transaction). Each FinCo Subscription Receipt sold by FinCo will, in accordance with the terms of the certificate representing the FinCo Subscription Receipt, entitle the holder thereof to receive, without payment of any additional consideration and without further action on the part of the holder thereof, one common share of FinCo (each, a "FinCo Share").

After the conversion of all the FinCo Subscription Receipts, in accordance with the terms and conditions of the Arrangement Agreement, and in accordance with the BCBCA, FinCo and the Company or newly formed subsidiary thereof will amalgamate (the "Amalgamation") and continue as one corporation ("AmalCo"). In connection with and as a result of the Amalgamation: (a) each FinCo Share (other than any FinCo Shares held by the Company) will be exchanged into one Share and (b) each FinCo Share held by the Company will be automatically cancelled without any payment of capital in respect thereof.

Concurrent with the closing of the Transaction, the Company has agreed to issue an aggregate of 8,000,000 performance Shares (each, a "Performance Share") to an arm's length party and certain Yerbaé Shareholders, as to 3,000,000 Performance Shares to the arm's length party and 5,000,000 Performance Shares to senior management of Yerbaé, which Performance Shares are to be held in escrow and released upon the completion of certain performance-based incentives related to the listing of the Resulting Issuer Shares on the TSXV, future equity financings, and certain trailing gross revenue targets.

Following the completion of the Amalgamation, the Merger Sub and Yerbaé will complete the Merger pursuant to which, in accordance with the DGCL, the Merger Sub will merge with and into Yerbaé. Accordingly, the separate corporate existence of the Merger Sub will cease and, as a result thereof, Yerbaé will continue its corporate existence under the DGCL as the sole surviving corporation of the Merger (the "Operating Subsidiary"), a subsidiary of the Company. Immediately following the completion of the Merger, each Yerbaé Share outstanding held by a shareholder of Yerbaé (collectively, the "Yerbaé Shareholders") will be deemed to have been transferred to, and acquired by the Company in exchange for such number of Shares as is equal to the number of Yerbaé Shares multiplied by the Exchange Ratio. Following this, each issued Yerbaé Share that is owned by the Company or Yerbaé will automatically be cancelled without any payment of capital in respect thereof and each common stock of the Merger Sub shall be converted into and become one newly issued, fully paid, and non-assessable share of common stock of the Operating Subsidiary.

The Transaction will be effected by way of a court-approved plan of arrangement pursuant to the *Business Corporations Act* (British Columbia) and will require the approval of (i) 66⅔% of the Shares cast at the annual and special meeting of the shareholders of the Company (the “Kona Bay Meeting”), (ii) if required, a majority of the votes cast at the Kona Bay Meeting by Company shareholders excluding votes attached to Shares held by persons described in items (a) through (d) of section 8.1(2) of Multilateral Instrument 61-101 – *Protection of Minority Security Holders in Special Transactions*, and (iii) the requisite Yerbaé Shares cast at the special meeting of Yerbaé Shareholders to be held to consider the adoption of the Arrangement Agreement and the approval of the Merger and the Arrangement, or, in lieu of such meeting, by way of the written consent (subject to the requirements of DGCL).

## **12. SUBSEQUENT EVENTS**

- a) The Company issued 1,175,000 common shares on July 26, 2022 pursuant to the exercise of 1,175,000 warrants at \$0.05 per share for gross proceeds of \$58,750 and 750,000 common shares on July 26, 2022 pursuant to the exercise of 750,000 warrants at \$0.055 per share for gross proceeds of \$41,250.
- b) The Company received a loan of \$9,000 from a company controlled by a director of the Company. The loan is non-interest bearing with no specific terms of repayment.

**SCHEDULE "F"**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF KONA BAY**

*[See attached]*



**Kona Bay Technologies**

**KONA BAY TECHNOLOGIES INC.**

**Management Discussion and Analysis  
of  
Financial Position and Results of Operations  
for the  
Year ended September 30, 2020**

This report is dated January 28, 2021.  
(The "Report Date")

200 – 375 Water Street, Office 8186, Vancouver BC Canada V6B 0M9  
Tel: (604) 325-1950 E-mail: [investor.relations@konabaytech.com](mailto:investor.relations@konabaytech.com)  
TSX-V: KBY



### ***Introduction***

The following information should be read in conjunction with the annual audited consolidated financial statements of Kona Bay Technologies Inc. (“Kona Bay” or the “Company”) for the year ended September 30, 2020 and 2019.

The financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”). This discussion includes the results of the Company’s wholly-owned subsidiaries:

- ACT360 Media Ltd. (a British Columbia corporation)
- Newport Concepts Corp. (a British Columbia corporation)

Note 3 to the audited consolidated financial statements at September 30, 2020 describes the Company’s significant accounting policies, as well as new accounting pronouncements not yet effective. During the Year ended September 30, 2020, the Company’s critical accounting estimates and significant accounting policies have remained substantially unchanged.

All amounts presented in this document are stated in Canadian dollars, except where otherwise noted.

### ***Forward Looking Statements***

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This Management’s Discussion and Analysis is intended to supplement and complement the annual audited consolidated financial statements and notes thereto for the year ended September 30, 2020 and 2019 (the “Financial Statements”). Readers are encouraged to review these Financial Statements in conjunction with a review of this Management’s Discussion and Analysis. Certain notes to the Financial Statements are specifically referred to in this Management’s Discussion and Analysis and such notes are incorporated by reference herein. Forward-looking statements are subject to known and unknown risks, uncertainties and other factors that may cause actual results to differ materially from those implied by the forward-looking statements. These forward-looking statements are based on, but not limited to, material assumptions including: a continuing or increased need for language training; the attainment of certain sales targets and company performance; the ability of channel partners and distributors to sell licenses of the Company’s online testing software; the ability of the Company to successfully execute on its growth and new business strategies, including attracting new higher education clients; continuation of support from existing higher education clients; the demand for its products continuing to increase; stable currency valuations; a sufficiently stable and healthy global economic environment; and other expectations, intentions and plans contained in this MD&A that are not historical fact. When used in this MD&A, the words “plan,” “expect,” “believe,” and similar expressions generally identify forward looking statements. These statements reflect current expectations. They are subject to a number of risks and uncertainties, including, but not limited to, changes in technology and general market conditions. In light of the many risks and uncertainties, readers should understand that the Company cannot offer assurance that the forward-looking statements contained in this analysis will be realized. **Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statements were made, and readers are advised to consider such forward-looking statements in light of the risks as set forth below.**

Additional information relating to the Company may be found on SEDAR at [www.sedar.com](http://www.sedar.com).

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***Corporate Overview and Description of Business***

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The Company is incorporated in British Columbia and is a public company listed on the TSX Venture Exchange under the symbol “KBY”. The Company operates an Internet Applications business focused on e-learning and mobile training. The Company operates through its wholly owned subsidiary, ACT360 Media Ltd. (“ACT360”).

Newport Concepts Corp. (“Newport”) (a British Columbia corporation) was established to facilitate business development and other activities of the Company.

During the year ended September 30, 2020, the Company dissolved its two wholly-owned US subsidiaries, ACT360 USA Inc. and Kopiena Holdings LLC.

***Potential impact of the Pandemic on Corporate Operations and Activities***

During and subsequent to March 2020, there was a global outbreak of COVID-19 (Coronavirus), which has had a significant impact on businesses through the restrictions put in place by the governments in which the Company operates regarding travel, business operations and isolation/quarantine orders. The extent of the impact that the COVID-19 outbreak may have on the Company is unknown as this will depend on future developments that are highly uncertain and that cannot be predicted with confidence. These uncertainties arise from the inability to predict the ultimate geographic spread of the disease, and the duration of the outbreak, including the duration of travel restrictions, business closures or disruptions, and quarantine/isolation measures that are currently, or may be put in place. While the extent of the impact is unknown, the Company anticipates this outbreak may adversely affect the economies and financial markets of many countries, resulting in an economic downturn that could further affect the Company’s operations and ability to finance its operations.

As at the date of this report, the Company has not been significantly impacted by the spread of COVID-19. The duration and impact of the COVID-19 pandemic, as well as the effectiveness of government and central bank responses, remains unclear at this time. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of the Company for future periods.

***Convertible Debenture Legal Action***

On December 9, 2019, a Convertible Debenture in the amount of \$33,000 bearing interest at a rate of 17% per annum came due. On April 9, 2020, the debenture holder filed a legal action for repayment of the debenture principal of \$33,000 plus interest and costs. The Company negotiated and paid \$40,640 as a final settlement of the outstanding balances, and accordingly recognized a gain on settlement of \$18,886 during the period.

***Corporate Activities***

**Changes in Directors and Management**

On April 16, 2020, the Company announced that Dickson Hall, a Company director since August 2004, had resigned from the Company's Board of Directors to focus on his other business commitments. The Company also announced that Howard Louie, a director since May 2013, had also resigned from the board of directors. Mr. Louie has agreed to join the advisory board.

On May 27, 2020, the Company announced that Charles Jenkins, Chief Financial Officer of the Company, was appointed to the Board of Directors.

On June 9, 2020, the Company announced that Rob Goehring has joined the Company's Board of Directors. Mr. Goehring is a serial entrepreneur with over 20 years' experience founding and running private and public software and hardware companies in telecom, marketing tech, SaaS and financial services. He is currently the CEO of Think Technologies, a developer of artificial intelligence software solutions. Previously, he was CEO of RewardStream, a leader in referral and loyalty marketing (acquired by Buyapowa Ltd.) He was also the Chief Marketing Officer of TIO Networks (TNC.V acquired by PayPal) and the co-founder of Contigo Systems, an award-winning telematics company (acquired by Vecima Networks). Mr. Goehring has an MBA from Simon Fraser University in Marketing and MIS, is an advisor to technology growth companies, and speaks on marketing technology trends. Rob is also the founding director of the AI C-Council for the BC Technology Industry Association.

At September 30, 2020, the Company did not meet Board and Audit Independence in accordance with TSX Venture Exchange Policy 3.1 sections 5.7 and 21(b). Subsequently on December 18, 2020, the Company appointed Ron Schmitz as an independent director.

### ***Results of Operations***

During the year ended September 30, 2020 the Company reported revenues of \$190,845 (2019: \$262,675). These revenues included internet applications revenue of \$114,215 (2019 - \$100,469), \$72,000 of management fees charged to Bexar Ventures Inc. ("Bexar") and Hapuna Ventures Inc. ("Hapuna") (2019 - \$132,000), and interest income of \$4,630 (2019 - \$30,206). The operating loss from continuing operations was \$196,131 (2019 - a loss of \$306,015). The comprehensive loss was \$219,291 (2019: loss of \$177,057).

Internet application revenue reflects the variability in sales of the Company's Test of English as a Foreign Language ("TOEFL") test preparation courses through B2B and B2C channels. A primary driver of the revenue is the number of international students enrolling in U.S. universities where TOEFL is a mandatory part of the admissions process. Immigration restrictions and measures implemented by the U.S government over the past 24 months have made the U.S. less attractive for prospective foreign students, and make it difficult to forecast demand for the Company's online courses. However the restrictions imposed by the pandemic have created an anomaly where sales to B2B partners increased during the year.

The most significant elements of the Company's operations over the period were:

- Accounting and legal fees were \$83,907 (2019 - \$130,188) due to lower corporate activities and lower legal fees;
- Consulting and corporate development expenses incurred during the period were \$156,600 (2019 - \$84,890), as the Company continued to actively seek projects of merit to complement its growth thesis;
- Depreciation was \$388 (2019 - \$3,311), due to the purchase of a computer in 2020 and the write down of remaining equipment in 2019;
- Directors fees were \$30,000 compared to \$60,000 in 2019. No directors' fees were accrued or paid in the last half of the year;
- Foreign exchange was a loss of \$3,574 compared to a gain of \$11,068 during the previous year due to fluctuation in the United States dollar;
- Regulatory and filing fees decreased to \$14,405 (2019 - \$18,134) due primarily to a reduced number of filings made with applicable regulatory bodies;
- Selling, office and general expenses were \$58,945 (2019 - \$77,609). During the current year, the Company engaged in cost reduction efforts as well as recognizing the effects of lower activity compared to the previous year;

- Wages and benefits were \$39,157 (2019: \$202,622) due to reduced staffing costs and reduced management compensation, as well as certain management compensation being charged as consulting expenses in the current year;
- During the year, the Company incurred a loss of \$63,880 on the write-down of receivables from the previous subsidiary companies due to their collectability being in doubt (2019 - \$nil). A gain of \$9,429 and \$18,886 was recorded due to a recovery on accounts payable and debentures payable, respectively (2019 - \$nil); and
- An income tax recovery of \$13,261 (2019: \$45,116) was recorded.

**Summary of Quarterly Results (Unaudited)**

The following is a summary of the results from the eight previously completed financial quarters:

	<b>Fiscal 2019-2020</b>			
	<b>Q4</b>	<b>Q3</b>	<b>Q2</b>	<b>Q1</b>
	<b>Sept. 30,</b>	<b>June 30,</b>	<b>March 31,</b>	<b>Dec. 31,</b>
	<b>2020</b>	<b>2020</b>	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Sales (excluding management fees and interest)	27,130	36,376	29,403	21,306
Expenses	79,667	88,066	118,999	100,244
Loss from continuing operations before other items	(78,557)	(17,477)	(60,301)	(39,796)
Comprehensive income (loss)	(120,606)	1,412	(60,301)	(39,796)
Loss per share from continuing operations	(0.02)	-	(0.01)	(0.01)
Total assets	115,327	220,473	174,028	174,419
Working capital deficiency	(571,359)	(561,478)	(632,918)	(558,321)

	<b>Fiscal 2018-2019</b>			
	<b>Q4</b>	<b>Q3</b>	<b>Q2</b>	<b>Q1</b>
	<b>Sept. 30,</b>	<b>June 30,</b>	<b>March 31,</b>	<b>Dec. 31,</b>
	<b>2019</b>	<b>2019</b>	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Sales (excluding management fees and interest)	25,014	23,665	26,626	25,164
Expenses	153,672	133,270	173,938	107,810
Loss from continuing operations before other items	(88,965)	(68,734)	(106,545)	(41,771)
Comprehensive income (loss)	14,993	(43,734)	(106,545)	(41,771)
Loss per share from continuing operations	-	(0.01)	(0.02)	(0.01)
Total assets	132,314	141,767	113,003	92,415
Working capital deficiency	(492,941)	(372,309)	(482,512)	(377,084)

Diluted calculations have not been provided due to the anti-dilutive effect of outstanding stock options and warrants.

**Fourth Quarter 2020 Compared to 2019**

For the three months ended December 30, 2019, the Company's operating revenue after excluding management fees and interest, was \$27,130, compared to revenue of \$25,014 for the same period in the previous year. This was as a result of slight reversal in the trend of lower customer activity experienced previously, believed to be related to pandemic restrictions which kept students at home. Expenses decreased to \$79,667 compared to \$153,672 for the previous year.

On a consolidated basis for the three months ended September 30, 2020, the Company had a comprehensive loss of \$120,506 (2019: Income of \$14,993) resulting primarily from the write down of former related company receivables.

#### **Third Quarter 2020 Compared to 2019**

For the three months ended June 30, 2020, the Company's revenue increased by 54% to \$36,376 compared to revenue of \$23,655 for the same period in the previous year. This change was primarily due to the timing of the receipt and recognition of client payments, as well as a slight increase in activity due to stay-at-home clients during the period.

On a consolidated basis for the three months ended June 30, 2019, the Company had a comprehensive income of \$1,412 on sales of \$36,376 compared to a comprehensive loss of \$43,734 on sales of \$23,655 during the same period in the previous year.

Expenses were \$88,066 in the third quarter ended June 30, 2020 compared to \$133,270 in the third quarter ended September 30, 2019, a decrease of 34%. This is explained in more detail above, but was primarily due to wages and benefits, and general administrative expenses.

#### **Second Quarter 2020 Compared to 2019**

For the three months ended March 31, 2020, the Company reported revenues of \$29,403 (2019 - \$26,626), an increase of 10% due to slightly higher client activity. The Company had a comprehensive loss of \$60,301 (2019 - \$106,545) due to the factors discussed above in Results of Operations.

Expenses were \$118,999 in the second quarter ended March 31, 2020 compared to \$173,938 in the second quarter ended March 31, 2018, a decrease of 32%. This was primarily due to reduced salaries.

#### **First Quarter 2020 Compared to 2019**

For the three months ended March 31, 2020, the Company's revenue decreased by 15% to \$21,306 compared to revenue of \$25,164 for the same period in the previous year in the Internet Applications and Other Applications segments. Revenues declined due to lower B2B sales to clients, as these sales are periodic and not by contract.

On a consolidated basis for the three months ended March 31, 2020, the Company had comprehensive loss of \$39,796 compared to a loss of \$41,771 during the same period in the previous year.

**Selected Annual Information**

	Fiscal year ended September 30,		
	2020	2019	2018
Sales	\$ 190,845	\$ 276,025	\$ 186,534
Expenses	386,976	605,975	692,917
Loss before other items	(196,131)	(329,950)	(506,383)
Comprehensive loss for the year	\$ (219,291)	\$ (168,683)	\$ (190,102)
Loss per share, basic and fully diluted	\$ (0.03)	(\$0.03)	(\$0.18)
Total assets	\$ 115,327	\$ 111,849	\$ 148,997
Working capital (deficiency)	\$ (571,359)	\$ (409,758)	\$ (461,452)

**Financing Activities**

During the year ended September 30, 2020, the Company did not complete any financings. A Government of Canada CEBA loan of \$40,000 was received, as well as funds advanced from shareholders of \$87,661.

During the year ended September 30, 2019, the Company completed the following:

- On May 8, 2019, the Company completed a private placement of 781,665 common shares of the Company at a price of \$0.21 per common share for gross proceeds of \$164,150, less offering costs of \$11,209.
- On November 13, 2018, the Company completed a private placement of 777,774 units of the Company at a price of \$0.12 per unit for gross proceeds of \$93,333. Each unit consisted of one common share of the Company and one common share purchase warrant, with each warrant entitling the holder to purchase an additional common share at a price of \$0.16 per share for a period of one year until November 13, 2019. \$30,000 of these proceeds were subscriptions received in the year ended September 30, 2018.

**Liquidity and Capital Resources**

The Company's aggregate operating, investing and financing activities for the year ended September 30, 2020 resulted in a cash increase of \$4,111 (September 30, 2019: \$3,527). As at September 30, 2020, the Company's cash and cash equivalents balance was \$5,753 (September 30, 2019: \$1,642) and the Company had working capital deficiency of \$571,359 (September 30, 2019: deficiency of \$492,941).

During the year ended September 30, 2020, the Company paid \$2,330 (year ended September 30, 2019 - \$nil) to acquire equipment. No other capital expenditures were incurred.

The Company anticipates that additional financing will be required in fiscal 2021. The Company may be dependent on future equity financings to take advantage of any corporate development initiatives.

**Transactions with Related Parties**

The Company has identified its directors and certain senior officers as its key personnel and the compensation costs for key personnel and companies related to them were recorded at their exchange amounts as agreed upon by transacting parties.

The remuneration of the Company's directors and other key management was as follows during the years ended

September 30, 2020 and 2019:

		Year ended September 30,	
		2020	2019
Directors fees	(a)	\$ 30,000	\$ 60,000
Management salary and consulting	(b)	84,000	96,354
Corporate development fees	(c)	72,000	72,000
Professional fees	(d)	36,000	41,300
		<u>\$ 222,000</u>	<u>\$ 269,654</u>

- (a) At September 30, 2020, the Company owed \$155,000 (September 30, 2019 - \$125,000) in directors fees payable to the CEO and director and former directors which is included in accounts payable and accrued liabilities. The balance is non-interest bearing, unsecured and due on demand.
- (b) Management compensation to the CEO and director was \$84,000 (2019 - \$96,354). During the period CEO compensation was reduced and was reclassified as consulting fees rather than salaries. At September 30, 2020, the Company owed \$94,689 (September 30, 2019 - \$59,016) to the CEO which is included in accounts payable and accrued liabilities. The balance is non-interest bearing, unsecured and due on demand.
- (c) During the year, the Company recorded \$72,000 (2019 - \$72,000) in corporate development fees to a former director. At September 30, 2020, there is a balance of \$110,900 (September 30, 2019 - \$37,800) owing to the former director which is included in accounts payable and accrued liabilities and is non-interest bearing, unsecured and due on demand.
- (d) Professional fees of \$36,000 (2019 - \$41,300) were recorded during the year pursuant to a contract with the Chief Financial Officer and of the Company. At September 30, 2020, there is a balance of \$28,500 (September 30, 2019 - \$12,600) owing to the Chief Financial Officer and director which is included in accounts payable and accrued liabilities and is non-interest bearing, unsecured and due on demand.

On December 15, 2017, the Company entered into Management Administrative Services Agreements (the "MASAs") with Bexar and Hapuna for the purpose of providing certain management and administrative services to the companies. Pursuant to the MASA, the companies paid a monthly service fee that will be reviewed and mutually agreed upon prior to the start of each fiscal year on October 1<sup>st</sup>. The MASAs terminated on September 30, 2019, and were renewed on a month-to-month basis during the period.

During the year ended September 30, 2020, the companies were charged \$132,000 (2019 - \$132,000). In the Company's judgement, management fees of \$60,000 (2019 - \$Nil) were not recognized because collection is not assured.

The balances due from Bexar and Hapuna at September 30, 2020 and September 30, 2019 consisted of management fees charged and expenses incurred on behalf of Bexar and Hapuna, less revenue collected on behalf of Bexar and Hapuna. Subsequent to September 30, 2020, the Company accepted cash payment of \$1 from Bexar and \$84,000 from Hapuna as settlement for the receivables. Consequently, the Company wrote-down \$28,153 and \$35,727 of receivables due from Bexar and Hapuna.

### ***Off Balance Sheet Arrangements***

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To the best of management's knowledge, there are no other off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition of the company.

### ***Critical Accounting Estimates***

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The preparation of the Company's financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

### **Critical Judgments**

#### *Going concern of operations*

Management has made the determination that the Company will continue as a going concern for the next year.

#### *Promissory notes receivable*

The application of the Company's accounting policy for promissory notes receivable requires judgment in determining whether it is likely that future economic benefits will flow to the Company, which may be based on assumptions about future events or circumstances. Estimates and assumptions made may change if new information becomes available.

#### *Revenue*

Collectability of the management fees due from related companies, as discussed in Transactions with Related Parties above.

### **Estimates**

#### *Expected credit losses*

When determining ECLs, the Company considers the historic credit losses observed by the Company, customer-specific payment history and economic conditions.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL's, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience, informed credit assessment and forward-looking information.

#### *Allocation of expenses*

The Company incurs, either directly or indirectly, wages, benefits and other costs on behalf of Bexar and Hapuna. Judgment is required in determining the amounts that are allocated to the companies.

#### *Valuation of financial instruments*

The Company is required to determine the valuation of convertible debentures at inception. The convertible debenture valuation required discounted cash flow analysis that involved various estimates and assumptions.



**Foreign currency translation** – The functional and presentation currency of the Company is the Canadian dollar.

Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each financial position reporting date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at the date of the statement of financial position. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Revenues and expenses are translated at the exchange rates prevailing on the dates of the transactions. Exchange gains and losses arising on translation are included in profit or loss.

**Cash and cash equivalents** - The Company considers deposits with banks or highly liquid short-term interest-bearing securities that are readily convertible to known amounts of cash and those that have maturities of three months or less when acquired to be cash equivalents.

**Equipment** - Equipment is recorded at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives as follows:

Furniture and fixtures 20%  
Computer equipment 33%  
Computer software 50%.

**Long-lived assets and impairment** – The Company evaluates, on an ongoing basis, the carrying value of equipment and other assets for indications of impairment at each statement of financial position date. If indication of impairment exists, the asset's recoverable amount is estimated.

An impairment loss is recognized when the carrying amount of an asset, or its cash-generating unit, exceeds its recoverable amount. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Impairment losses are recognized in profit or loss for the period. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then to reduce the carrying amount of the other assets in the unit on a pro-rata basis.

The recoverable amount is the greater of the asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their 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 an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

**Private placement units** – The Company has adopted a residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates the value to the more easily measurable component. The residual value method first allocates the value to the more easily measurable component based on fair value and then the residual value, if any, to the less measurable component. The Company considers the fair value of common shares issued in a unit private placement to be the more easily measurable component. The balance, if any, is allocated to the attached warrants. Any fair value attributed to the warrants is recorded as contributed surplus.

**Share issuance costs** - Professional, consulting, regulatory and other costs directly attributable to financing transactions are recorded as deferred share issuance costs until the financing transactions are completed, if the completion of the transaction is considered likely; otherwise they are expensed as incurred. Share issuance costs are charged to share capital when the related shares are issued. Deferred share issuance costs related to financing transactions that are not completed are charged to expenses.

**Income taxes** - Income tax expense comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity. Current tax expense is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

The Company provides for income taxes using the liability method of tax allocation. Under this method deferred income tax assets and liabilities are determined based on temporary differences between the accounting and tax bases of existing assets and liabilities and are measured using enacted or substantially enacted tax rates expected to apply when these differences reverse. Deferred income tax assets are recognized to the extent that management has determined it is probable to be realized.

**Revenue recognition** - The Company provides internet-based training applications and services. Revenues are recorded when a customer or direct user requests activation of a user account for one or more of the Company's products and collection is probable.

The Company provides management and administrative services to related companies pursuant to Management Administrative Service Agreements. Management fee revenue is recorded monthly on completion of the service and when collection is probable.

**Share-based payments** - The Company records all share-based payments at their fair value. Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured and are recorded at the date the goods or services are received. The corresponding amount is charged to reserves. The Company uses the Black-Scholes option pricing model to estimate the fair value of share-based payments. The share-based payments costs are charged to operations over the stock option vesting period.

Agents' options and warrants issued in connection with common share placements are recorded at their fair value on the date of issue as share issuance costs. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of stock options expected to vest. On the exercise of stock options and agents' options and warrants, share capital is credited for consideration received and for fair value amounts previously credited to contributed surplus.

**Earnings (Loss) per share** - The Company uses the treasury stock method in computing earnings (loss) per share. Under this method, basic earnings (loss) per share is computed by dividing earnings (loss) available to common shareholders by the weighted average number of common shares outstanding during the year. Diluted earnings (loss) per share is calculated by adjusting the weighted average number of common shares outstanding using the treasury stock method, to reflect the potential dilution of securities that could result from the exercise of in-the-money stock options and warrants. For the years presented, the existence of stock options affects the calculation of loss per share on a fully diluted basis.

**Development costs** – Development costs are expensed as incurred, except in cases where development costs meet certain identifiable criteria for deferral. The Company has not capitalized any product development costs during the year.

**Financial instruments** – The Company determines the classification of its financial instruments at initial recognition. Financial assets and financial liabilities are classified according to the following measurement categories:

- i. those to be measured subsequently at fair value, either through profit or loss ("FVTPL") or through other comprehensive income ("FVTOCI"); and,

- ii. those to be measured subsequently at amortized cost.

The classification and measurement of financial assets after initial recognition at fair value depends on the business model for managing the financial asset and the contractual terms of the cash flows. Financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding, are generally measured at amortized cost at each subsequent reporting period. All other financial assets are measured at their fair values at each subsequent reporting period, with any changes recorded through profit or loss or through other comprehensive income (which designation is made as an irrevocable election at the time of recognition).

After initial recognition at fair value, financial instruments are classified and measured at either:

- i. amortized cost;
- ii. FVTPL, if the Company has made an irrevocable election at the time of recognition, or when required (for items such as instruments held for trading or derivatives); or,
- iii. FVTOCI, when the change in fair value is attributable to changes in the Company's credit risk.

The Company reclassifies financial assets when and only when its business model for managing those assets changes. Financial liabilities are not reclassified. Transaction costs that are directly attributable to the acquisition or issuance of a financial asset or financial liability classified as subsequently measured at amortized cost are included in the fair value of the instrument on initial recognition. Transaction costs for financial assets and financial liabilities classified at fair value through profit or loss are expensed in profit or loss.

#### Classification

The Company's financial assets consists of cash, which is classified and measured at FVTPL, and amounts receivable and due from related party which are measured at amortized cost using the effective interest method. The Company's financial liabilities consist of accounts payable and accrued liabilities, shareholder loan, due to related party and promissory note payable, which are classified and measured at amortized cost using the effective interest method. Interest expense is reported in net loss.

#### Impairment

The Company assesses all information available, including on a forward-looking basis the expected credit losses associated with any financial assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. To assess whether there is a significant increase in credit risk, the Company compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition based on all information available, and reasonable and supportable forward-looking information.

#### Assets carried at amortized cost

If there is objective evidence that an impairment loss on assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is then reduced by the amount of the impairment. The amount of the loss is recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases, and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to the extent that the carrying value of the asset does not exceed what the amortized cost would have been had the impairment not been recognized. Any subsequent reversal of an impairment loss is recognized in profit or loss

**Compound financial instruments** – Compound financial instruments issued by the Company comprise convertible debentures that can be converted into share capital at the option of the holder, and the number of shares issued does not vary with changes in their fair value.

The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have the conversion option. The equity component is recognized initially as the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition except on conversion or expiry.

### ***Changes in Accounting Policies***

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During the Year ended September 30, 2020, the Company applied the accounting policies referred to in Note 3 to the annual audited financial statements as of September 30, 2020, on a consistent basis with the previous year. The reader is referred to those notes for a detailed discussion of the Company's accounting policies.

#### **Application of new and revised accounting standards effective October 1, 2019**

The following new accounting standards and amendments which the Company adopted and are effective for the Company's annual financial statements commencing October 1, 2019:

In January 2016, the IASB issued IFRS 16, Leases ("IFRS 16") which replaces IAS 17, Leases and its associated interpretative guidance. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset being leased. For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to current finance lease accounting, with limited exceptions for short-term leases or leases of low-value assets. Lessor accounting remains similar to current accounting practice. The standard is effective for annual periods beginning on or after January 1, 2019.

Effective October 1, 2019, the Company adopted IFRS 16. The Company went through the process and identified no contracts that might be relevant under the new standard and the Company determined that the adoption of this standard did not have a significant impact on its financial statements.

### ***Financial Instruments***

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The company is exposed through its operations to the following financial risks:

- Market Risk
- Credit Risk
- Liquidity Risk

In common with all other businesses, the company is exposed to risks that arise from its use of financial instruments. This note describes the Company's objectives, policies, and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

There have been no substantive changes in the Company's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous years unless otherwise stated.

### **General Objectives, Policies, and Processes**

The Board of Directors has overall responsibility for the determination of the Company's risk management objectives and policies and, while retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Company's finance function.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Company's competitiveness and flexibility. Further details regarding these policies are set out below.

### **Market Risk**

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices are comprised of four types of risk: foreign currency risk, interest rate risk, commodity price risk and equity price risk.

### **Foreign Currency Risk**

Foreign currency risk is the risk that a variation in exchange rates between the Canadian dollar and United States dollar or other foreign currencies will affect the Company's operations and financial results. The Company is exposed to currency risk to the extent that monetary assets and liabilities held by the Company are not denominated in Canadian dollars. The Company has not entered into any foreign currency contracts to mitigate this risk.

The Company holds balances in United States dollars which could give rise to exposure to foreign exchange risk. Sensitivity to a plus or minus 10% change in the foreign exchange rate of the United States dollar to the Canadian dollar would affect the reported loss and comprehensive loss by approximately \$1,390 (September 30, 2019 – \$825), as detailed below:

	<b>September 30,</b> <b>2020</b>	<b>September 30,</b> <b>2019</b>
United States Dollar Denominated Balances		
Cash	1,342	1,272
Accounts Receivable	22,245	13,358
Accounts payable	(9,691)	(8,911)
	<u>13,896</u>	<u>5,719</u>
10% change in exchange rate impact	<u>1,390</u>	<u>572</u>

### **Credit Risk**

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Financial instruments which are potentially subject to credit risk for the Company consist primarily of cash and cash equivalents and accounts receivable. Cash and cash equivalents are maintained with financial institutions of reputable credit and may be redeemed upon demand.

The carrying amount of financial assets represents the maximum credit exposure. The Company has gross credit exposure at September 30, 2020 and September 30, 2019 relating to cash and cash equivalents of \$5,753 and \$1,642 held in deposits at Canadian chartered banks. The Company considers this credit risk to be minimal for all cash and cash equivalent assets based on changes that are reasonably possible at the reporting date. The Company has gross credit exposure at September 30, 2020 and September 30, 2019 relating to trade accounts receivable of \$22,463 (2019 - \$13,358), \$84,000 (2019 - \$112,489) due from related companies and promissory notes and accrued interest receivable of \$nil (2019 - \$4,723). The Company considers this credit risk to be minimal.

### Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The key to success in managing liquidity is the degree of certainty in the cash flow projections. If future cash flows are fairly uncertain, the liquidity risk increases.

Typically, the Company ensures that it has sufficient cash on demand to meet expected operational expenses. To achieve this objective, the Company prepares annual capital expenditure budgets which are regularly monitored and updated as necessary. The Company monitors its risk of shortage of funds by monitoring the maturity dates of existing trade and other accounts payable.

The following table sets out the contractual maturities (representing undiscounted contractual cash flows) of financial liabilities:

	Up to 3 months	Between 3 & 12 months	Between 1 & 3 years	Total
<b>September 30, 2020</b>				
Accounts payable	\$ 560,064	\$ -	\$ -	\$ 560,064
Income tax payable	35,542	-	-	35,542
Promissory notes payable	89,136	-	-	89,136
CEBA loan payable	-	-	40,000	40,000
	<u>\$ 684,742</u>	<u>\$ -</u>	<u>\$ 40,000</u>	<u>\$ 724,742</u>
<b>September 30, 2019</b>				
Accounts payable	\$ 440,130	\$ -	\$ -	\$ 440,130
Income tax payable	49,309	-	-	49,309
Debentures payable	-	-	33,000	33,000
	<u>\$ 489,439</u>	<u>\$ -</u>	<u>\$ 33,000</u>	<u>\$ 522,439</u>

### Fair Value

The Company provides information about financial instruments that are measured at fair value, grouped into Level 1 to 3 based on the degree to which the inputs used to determine the fair value are observable.

- Level 1 fair value measurements are those derived from quoted prices in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1, that are observable either directly or indirectly.

- Level 3 fair value measurements are those derived from valuation techniques that include inputs that are not based on observable market data.

	<b>Level 1</b>	<b>Level 2</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>September 30, 2020</b>			
Cash	5,753	-	5,753
Promissory notes receivable	-	2	2
CEBA loan payable	-	(40,000)	(40,000)
	<b>5,753</b>	<b>(39,998)</b>	<b>(32,245)</b>
<b>September 30, 2019</b>			
Cash	1,642	-	1,642
Promissory notes receivable	-	2	2
Convertible debenture	-	(33,000)	(33,000)
	<b>1,642</b>	<b>(32,998)</b>	<b>(31,356)</b>

Cash and cash equivalents are measured using level 1 fair value inputs. The fair value of the convertible debenture is based on level 2 inputs and estimated using the fair value of a similar liability that does not have the conversion option. The fair values of promissory notes receivable and CEBA loan payable are based on level 2 fair value inputs and estimated using the present value of future cash flows based on current interest rates for financial instruments with similar conditions and maturity. As at September 30, 2020, the Company believes the carrying values of its accounts receivable, interest receivable, due from related companies, accounts payable and accrued liabilities, income tax payable and promissory note payable approximate their fair values because of their nature and relatively short maturity dates or durations.

### ***Outstanding Share Data***

As at September 30, 2020 and the Report Date, the following table summarizes the outstanding share capital of the Company:

	<b>September 30, 2020</b>	<b>Report Date</b>
Common Shares	7,495,633	26,895,633
Stock Options	-	-
Warrants (1)	2,646,830	22,046,830
Total, Fully Diluted	<b>10,142,463</b>	<b>48,942,463</b>

1) Consists of:

- 1,000,000 warrants exercisable at a price of \$0.16 per share until December 9, 2021;
- 113,500 warrants exercisable at a price of \$0.18 per share until February 15, 2022;
- 775,000 warrants exercisable at a price of \$0.16 per share until November 27, 2022;
- 758,330 warrants exercisable at a price of \$0.16 per share until March 8, 2023;
- 7,400,000 warrants exercisable at \$0.05 per share until December 29, 2025; and
- 12,000,000 warrants exercisable at \$0.055 per share until January 20, 2024.

### ***Risks and Uncertainties***

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An investment in the Company's shares should be considered highly speculative due to the nature of the Company's business and the present stage of its development. In evaluating the company and its business, the Reader should carefully consider the following risk factors in addition to the other information contained in this management discussion and analysis. These risk factors are not a definitive list of all risk factors associated with the Company. It is believed that these are the factors that could cause actual results to be different from expected and historical results. Investors should not rely upon forward-looking statements as a prediction of future results.

#### **Reliance on Key Customers**

The Company relies on key customers and B2B relationships. Our ability to maintain our network and attract additional customers will depend on a number of factors, many of which are outside of our control. A significant portion of the Company's revenues have come from one large customer. While the Company is actively seeking to diversify its customer base, the loss of any one of its large customers will result in a material adverse effect on the business and may adversely affect revenues going forward. The Company's clients can generally terminate their contracts at any time, with limited prior notice or penalty. The Company's clients may also reduce their level of business with the Company, leading to lower revenue. The Company expects that a limited number of clients will continue to account for a significant percentage of the Company's revenue, and the loss of, or material reduction in, their marketing spending with the Company could decrease the Company's revenue and adversely affect the Company's business.

#### **Business Model**

The industry in which the Company operates is characterized by rapidly-changing Internet media, evolving industry conditions and standards, and changing user and client demands. Any evaluation of the Company's business and its prospects must be considered in light of these factors and the risks and uncertainties often encountered by companies in an evolving industry.

Some of these risks and uncertainties relate to the Company's ability to maintain and expand client relationships, sustain and increase the number of visitors to the Company's websites, respond effectively to competition and potential negative effects of competition on profit margins, and respond to government regulations relating to the Internet and personal data protection. If the Company is unable to address these risks, its business, results of operations and prospects could suffer.

#### **Government Regulation of the Internet**

The Company's products may be subject to various laws relating to internet access, usage, and privacy. New regulations affecting copyright, content, privacy, and the quality and nature of online products and services may negatively affect the Company's expansion plans. Changes in the regulatory environment may decrease future demand for its products and services and increase the cost of doing business. The extent and applicability of laws with respect to the internet are uncertain and may in the future expose the Company to significant liabilities.

#### **Dependence on Internet Search**

The Company depends upon Internet search companies to attract a significant portion of the visitors to its websites, and any change in the search companies' search algorithms or perception of the Company could result in its websites being listed less prominently in either paid or algorithmic search result listings, in which case the number of visitors to the Company's websites and our revenue could decline.



The Company depends in significant part on various Internet search companies, such as Google, Microsoft, and Yahoo!, and other search websites to direct a significant number of visitors to its websites so that the Company can provide its online marketing services to its clients. Search websites typically provide two types of search results, algorithmic and paid listings. Algorithmic, or organic, listings are determined and displayed solely by a set of formulas designed by search companies. Paid listings can be purchased and then are displayed if particular words are included in a user's Internet search. Placement in paid listings is generally not determined solely on the bid price, but also takes into account the search engines' assessment of the quality of the website featured in the paid listing and other factors. The Company relies on both algorithmic and paid search results, as well as advertising on other websites, to direct a substantial share of the visitors to its websites.

The Company's ability to maintain the number of visitors to its websites from search websites and other websites is not entirely within its control. For example, Internet search websites frequently revise their algorithms in an attempt to optimize their search result listings or to maintain their internal standards and strategies. Changes in the algorithms could cause the Company's websites to receive less favorable placements, which could reduce the number of users who visit its websites.

In addition, the Company's business model may be deemed similar to those of its competitors and others in the industry that Internet search websites may consider to be unsuitable or unattractive. Internet search websites could deem the Company's content to be unsuitable or below standards or less attractive or worthy than those of other or competing websites. In either such case, the Company's websites may receive less favorable placement in algorithmic or paid listings, or both.

Additionally, the Company may make decisions that are suboptimal regarding the purchase of paid listings which could reduce the number of visitors to its websites or cause the Company to incur additional costs. The Company may also make decisions that are suboptimal regarding the placement of advertisements on other websites and pricing, which could increase its costs to attract such visitors or cause the Company to incur unnecessary costs. A reduction in the number of visitors to the Company's websites could negatively affect the Company's ability to earn revenue. If visits to the Company's websites decrease, the Company may need to resort to more costly sources to replace lost visitors, and such increased expense could adversely affect the Company's business and profitability.

#### **Dependence on Data Center Providers**

The Company relies on Internet bandwidth and data center providers and other third parties for key aspects of the process of providing services to its clients, and any failure or interruption in the services and products provided by these third parties could harm the Company's business. Any financial or other difficulties the Company's providers' face may have negative effects on the Company's business, the nature and extent of which the Company cannot predict. The Company exercises little control over these third-party vendors, which increases the Company's vulnerability to problems with the services they provide. The Company licenses technology and related databases from third parties to facilitate analysis and storage of data and delivery of offerings. The Company has experienced interruptions and delays in service and availability for data centers, bandwidth and other technologies in the past. Any errors, failures, interruptions or delays experienced in connection with these third-party technologies and services could adversely affect the Company's business and could expose it to liabilities to third parties.

#### **Technological Change**

The Company operates in business segments that are entirely dependent on technology and the internet. As such, technological change will impact the ability of the Company to expand and grow its business and will also affect the costs and expenses incurred by the Company, including capital requirements. The online software applications market continues to experience rapid technological change. The Company's products and services rely heavily on Microsoft Windows, Linux, and Macromedia Flash platforms. There is a risk that new technologies and standards

may render the Company's software applications obsolete. The Company may be required to invest significant capital in new technology and software development to remain competitive. Failure to do so may adversely affect demand for the Company's products and services.

### **Global Economic Conditions**

Global economic conditions could have a negative effect on the Company's business and results of operations. Economic activity throughout much of the world has been volatile. Market disruptions have included extreme volatility in securities prices, as well as severely diminished liquidity and credit availability. An economic crisis may adversely affect the Company in a variety of ways. Access to lines of credit or the capital markets may be severely restricted, which may preclude the Company from raising funds required for operations and to fund continued expansion. It may be more difficult for the Company to complete strategic transaction with third parties. Such developments could decrease the Company's ability to obtain financing and could expose it to risk that one of its customers or banks will be unable to meet their obligations under agreements with them.

### **Limited Operating History**

Although the Company earns revenues, the Company has experienced volatility in profitability to date and there is no assurance that it will remain profitable in the future. The Company's business operations largely dependent upon its ability to market its products, increase sales and develop new products. In order to market its products and increase sales, the Company will require additional capital. There is no assurance that the Company will be able to raise the required funds to continue these activities.

### **Additional Requirements for Capital**

Substantial additional financing may be required if the Company is to be successful at developing its business. No assurances can be given that the Company will be able to raise the additional capital that it may require for its anticipated future development. Any additional equity financing may be dilutive to investors and debt financing, if available, may involve restrictions on financing and operating activities. There is no assurance that additional financing will be available on terms acceptable to the Company, if at all. If the Company is unable to obtain additional financing as needed, it may be required to reduce the scope of its operations or anticipated expansion.

### **Management of Growth**

The Company may be subject to growth-related risks including pressure on its internal systems and controls. The Company's ability to manage its growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The inability of the Company to deal with this growth could have a material adverse impact on its business, operations and prospects. While management believes that it will have made the necessary investments in infrastructure to process anticipated volume increases in the short term, the Company may experience growth in the number of its employees and the scope of its operating and financial systems, resulting in increased responsibilities for the Company's personnel, the hiring of additional personnel and, in general, higher levels of operating expenses. In order to manage its current operations and any future growth effectively, the Company will also need to continue to implement and improve its operational, financial and management information systems and to hire, train, motivate, manage and retain its employees. There can be no assurance that the Company will be able to manage such growth effectively, that its management, personnel or systems will be adequate to support the Company's operations or that the Company will be able to achieve the increased levels of revenue commensurate with the levels of operating expenses associated with this growth.

### **Dependence on Management Team**

The Company will depend on certain key senior managers to oversee the core marketing, business development, operational and fund-raising activities and who have developed key relationships in the industry. Their loss or departure in the short-term would have an adverse effect on the Company's future performance.

### **Competition**

The Company faces competition in the markets in which it operates. Some of the Company's competitors may also be better positioned to develop superior product features and technological innovations and able to better adapt to market trends than the Company. Increased competition may require the Company to reduce prices or increase costs and may have a material adverse effect on its financial condition and results of operations. Any decrease in the quality of the Company's products or level of service to customers may adversely affect the business and results of operations.

### **Exchange Rate**

The reporting currency of the Company is the Canadian Dollar. A significant portion of the Company's revenues, however, are remitted in United States Dollars. Future fluctuations in the value of the Canadian Dollar relative to the US dollar and other currencies will likely have a material impact on the Company's overall financial results. Appreciation of the Canadian dollar will decrease revenues and increase expenses.

### **Smaller Companies**

Market perception of junior companies may change, potentially affecting the value of investors' holdings and the ability of the Company to raise further funds through the issue of further Common Shares or otherwise. The share price of publicly traded smaller companies can be highly volatile. The value of the Common Shares may be subject to sudden and large falls in value given the restricted marketability of the Common Shares.

### ***Events Subsequent to the Reporting Date***

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The Company has evaluated its activities subsequent to September 30, 2020 and has determined that there are no material events to be reported, aside from the following:

On October 15, 2020, the Company executed a debt settlement agreement with Hapuna whereby the outstanding promissory note, accrued interest, and outstanding receivables were settled for cash payment of \$84,000. The debt settlement agreement subsequently closed on December 11, 2020.

On November 15, 2020, the Company executed and closed a debt settlement agreement with Bexar whereby the outstanding promissory note, accrued interest, and outstanding receivables were settled for cash payment of \$1.

On December 18, 2020, the Company appointed Ron Schmitz as a director. Mr. Schmitz is the principal and president of ASI Accounting Services Inc., which has provided administrative, accounting and office services to public and private companies since July, 1995. Mr. Schmitz has served as a director and/or chief financial officer of various public companies since 1997 and currently holds these positions with several public and private companies.

On December 29, 2020, the Company closed a private placement of 7,400,000 units for gross proceeds of \$222,000. Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one additional common share of the Company at \$0.05 per share until December 29, 2025.

On January 20, 2021, the Company closed a private placement of 12,000,000 units for gross proceeds of \$600,000. Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one additional common share of the Company at \$0.055 per share until January 20, 2024.



# **Kona Bay Technologies**

## **KONA BAY TECHNOLOGIES INC.**

**Management Discussion and Analysis  
of  
Financial Position and Results of Operations  
for the  
Year ended September 30, 2021**

This report is dated **January 26, 2022**  
(The "Report Date")

### ***Introduction***

The following information should be read in conjunction with the audited consolidated financial statements of Kona Bay Technologies Inc. (“Kona Bay” or the “Company”) for the year ended September 30, 2021.

The financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”). This discussion includes the results of the Company’s wholly-owned subsidiary:

- Newport Concepts Corp.<sup>(1)</sup> (a British Columbia corporation)

(1) Currently inactive.

Note 3 to the audited consolidated financial statements at September 30, 2021 describes the Company’s significant accounting policies, as well as new accounting pronouncements not yet effective. During the year ended September 30, 2021, the Company’s critical accounting estimates and significant accounting policies have remained substantially unchanged.

All amounts presented in this document are stated in Canadian dollars, except where otherwise noted.

### ***Forward Looking Statements***

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This Management’s Discussion and Analysis is intended to supplement and complement the audited consolidated financial statements and notes thereto for the year ended September 30, 2021 and 2020 (the “Financial Statements”). Readers are encouraged to review these Financial Statements in conjunction with a review of this Management’s Discussion and Analysis. Certain notes to the Financial Statements are specifically referred to in this Management’s Discussion and Analysis and such notes are incorporated by reference herein. Forward-looking statements are subject to known and unknown risks, uncertainties and other factors that may cause actual results to differ materially from those implied by the forward-looking statements. These forward-looking statements are based on, but not limited to, material assumptions including: the ability of the Company to successfully identify and acquire new business opportunities or assets; a sufficiently stable and healthy global economic environment; and other expectations, intentions and plans contained in this MD&A that are not historical fact. When used in this MD&A, the words “plan,” “expect,” “believe,” and similar expressions generally identify forward looking statements. These statements reflect current expectations. They are subject to a number of risks and uncertainties, including, but not limited to, changes in technology and general market conditions. In light of the many risks and uncertainties, readers should understand that the Company cannot offer assurance that the forward-looking statements contained in this analysis will be realized. **Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statements were made, and readers are advised to consider such forward-looking statements in light of the risks as set forth below.**

Additional information relating to the Company may be found on SEDAR at [www.sedar.com](http://www.sedar.com).

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***Corporate Overview and Description of Business***

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The Company was incorporated in British Columbia and is a public company listed on the NEX Board of the TSX Venture Exchange (“TSX-V”) under the symbol “KBY.H”. The Company’s principal business activity consisted of providing internet-based training applications and services until the sale of its subsidiary, ACT360 Media Ltd. (“Act360”) on September 3, 2021. The Company is currently seeking new business opportunities and, once identified or evaluated, to negotiate an acquisition or participation in a business or asset subject to receipt of shareholder approval, if required, and acceptance by regulatory authorities. The address of the Company’s corporate office and its principal place of business is 588-580 Hornby Street, Vancouver, BC, V6C 3B6.

***Potential impact of the Pandemic on Corporate Operations and Activities***

In March 2020, there was a global outbreak of COVID-19 (Coronavirus), which has had a significant impact on businesses through the restrictions put in place by the governments in which the Company operates regarding travel, business operations and isolation/quarantine orders. The extent of the impact that the COVID-19 outbreak may have on the Company is unknown as this will depend on future developments that are highly uncertain and that cannot be predicted with confidence. These uncertainties arise from the inability to predict the ultimate geographic spread of the disease, and the duration of the outbreak, including the duration of travel restrictions, business closures or disruptions, and quarantine/isolation measures that are currently, or may be put in place. While the extent of the impact is unknown, the Company anticipates this outbreak may adversely affect the economies and financial markets of many countries, resulting in an economic downturn that could further affect the Company’s operations and ability to finance its operations.

As at the date of this report, the Company has not been significantly impacted by the spread of COVID-19. The duration and impact of the COVID-19 pandemic, as well as the effectiveness of government and central bank responses, remains unclear at this time. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of the Company for future periods.

***Corporate Activities***

On December 10, 2020, the Company appointed Ron Schmitz as a director. Mr. Schmitz was appointed as the Company’s CEO and Corporate Secretary effective March 22, 2021.

The Company appointed Rose Zanic to the board of directors effective March 22, 2021.

On April 9, 2021, the Company announced the appointment of Scott Davis as a director, Gurdeep Phachu as CFO of the Company and the resignation of Charles Jenkins as director and CFO.

In conjunction with the above mentioned board of director changes, Vincent Wong resigned as director and Acting CEO of the Company and Robert Goehring resigned as a director.

During the year, the Company completed certain closing transactions with its former subsidiaries, Bexar Ventures Inc. (“Bexar”) and Hapuna Ventures Inc. (“Hapuna” or subsequently “ACME” due to a name change), which transactions are referenced throughout these documents.

**Discontinued Operations**

On July 27, 2021, the Company entered into a share purchase agreement to sell all of the shares that the Company owns in the capital of its subsidiary, Act360 in exchange for a cash payment of \$1 (the "Transaction"). The Company had continued to incur losses in its operations in Act360 and was not optimistic that the operations would become profitable in the future. The Transaction amounts to a sale of substantially all of the assets of the Company which have been disclosed as discontinued operations. On September 3, 2021, the Company received approval from a majority of the shareholders to complete the Transaction. On completion of the Transaction, the Company's common shares transitioned to the NEX Board of the TSX-V. The transaction will allow the Company to seek new business ventures.

In accordance with the Policies of the TSX-V, the Company received approval of the majority of the Company's shareholders to complete the sale of ACT360, with 57.9% of the shares outstanding in the Company voting in favour of the Transaction. Effective September 17, 2021, trading in the common shares of the Company were transferred to the NEX Board of the TSX-V under the trading symbol "KBY.H".

The gain on the sale of the subsidiary is as follows:

Cash	\$	26,649
Accounts Receivable		9,844
Accounts Payable		(1,236)
CEBA Loan		(40,000)
Net liabilities disposed of		(4,743)
Proceeds on sale		(1)
<b>Gain on sale of subsidiary</b>	<b>\$</b>	<b>(4,744)</b>

The discontinued results from the Company's sale of Act360 during the years ended September 30, 2021 and 2020 are presented below:

	September 30, 2021	September 30, 2020
Sales	\$ 85,811	\$ 114,215
	85,811	114,215
Bad debt expense	185	-
Foreign exchange	3,034	3,574
Selling office expenses	19,198	35,050
Wages and benefits	98,021	39,157
	(120,438)	(77,781)
Gain on write-down of accounts payable	10,038	31,680
Government assistance	20,000	-
Other income	4,000	-
Loss on disposal of US subsidiaries	-	(6,389)
Loss on write-down on receivables	(16,666)	-
Income tax recovery	35,542	13,260
	52,914	38,551
<b>Net gain from discontinued operations</b>	<b>\$ 18,287</b>	<b>\$ 74,985</b>

During the year ended September 30, 2020, the Company dissolved its two wholly-owned US subsidiaries, ACT360



USA Inc. and Kopiena Holdings LLC. The operating loss for the years ended September 30, 2020 and 2019 was negligible as the entities were inactive. The Company realized a gain of \$7,970 on disposal.

### ***Results of Operations***

#### ***Year ended September 30, 2021***

During the year ended September 30, 2021 the Company reported revenues of \$Nil (2020: \$72,000). This primarily consisted of management fees charged to Bexar and Acme.

The net loss and comprehensive loss was \$71,505 (2020 - \$219,290).

The most significant elements of the Company's operations over the period were:

- Accounting and legal fees were \$167,901 (2020 - \$83,907) with the increase due to higher legal fees related to the Company's financing initiatives, transition to a new management group, sale of Act360 and annual general meeting of shareholders held during the period.
- Consulting expenses incurred during the period were \$15,000 (2020 - \$nil) for management purposes;
- Corporate development expenses were \$nil (2020 - \$156,600). Corporate development activities have been wound down in the period;
- Depreciation was \$194 (2020 - \$388), due to the purchase of a computer in 2020 and the write down of remaining equipment in 2021;
- Directors fees were \$6,500 compared to \$30,000 in 2020. The decrease during the current period is due to the current directors charging nominal monthly fees.
- Foreign exchange was a gain of \$71 compared to \$Nil during the previous year due.
- Regulatory and filing fees were \$9,999 (2020 - \$11,845) due primarily to the Company's financing initiatives during the period;
- Selling, office and general expenses were \$14,921 (2020 - \$18,249). During the current period, the Company continued its cost reduction efforts as well as recognizing the effects of lower activity compared to the previous year;
- Transfer agent fees were \$6,823 (2020 - \$2,560) due to the financings completed and various corporate changes during the current year.
- During the current period, the Company recognized a \$1,748 write-down on equipment, \$110,000 recovered from a former related party as a recovery of costs from prior fiscal years, a \$21,165 gain on write-down of accounts payable and a gain of \$4,744 from the sale of a subsidiary. During the comparative period in the prior year, the Company recorded a gain on settlement of \$18,886 of debentures payable, a write-down of \$95,560 of amounts due from former related parties, a \$9,429 gain on write-down of accounts payable, interest income of \$2,436 and a gain of \$7,970 on the dissolution of a subsidiary.
- Income from discontinued operations of \$18,287 (2020 - \$74,985). See "Discontinued Operations" above for details.

#### ***Three month period ended September 30, 2021***

The net loss and comprehensive loss during the three month period ended September 30, 2021 was \$54,464 (2020 - \$120,605). Expenses in most categories decreased which were offset by the recovery of \$110,000 (2020 - \$Nil)

from a former related party as a recovery of costs from prior fiscal years and a write-down of \$Nil (2020 - \$95,560) as amounts due from former related parties.

**Summary of Quarterly Results**

The following is a summary of the results from the eight previously completed financial quarters:

	<b>Q4</b>	<b>Q3</b>	<b>Q2</b>	<b>Q1</b>
	<b>Sep. 30,</b>	<b>Jun. 30,</b>	<b>Mar. 31,</b>	<b>Dec. 31,</b>
	<b>2021</b>	<b>2021</b>	<b>2021</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Revenues	-	-	-	-
Expenses	(33,428)	(69,376)	(72,376)	(48,773)
Net income (loss) and comprehensive income (loss) from continuing operations	(90,622)	52,640	(1,289)	(50,521)
Net income (loss) and comprehensive income (loss) from discontinued operations	36,158	(6,940)	(22,532)	11,601
Income (loss) per share from continuing operations	(0.00)	0.00	(0.00)	(0.01)
Income (loss) per share from discontinued operations	0.00	(0.00)	(0.00)	0.00
Total assets	117,236	192,977	594,278	208,490
Working capital (deficiency)	91,435	146,195	110,495	(405,893)

	<b>Q4</b>	<b>Q3</b>	<b>Q2</b>	<b>Q1</b>
	<b>Sept. 30,</b>	<b>June 30,</b>	<b>March 31,</b>	<b>Dec. 31,</b>
	<b>2020</b>	<b>2020</b>	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Revenues	(30,648)	34,213	29,295	39,140
Expenses	(86,096)	(76,207)	(84,535)	(62,598)
Net income (loss) and comprehensive income (loss) from continuing operations	(192,472)	(23,105)	(55,240)	(23,458)
Net income (loss) and comprehensive income (loss) from discontinued operations	71,867	24,517	(5,061)	(16,338)
Income (loss) per share from continuing operations	(0.03)	(0.00)	(0.01)	(0.00)
Income (loss) per share from discontinued operations	0.01	0.00	(0.00)	(0.00)
Total assets	115,327	220,473	174,028	174,419
Working capital (deficiency)	(571,359)	(561,478)	(632,918)	(558,321)

Diluted calculations have not been provided due to the anti-dilutive effect of outstanding stock options and warrants. The Company has not paid any dividends and it has no present intention of paying dividends on its common shares as it anticipates all available funds will be invested to finance the growth of its business.

Fluctuations in key financial data can be attributed to various items such as financings, non-cash items such as share-based compensation and year-end audit adjustments.

Some of the significant transactions during the previous quarters included the following:

**Fourth Quarter September 2021**

There are various year-end audit adjustments reflected in the quarterly amounts including a gain of \$4,744 on the sale of a subsidiary. During the comparative quarter in the prior year realized a gain of \$7,970 on the disposal of 2 wholly-owned subsidiaries.

**Third Quarter June 2021**

The current quarter included a recovery of \$110,000 received from Bexar for costs from prior fiscal years. The Company also repaid \$70,783 to settle the outstanding principle and accrued interest on promissory notes payable.

### Second Quarter March 2021

The Company completed a private placement financing by issuing 12,000,000 units at \$0.05 per unit for gross proceeds of \$600,000. The Company also repaid \$20,717 to settle outstanding principal and accrued interest on the promissory notes payable.

### First Quarter December 2020

The Company completed a private placement financing by issuing 7,400,000 units at \$0.03 per unit for gross proceeds of \$222,000. During the quarter Company also collected the full receivable balance from ACME of \$84,000.

### Selected Annual Information

	Fiscal year ended September 30,		
	2021	2020	2019
Revenues	\$ -	\$ 72,000	\$ 162,206
Expenses	223,953	309,436	348,068
Comprehensive loss for the year	(71,505)	(219,290)	(177,057)
Comprehensive loss for the year from continuing operations	(89,792)	(294,275)	(56,903)
Comprehensive income (loss) for the year from discontinued operations	18,287	74,985	(120,154)
Loss per share, basic and fully diluted from continuing operations	(0.00)	(0.04)	(0.03)
Income (loss) per share, basic and fully diluted from discontinued operations	0.01	0.01	(0.02)
Total assets	117,236	115,327	132,314
Working capital (deficiency)	91,435	(571,359)	(492,941)

### Financing Activities

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During the year ended September 30, 2021, the Company:

- Closed a private placement of 7,400,000 units for gross proceeds of \$222,000. Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one additional common share of the Company at \$0.05 per share until December 29, 2025.
- Closed a private placement of 12,000,000 units for gross proceeds of \$600,000. Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one additional common share of the Company at \$0.055 per share until January 20, 2024.

- The Company repaid funds previously advanced from shareholders of \$91,500 including outstanding principal and interest.

During the year ended September 30, 2020, the Company did not complete any financings. However, the Company received funds advanced from shareholders of \$87,661.

### ***Liquidity and Capital Resources***

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The Company's aggregate operating, investing and financing activities for the year ended September 30, 2021 from continuing operations resulted in a cash increase of \$109,532 (2020 - \$4,111). As at September 30, 2021, the Company's cash balance was \$115,285 (2020 - \$5,753) and the Company had working capital of \$91,435 (2020 - deficiency of \$571,359).

Net cash used in operating activities for the period was \$738,678 (2020-\$52,448). This amount consists of a net loss for the year \$71,505 (2020 - \$219,290), cash used in operating activities from discontinued operations of \$28,914 (2020 - \$39,058) and with items not affecting cash of: \$nil as a write-down of amounts due from former related parties (2020 - \$95,560), interest income of \$Nil (2020 - \$2,437), interest expense of \$2,364 (2020 - \$5,887), write-down of accounts payable of \$21,165 (2020 - \$9,429), write-down of disposed equipment of \$1,748 (2020 - \$nil), depreciation of \$194 (2020 - \$388), \$nil (2020 - \$18,886) as a gain on settlement of a debenture, \$4,744 (2020 - \$nil) gain on sale of subsidiary and \$nil (2020 - \$7,970) gain on dissolution of subsidiaries and a recovery of \$110,000 (2020 - \$Nil) from related party. Changes in non-cash working capital items consisted of a change in receivables of \$4,048 (2020 - \$14,619), a change of \$525 (2020 - \$525) in prepaid expenses, GST receivable of \$1,309 (2020 - \$Nil) and a decrease in accounts payable and accrued liabilities of \$501,098 (2020 - \$153,057 increase).

Financing activities provided net cash of \$654,208 (2020 - \$94,180). This consisted of \$26,647 (2020 - provided by - \$40,000) in cash used in discontinued operations, a payment of \$91,500 (2020 - \$Nil) in settlement of a promissory note and accrued interest, \$nil (2020 - \$87,661) received from the issuance of a promissory note, \$Nil (2020 - \$7,159) as a repayment of promissory notes and interest, gross proceeds received of \$822,000 (2020 - \$nil) and payment of share issue costs of \$39,645 (2020 - \$nil) from two private placements. The Company returned \$10,000 (2020 - \$nil) in share subscriptions received during a previous year.

Investing activities provided net cash of \$194,002 (2020 - used in \$37,621) which consisted of \$Nil (2020 - \$2,330) for the acquisition of equipment, \$84,000 received (2020 - paid to \$35,291) from related parties and \$110,002 (2020 - \$Nil) received as a recovery of note receivable.

The continuing operations of the Company are dependent upon its ability to raise adequate financing and to commence profitable operations in the future.

### ***Transactions with Related Parties***

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The Company has identified its directors and certain senior officers as its key personnel and the compensation costs for key personnel and companies related to them were recorded at the amounts as agreed upon by transacting parties.

The remuneration of the Company's directors and other key management was as follows during the periods ended September 30, 2021 and 2020:

		Year ended September 30,	
		2021	2020
Directors fees	(a)	\$ 6,500	\$ 30,000
Management consulting fees	(b)	15,000	84,000
Corporate development fees	(c)	-	72,000
Professional fees	(d)	70,458	36,000
		<u>\$ 91,958</u>	<u>\$ 222,000</u>

- (a) During the year ended September 30, 2021, the Company incurred directors' fees of \$6,500 (2020 - \$30,000).
- (a) During the year ended September 30, 2021, the Company recorded management consulting fees to the former CEO, former director and a current officer of \$15,000 (2020 - \$84,000).
- (c) During the year ended September 30, 2021, the Company recorded \$nil (2020 - \$72,000) in corporate development fees to a former director.
- (d) During the year ended September 30, 2021, the Company recorded \$70,458 (2020 - \$36,000) in professional fees to a company controlled by the CEO and director and a company controlled by the former CFO of the Company.

During the year ended September 30, 2021, the Company paid \$360,589 (September 30, 2020 - \$Nil) to settle amounts due to former directors in settlement of directors fees and other amounts due. The Company also recovered \$110,000 from Bexar, a former related party, in relation to costs from prior fiscal years.

Included in accounts payable and accrued liabilities at September 30, 2021 is \$5,000 (2020 - \$389,089) due to current and former directors and officers and companies controlled by current and former directors and officers. These amounts are non-interest bearing, unsecured and due on demand.

On December 15, 2017, the Company entered into Management Administrative Services Agreements (the "MASAs") with Bexar and ACME for the purpose of providing certain management and administrative services to the companies. Pursuant to the MASAs, the companies paid a monthly service fee that will be reviewed and mutually agreed upon prior to the start of each fiscal year on October 1<sup>st</sup>. The MASAs terminated on September 30, 2019, and were renewed on a month-to-month basis during the fiscal year ended September 30, 2020.

During the year ended September 30, 2020, the companies were charged \$72,000. As at September 30, 2020, the balances due from Bexar of \$nil and ACME \$84,000 consisted of management fees charged and expenses incurred on behalf of Bexar and ACME. During the year ended September 30, 2021, the Company collected the full receivable balance due from ACME of \$84,000.

During the year ended September 30, 2020, the Company provided \$60,000 in consulting services to ACME that were never recognized as revenues as the collectability was deemed to be uncertain.

### ***Off Balance Sheet Arrangements***

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To the best of management's knowledge, there are no other off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition of the company.

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***Critical Accounting Estimates***

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The preparation of the Company's financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The accounting policies of the Company and critical accounting estimates are set out in Note 3 to the annual audited Financial Statements as of and for the year ended September 30, 2021, which are incorporated herein by reference. The reader is referred to those statements for a detailed discussion of the accounting policies.

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***Changes in Accounting Policies***

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During the year ended September 30, 2021, the Company applied the accounting policies referred to in Note 3 to the annual audited financial statements as of September 30, 2021, on a consistent basis with the previous year. The reader is referred to those notes for a detailed discussion of the Company's accounting policies.

**Application of new and revised accounting standards effective October 1, 2020**

The Company did not adopt any new or amended accounting policies that had a material impact on the statements of financial position or results of operations.

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***Financial Instruments***

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**Risk Management**

The Company is exposed to risks that arise from its use of financial instruments. The Board of Directors has overall responsibility for the determination of the Company's risk management objectives and policies and, while retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Company's finance function.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Company's competitiveness and flexibility. Further details regarding these policies are set out below.

**Market Risk**

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices are comprised of three types of risk: foreign currency risk, interest rate risk, and equity price risk.

**Foreign Currency Risk**

Foreign currency risk is the risk that a variation in exchange rates between the Canadian dollar and United States dollar or other foreign currencies will affect the Company's operations and financial results. The Company is exposed to currency risk to the extent that monetary assets and liabilities held by the Company are not denominated in Canadian dollars. The Company has not entered into any foreign currency contracts to mitigate this risk.

The Company previously held balances in United States dollars which could give rise to exposure to foreign exchange risk. Sensitivity to a plus or minus 10% change in the foreign exchange rate of the United States dollar to the Canadian dollar would affect the reported loss and comprehensive loss by approximately \$nil (September 30, 2020 – \$1,390), as detailed below:

<b>United States Dollar Denominated Balances</b>	<b>September 30, 2021</b>	<b>September 30, 2020</b>
Cash	\$ -	\$ 1,342
Accounts Receivable	-	22,245
Accounts payable and accrued liabilities	-	(9,691)
	-	13,896
10% change in exchange rate impact	\$ -	\$ 1,390

### **Credit Risk**

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Financial instruments which are potentially subject to credit risk for the Company consist primarily of cash. Cash is maintained with financial institutions of reputable credit and may be redeemed upon demand.

The carrying amount of financial assets represents the maximum credit exposure. The Company has gross credit exposure at September 30, 2021 relating to cash of \$115,285 (2020 - \$5,753) held in deposits at Canadian chartered banks. The Company considers this credit risk to be minimal for all cash assets based on changes that are reasonably possible at the reporting date. The Company has gross credit exposure at September 30, 2021 relating to trade accounts receivable of \$nil (2020 - \$22,463), and due from related companies of \$nil (2020 - \$84,000). There is a concentration risk in accounts receivable. The Company considers this credit risk to be minimal.

### **Liquidity Risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The key to success in managing liquidity is the degree of certainty in the cash flow projections. If future cash flows are fairly uncertain, the liquidity risk increases.

Typically, the Company ensures that it has sufficient cash on demand to meet expected operational expenses. To achieve this objective, the Company prepares annual capital expenditure budgets which are regularly monitored and updated as necessary. The Company monitors its risk of shortage of funds by monitoring the maturity dates of existing trade and other accounts payable and accrued liabilities.

The following table sets out the contractual maturities (representing undiscounted contractual cash flows) of financial liabilities:

	Up to 3 months	Between 3 & 12 months	Between 1 & 3 years	Total
<b>September 30, 2021</b>				
Accounts payable and accrued liabilities	\$ 25,801	\$ -	\$ -	\$ 25,801
	<u>\$ 25,801</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 25,801</u>
<b>September 30, 2020</b>				
Accounts payable and accrued liabilities	\$ 560,064	\$ -	\$ -	\$ 560,064
Promissory notes payable	89,136	-	-	89,136
CEBA loan payable	-	-	40,000	40,000
	<u>\$ 649,200</u>	<u>\$ -</u>	<u>\$ 40,000</u>	<u>\$ 689,200</u>

### Fair Value of Financial Instruments

The Company provides information about financial instruments that are measured at fair value, grouped into Level 1 to 3 based on the degree to which the inputs used to determine the fair value are observable.

- Level 1 fair value measurements are those derived from quoted prices in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1, that are observable either directly or indirectly.
- Level 3 fair value measurements are those derived from valuation techniques that include inputs that are not based on observable market data.

Cash is measured using level 1 fair value inputs.

As at September 30, 2021, the Company believes the carrying values of its accounts payable and accrued liabilities approximate their fair values because of their nature and relatively short maturity dates or durations.

### Outstanding Share Data

As at September 30, 2021 and the Report Date, the following table summarizes the outstanding share capital of the Company:

	September 30, 2021	Report Date
Common Shares	26,895,633	26,895,633
Stock Options	-	-
Warrants (1)	22,046,830	21,046,830
Total, Fully Diluted	<u>48,942,463</u>	<u>47,942,463</u>



- 1) Consists of:
- 1,000,000 warrants exercisable at a price of \$0.16 per share until December 9, 2021;
  - 113,500 warrants exercisable at a price of \$0.18 per share until February 15, 2022;
  - 775,000 warrants exercisable at a price of \$0.16 per share until November 27, 2022;
  - 758,330 warrants exercisable at a price of \$0.16 per share until March 8, 2023;
  - 7,400,000 warrants exercisable at \$0.05 per share until December 29, 2025; and
  - 12,000,000 warrants exercisable at \$0.055 per share until January 20, 2024

### ***Risks and Uncertainties***

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An investment in the Company's shares should be considered highly speculative due to the nature of the Company's business and the present stage of its development. In evaluating the company and its business, the Reader should carefully consider the following risk factors in addition to the other information contained in this management discussion and analysis. These risk factors are not a definitive list of all risk factors associated with the Company. It is believed that these are the factors that could cause actual results to be different from expected and historical results. Investors should not rely upon forward-looking statements as a prediction of future results. The Company has had a history of earning revenues and have not paid any dividends. However, as a result of the sale of Act360 during the year ended September 30, 2021, which generated most of the Company's revenues, the Company is unlikely to generate revenues or pay dividends in the immediate or foreseeable future.

### **COVID-19**

In March 2020 the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company's business or results of operations at this time.

### **Global Economic Conditions**

Global economic conditions could have a negative effect on the Company's business and results of operations. Economic activity throughout much of the world has been volatile. Market disruptions have included extreme volatility in securities prices, as well as severely diminished liquidity and credit availability. An economic crisis may adversely affect the Company in a variety of ways. Access to lines of credit or the capital markets may be severely restricted, which may preclude the Company from raising funds required to commence profitable operations. It may be more difficult for the Company to complete strategic transactions with third parties. Such developments could decrease the Company's ability to obtain financing.

### **Additional Requirements for Capital**

Substantial additional financing may be required if the Company is to be successful at identifying and acquiring new business opportunities or assets. No assurances can be given that the Company will be able to identify any assets or businesses to acquire, or have the financial resources necessary to complete an acquisition. Nor can there be any assurance that the Company will be able to raise additional capital that it may require for future developments. Any additional equity financing may be dilutive to investors and debt financing, if available, may involve restrictions on financing and operating activities. There is no assurance that additional financing will be available on terms acceptable to the Company, if at all. If the Company is unable to obtain additional financing as needed, it may be required to reduce the scope of its operations or anticipated expansion.

### **Dependence on Management Team**

The Company's success depends to a certain degree upon key members of its senior management. It is expected that these individuals will be a significant factor in our growth and success. The loss of the service of members of the management team or certain key employees could have a material adverse effect on the Company.

### **Smaller Companies**

Market perception of junior companies may change, potentially affecting the value of investors' holdings and the ability of the Company to raise further funds through the issue of additional Common Shares or otherwise. The share price of publicly traded smaller companies can be highly volatile. The value of the Common Shares may be subject to sudden and large falls in value given the restricted marketability of the Common Shares.

### ***Subsequent Event***

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The Company has evaluated its activities subsequent to September 30, 2021 and has determined that there are no material events to be reported, aside from the following:

- a) 1,000,000 warrants exercisable at \$0.16 per warrant expired unexercised on December 9, 2021



# Kona Bay Technologies

**Management Discussion and Analysis  
of  
Financial Position and Results of Operations  
for the  
Nine-Month Period Ended June 30, 2022**

This report is dated August 24, 2022  
(The "Report Date")

### ***Introduction***

The following information should be read in conjunction with the condensed consolidated interim financial statements of Kona Bay Technologies Inc. (“Kona Bay” or the “Company”) for the nine-month period ended June 30, 2022 and the annual audited financial statements as of September 30, 2021.

The condensed consolidated interim financial statements are prepared in accordance with International Accounting Standard (“IAS”) 34 Interim Financial Reporting. This discussion includes the results of the Company’s wholly-owned subsidiaries:

- Newport Concepts Corporation<sup>(1)</sup> (a British Columbia corporation)
- 1362283 BC Limited (a British Columbia corporation)
- Kona Bay Technologies (Delaware) Inc. (a Delaware, USA corporation)

(1) Currently inactive.

Note 3 to the audited consolidated financial statements at September 30, 2021 describes the Company’s significant accounting policies, as well as new accounting pronouncements not yet effective. During the nine-month period ended June 30, 2022, the Company’s critical accounting estimates and significant accounting policies have remained substantially unchanged.

All amounts presented in this document are stated in Canadian dollars, except where otherwise noted.

### ***Forward Looking Statements***

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This Management’s Discussion and Analysis (“MD&A”) is intended to supplement and complement the condensed consolidated interim financial statements and notes thereto for the nine-month period ended June 30, 2022 and the annual audited financial statements for the year ended September 30, 2021 (the “Financial Statements”). Readers are encouraged to review these Financial Statements in conjunction with a review of this MD&A. Certain notes to the Financial Statements are specifically referred to in this MD&A and such notes are incorporated by reference herein. Forward-looking statements are subject to known and unknown risks, uncertainties and other factors that may cause actual results to differ materially from those implied by the forward-looking statements. These forward-looking statements are based on, but not limited to, material assumptions including: the ability of the Company to successfully identify and acquire new business opportunities or assets; a sufficiently stable and healthy global economic environment; and other expectations, intentions and plans contained in this MD&A that are not historical fact. When used in this MD&A, the words “plan,” “expect,” “believe,” and similar expressions generally identify forward looking statements. These statements reflect current expectations. They are subject to a number of risks and uncertainties, including, but not limited to, changes in technology and general market conditions. In light of the many risks and uncertainties, readers should understand that the Company cannot offer assurance that the forward-looking statements contained in this analysis will be realized. **Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statements were made, and readers are advised to consider such forward-looking statements in light of the risks as set forth below.**

Additional information relating to the Company may be found on SEDAR at [www.sedar.com](http://www.sedar.com).

### **Corporate Overview and Description of Business**

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The Company was incorporated in British Columbia and is a public company listed on the NEX Board of the TSX Venture Exchange (“TSX-V”) under the symbol “KBY.H”. The Company is currently seeking new business opportunities and, once identified or evaluated, to negotiate an acquisition or participation in a business or asset subject to receipt of shareholder approval, if required, and acceptance by regulatory authorities. The address of the Company’s corporate office and its principal place of business is #250-750 West Pender Street, Vancouver, BC, V6C 2T7.

### **Potential impact of the Pandemic on Corporate Operations and Activities**

In March 2020, there was a global outbreak of COVID-19 (Coronavirus), which has had a significant impact on businesses through the restrictions put in place by the governments in which the Company operates regarding travel, business operations and isolation/quarantine orders. The extent of the impact that the COVID-19 outbreak may have on the Company is unknown as this will depend on future developments that are highly uncertain and that cannot be predicted with confidence. These uncertainties arise from the inability to predict the ultimate geographic spread of the disease, and the duration of the outbreak, including the duration of travel restrictions, business closures or disruptions, and quarantine/isolation measures that are currently, or may be put in place. While the extent of the impact is unknown, the Company anticipates this outbreak may adversely affect the economies and financial markets of many countries, resulting in an economic downturn that could further affect the Company’s operations and ability to finance its operations.

As at the date of this report, the Company has not been significantly impacted by the spread of COVID-19. The duration and impact of the COVID-19 pandemic, as well as the effectiveness of government and central bank responses, remains unclear at this time. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of the Company for future periods.

### **Corporate Activities**

- 1,000,000 warrants exercisable at \$0.16 per warrant expiring December 9, 2021, expired unexercised
- 113,500 warrants exercisable at \$0.18 per warrant expiring February 15, 2022, expired unexercised
- On May 6, 2022 incorporated a newly formed subsidiary, Kona Bay Technologies (Delaware) Inc. in the State of Delaware, USA
- On May 11, 2022 incorporated a newly formed subsidiary, 1362283 BC Ltd under the Business Corporation Act of British Columbia

### **Arrangement Agreement**

On May 19, 2022 the Company entered into a definitive arrangement agreement (the “Arrangement Agreement”) related to the proposed merger and business combination of the Company with Yerbaé Brands Co. (“Yerbaé”), a Delaware incorporated naturally caffeinated, zero calorie, plant-based energy beverage company operating out of Scottsdale, Arizona (the “Transaction”). In connection with the Transaction, a wholly-owned British Columbia subsidiary of the Company, 1362283 BC Ltd. (“FinCo”) intends to complete a concurrent financing to raise minimum gross proceeds of US\$5,000,000 (less any amounts raised by Yerbaé in an anticipated crowdfunding financing to be completed prior to closing of the Transaction) (the “Concurrent Financing”).

The Transaction is subject to the approval of the TSX-V and is intended to constitute a reverse takeover (a “RTO”) of the Company by Yerbaé as defined in TSX-V Policy 5.2 – *Change of Business and Reverse Takeovers* (“Policy 5.2”). The combined company that will result from the completion of the Transaction (the “Resulting Issuer”) will be renamed “Yerbaé Brands Co.” or such other name as agreed to by the Company and Yerbaé. Subject to TSX-V

approval, the common shares of the Resulting Issuer will trade on the TSX-V under a new trading symbol to be determined by the parties and the Resulting Issuer will continue to be listed on Tier 2 of the TSX-V as an industrial issuer.

In connection with closing of the Transaction, the Company intends to consolidate its outstanding Shares on the basis of 5.8 pre-consolidation Shares for every one post-consolidation Share prior to the completion of the business combination.

The Transaction is an Arm's Length Transaction and, in connection with the announcement of the Transaction, trading in the Shares has been halted and is expected to remain halted until the closing of the Transaction.

Pursuant to the terms of the Arrangement Agreement, the Company proposes to acquire all of the issued and outstanding shares (collectively, the "Yerbaé Shares") of Yerbaé (including any restricted Yerbaé Shares, as applicable) in exchange for the right to receive common shares of the Company (each, a "Share") on the basis of one post-Consolidation (as defined below) Share for each one Yerbaé Share (the "Exchange Ratio"). Accordingly, the Transaction is to be completed by way of a reverse triangular merger conducted pursuant to (i) the provisions of the Delaware *General Corporations Law* (the "DGCL") in which Kona Bay Technologies (Delaware) Inc., a newly incorporated wholly-owned subsidiary of the Company (the "Merger Sub"), will merge (the "Merger") with and into Yerbaé, and (ii) a plan of arrangement (the "Arrangement") conducted pursuant to the provisions of the *Business Corporations Act* (British Columbia) ("BCBCA").

In connection with, and prior to the closing of the Transaction, FinCo intends to conduct the Concurrent Financing; a private placement of subscription receipts of FinCo (each, a "FinCo Subscription Receipt") at a price of US\$1.23 per FinCo Subscription Receipt to raise minimum gross proceeds of US\$5,000,000 (less any amounts raised by Yerbaé in an anticipated crowdfunding financing to be completed prior to closing of the Transaction). Each FinCo Subscription Receipt sold by FinCo will, in accordance with the terms of the certificate representing the FinCo Subscription Receipt, entitle the holder thereof to receive, without payment of any additional consideration and without further action on the part of the holder thereof, one common share of FinCo (each, a "FinCo Share").

After the conversion of all the FinCo Subscription Receipts, in accordance with the terms and conditions of the Arrangement Agreement, and in accordance with the BCBCA, FinCo and the Company or newly formed subsidiary thereof will amalgamate (the "Amalgamation") and continue as one corporation ("AmalCo"). In connection with and as a result of the Amalgamation: (a) each FinCo Share (other than any FinCo Shares held by the Company) will be exchanged into one Share and (b) each FinCo Share held by the Company will be automatically cancelled without any payment of capital in respect thereof.

Concurrent with the closing of the Transaction, the Company has agreed to issue an aggregate of 8,000,000 performance Shares (each, a "Performance Share") to an arm's length party and certain Yerbaé Shareholders, as to 3,000,000 Performance Shares to the arm's length party and 5,000,000 Performance Shares to senior management of Yerbaé, which Performance Shares are to be held in escrow and released upon the completion of certain performance-based incentives related to the listing of the Resulting Issuer Shares on the TSXV, future equity financings, and certain trailing gross revenue targets.

Following the completion of the Amalgamation, the Merger Sub and Yerbaé will complete the Merger pursuant to which, in accordance with the DGCL, the Merger Sub will merge with and into Yerbaé. Accordingly, the separate corporate existence of the Merger Sub will cease and, as a result thereof, Yerbaé will continue its corporate existence under the DGCL as the sole surviving corporation of the Merger (the “Operating Subsidiary”), a subsidiary of the Company. Immediately following the completion of the Merger, each Yerbaé Share outstanding held by a shareholder of Yerbaé (collectively, the “Yerbaé Shareholders”) will be deemed to have been transferred to, and acquired by the Company in exchange for such number of Shares as is equal to the number of Yerbaé Shares multiplied by the Exchange Ratio. Following this, each issued Yerbaé Share that is owned by the Company or Yerbaé will automatically be cancelled without any payment of capital in respect thereof and each common stock of the Merger Sub shall be converted into and become one newly issued, fully paid, and non-assessable share of common stock of the Operating Subsidiary.

The Transaction will be effected by way of a court-approved plan of arrangement pursuant to the *Business Corporations Act* (British Columbia) and will require the approval of (i) 66⅔% of the Shares cast at the annual and special meeting of the shareholders of the Company (the “Kona Bay Meeting”), (ii) if required, a majority of the votes cast at the Kona Bay Meeting by Company shareholders excluding votes attached to Shares held by persons described in items (a) through (d) of section 8.1(2) of Multilateral Instrument 61-101 – *Protection of Minority Security Holders in Special Transactions*, and (iii) the requisite Yerbaé Shares cast at the special meeting of Yerbaé Shareholders to be held to consider the adoption of the Arrangement Agreement and the approval of the Merger and the Arrangement, or, in lieu of such meeting, by way of the written consent (subject to the requirements of DGCL).

### **Discontinued Operations**

On September 3, 2021, the Company sold its subsidiary Act360 Media Inc. (“Act360”). The decision to sell the subsidiary met the criteria of a discontinued operation. Therefore, the financial performance and cashflows of Act360 are presented in the comparative amounts of the condensed consolidated interim financial statements and MD&A as discontinued operations on a retroactive basis. All other notes to the condensed consolidated interim financial statements and the management discussion and analysis include amounts for continuing operations, unless indicated otherwise.

The following summarizes operating information relating to the discontinued operations:

	3 months ended		3 months ended		9 months ended		9 months ended	
	June 30,		June 30,		June 30,		June 30,	
	2022		2021		2022		2021	
Sales	\$	-	\$	18,678	\$	-	\$	74,479
Other income		-		4,000		-		4,000
		-		22,678		-		78,479
Foreign exchange		-		(1,231)		-		1,282
Selling office expenses		-		13,929		-		20,329
Wages and benefits		-		25,040		-		81,305
		-		(37,738)		-		(102,916)
Write down of amounts due from former related parti		-		-		-		35,542
Gain on write-down of accounts payable		-		-		-		(16,665)
		-		8,120		-		8,120
		-		8,120		-		26,997
Net income from discontinued operations	\$	-	\$	(6,940)	\$	-	\$	2,560

### ***Results of Operations***

#### ***Nine-month period ended June 30, 2022***

The net loss and comprehensive loss was \$147,428 (2021 - \$62,583).

The most significant elements of the Company's operations over the period were:

- Accounting and legal fees were \$107,965 (2021 - \$126,532). The fees in the comparative period were higher due to legal fees related to the Company's financing initiatives;
- Consulting expenses incurred during the period were \$4,500 (2021 - \$13,500) for management purposes. Current period expenses are lower than the comparative period because a current officer is charging nominal monthly fees;
- Depreciation was \$Nil (2021 - \$194);
- Directors fees of \$13,125 (2021 - \$3,500) were charged by two directors. The fee increased over the comparative period due to a current director charging for their time in assisting with the Arrangement Agreement signed with Yerbaé;
- Office and general expenses were \$12,621 (2021 - \$13,139). During the current period, the Company continued its cost reduction efforts as well as recognizing the effects of lower activity compared to the previous year;
- Regulatory and filing fees were \$6,316 (2021 - \$13,917) which were significantly lower than the prior comparative period because of the multiple financings completed during the comparative period;
- Shareholder costs of \$266 (2021 - \$857) were higher in the comparative period due to the timing difference in the receipt of costs of services provided;
- Transfer agent fees were \$2,635 (2021 - \$5,655) were higher in the prior comparative period due to the financings completed in the prior year.
- Write-down of notes receivable of \$Nil (2021 - \$599) and a write-down in equipment of \$Nil (2021 - \$1,748).
- Gain of \$Nil (2021 - \$3,896) on the write-down of accounts payable.
- Income from discontinued operations of \$Nil (2021 - \$2,560). See Discontinued Operations above for details.
- Recovery of \$Nil (2021 - \$110,000) received from a former related party for costs incurred in prior fiscal years.

#### ***Three-month period ended June 30, 2022***

During the three-month period ended June 30, 2022 the Company reported a net loss and comprehensive loss of \$77,561 (2021 – income of \$45,700).

The most significant elements of the Company's operations over the period were:

- Accounting and legal fees were \$61,849 (2021 - \$49,982). The fees in the current period were higher due to the professional services required to complete the Arrangement Agreement signed with;
- Consulting expenses incurred during the period were \$1,500 (2021 - \$1,500) for management purposes;
- Directors fees of \$6,500 (2021 - \$3,000) were charged by two directors. The fee increased over the comparative period due to a director charging for their time in assisting with the Arrangement Agreement signed with Yerbaé;
- Office and general expenses of \$4,699 (2021 - \$4,329) were consistent with the comparative period;



- Regulatory and filing fees of \$1,987 (2021 - \$1,382) were higher than comparative period due to a timing difference in the receipt of costs for services provided;
- Transfer agent fees were \$760 (2021 - \$1,063). Prior period fees were higher due to the financings completed in the prior year;
- Loss from discontinued operations of \$Nil (2021 - \$6,940). See Discontinued Operations above for details.
- Recovery of \$Nil (2021 - \$110,000) received from a former related party for costs incurred in prior fiscal years.
- Gain of \$Nil (2021 - \$3,896) from the write-down of accounts payable.

### **Summary of Quarterly Results**

The following is a summary of the results from the eight previously completed financial quarters:

	<b>Q3</b>	<b>Q2</b>	<b>Q1</b>	<b>Q4</b>
	<b>Jun. 30,</b>	<b>Mar. 31,</b>	<b>Dec. 31,</b>	<b>Sep. 30,</b>
	<b>2022</b>	<b>2022</b>	<b>2021</b>	<b>2021</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Revenues	-	-	-	-
Expenses	(77,561)	(40,471)	(29,396)	(33,428)
Net income (loss) and comprehensive income (loss) from continuing operations	(77,561)	(40,471)	(29,396)	(90,622)
Net income (loss) and comprehensive income (loss) from discontinued operations	-	-	-	36,158
Income (loss) per share from continuing operations	(0.00)	(0.01)	(0.00)	(0.00)
Income (loss) per share from discontinued operations	-	-	-	0.00
Total assets	11,673	25,394	100,286	117,236
Working capital (deficiency)	(55,993)	21,568	62,039	91,435
	<b>Q3</b>	<b>Q2</b>	<b>Q1</b>	<b>Q4</b>
	<b>Jun. 30,</b>	<b>Mar. 31,</b>	<b>Dec. 31,</b>	<b>Sept. 30,</b>
	<b>2021</b>	<b>2021</b>	<b>2020</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Revenues	-	-	-	(30,648)
Expenses	(61,256)	(72,376)	(48,773)	(86,096)
Net income (loss) and comprehensive income (loss) from continuing operations	52,640	(1,289)	(50,521)	(192,472)
Net income (loss) and comprehensive income (loss) from discontinued operations	(6,940)	(22,532)	11,601	71,867
Income (loss) per share from continuing operations	0.00	0.00	(0.01)	(0.03)
Income (loss) per share from discontinued operations	(0.00)	0.00	0.00	0.01
Total assets	192,977	594,278	208,490	115,327
Working capital (deficiency)	146,195	110,495	(405,893)	(571,359)

Diluted calculations have not been provided due to the anti-dilutive effect of outstanding stock options and warrants. The Company has not paid any dividends and it has no present intention of paying dividends on its common shares as it anticipates all available funds will be invested to finance the growth of its business.

Fluctuations in key financial data can be attributed to various items such as financings, non-cash items such as share-based compensation and year-end audit adjustments.

Some of the significant transactions during the previous quarters included the following:

### **Third Quarter June 2022**

The expenses during the current quarter compared to the prior year comparative quarter increased due to the professional legal services required to sign the Arrangement Agreement with Yerbaé.

### **Second Quarter March 2022**

The expenses during the current quarter compared to the prior year comparative quarter decreased due to the transition that resulted from the numerous management changes that took place during the prior fiscal year.

### **First Quarter December 2021**

This is the first full quarter after the sale of ACT60 where there was a significant decrease in reported revenues and expenses. In prior quarters, most revenues and a significant portion of expenses were attributed to ACT360.

### **Fourth Quarter September 2021**

There are various year-end audit adjustments reflected in the quarterly amounts including a gain of \$4,744 on the sale of a subsidiary. During the comparative quarter in the prior year realized a gain of \$7,970 on the disposal of 2 wholly-owned subsidiaries.

### **Third Quarter June 2021**

This quarter included a recovery of \$110,000 received from Bexar Ventures Inc. for costs from prior fiscal years. The Company also repaid \$70,783 to settle the outstanding principle and accrued interest on promissory notes payable.

### **Second Quarter March 2021**

The Company completed a private placement financing by issuing 12,000,000 units at \$0.05 per unit for gross proceeds of \$600,000. The Company also repaid \$20,717 to settle outstanding principal and accrued interest on the promissory notes payable.

### **First Quarter December 2020**

The Company completed a private placement financing by issuing 7,400,000 units at \$0.03 per unit for gross proceeds of \$222,000. During the quarter Company also collected the full receivable balance from ACME Lithium Inc. (formerly Hapuna Ventures Inc.) of \$84,000.

## **Financing Activities**

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During the nine-month period ended June 30, 2022, the Company did not complete any financings.

During the year ended September 30, 2021, the Company:

- Closed a private placement of 7,400,000 units for gross proceeds of \$222,000. Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one additional common share of the Company at \$0.05 per share until December 29, 2025.

- Closed a private placement of 12,000,000 units for gross proceeds of \$600,000. Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one additional common share of the Company at \$0.055 per share until January 20, 2024.
- The Company repaid funds previously advanced from shareholders of \$91,500 including outstanding principal and interest.

### ***Liquidity and Capital Resources***

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The Company's aggregate operating, investing and financing activities for the nine month period ended June 30, 2022 from continuing operations resulted in a decrease in cash of \$107,196 (2021 – increase of \$167,473). As at June 30, 2022, the Company's cash balance was \$8,089 (September 30, 2021 - \$115,285) and the Company had working capital (deficiency) of (\$55,993) (September 30, 2021 - \$91,435).

Net cash used in operating activities for the period was \$107,196 (2021 - \$713,220). This amount consists of a net loss for the period of \$147,428 (2021 - \$62,583), cash used in operating activities from discontinued operations of \$Nil (2021 - \$22,394) and with items not affecting cash of: \$Nil (2021 - \$599) as a write-down of notes receivable, write-down of disposed equipment of \$Nil (2021 - \$1,748), write-down of accounts payable of \$Nil (2021 - \$3,896), depreciation of \$Nil (2021 - \$194), interest accrued on promissory notes of \$Nil (2021 - \$2,364) and a recovery of \$Nil (2021 - \$110,000) from a former related party. Changes in non-cash working capital items consisted of a change in GST receivable of \$1,145 (2021 - \$2,137), a change of \$12,988 (2021 - \$525) in prepaid expenses and a change in accounts payable and accrued liabilities of \$54,365 (2021 - \$517,640).

Financing activities provided net cash of \$Nil (2021 - \$686,963). This consisted of gross proceeds received of \$Nil (2021 - \$822,000) from the issuance of common shares, payment of share issue costs of \$Nil (2021 - \$33,807), a return of share subscriptions of \$Nil (2021 - \$10,000) and the payment of \$Nil (2021 - \$91,500) towards a settlement of promissory notes and accrued interest.

Investing activities provided net cash of \$Nil (2021 – \$194,000) from related parties consisting of \$Nil (2021 - \$84,000) received as a settlement from a former related party and \$Nil (2021 - \$110,000) received as a recovery of costs from a former related party from prior fiscal years.

The continuing operations of the Company are dependent upon its ability to raise adequate financing and to commence profitable operations in the future.

### ***Transactions with Related Parties***

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The Company has identified its directors and certain senior officers as its key personnel and the compensation costs for key personnel and companies related to them were recorded at the amounts as agreed upon by the transacting parties.

The remuneration of the Company's directors and other key management was as follows during the nine-month periods ended June 30, 2022 and 2021:

		Nine Months ended June 30,	
		2022	2021
Directors fees	(a)	\$ 13,125	\$ 3,500
Consulting	(b)	4,500	13,500
Accounting and legal	(c)	34,150	45,713
		<u>\$ 51,775</u>	<u>\$ 62,713</u>

- (a) During the nine-month period ended June 30, 2022, the Company recorded directors' fees of \$13,125 (2021 - \$3,500).
- (b) During the nine-month period ended June 30, 2022, the Company recorded management consulting fees of \$4,500 (2021 - \$13,500) to the current CFO and the former CEO.
- (c) During the nine-month period ended June 30, 2022, the Company recorded \$34,150 (2021 - \$45,713) in professional fees to a company controlled by the CEO and director and a company controlled by the former CFO of the Company.

Included in accounts payable and accrued liabilities at June 30, 2022 is \$16,330 (September 30, 2021 - \$5,000) due to current directors and officers and companies controlled by current directors and officers. These amounts are non-interest bearing, unsecured and due on demand.

During the year ended September 30, 2021, the Company paid \$360,589 to settle amounts due to former directors in settlement of directors fees and other amounts due. The Company also recovered \$110,000 from Bexar, a former related party, in costs from prior fiscal periods.

During the year ended September 30, 2021, the Company collected an outstanding receivable \$84,000 from a former related party related to management fees charged and expenses incurred on behalf of the related party.

#### ***Off Balance Sheet Arrangements***

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To the best of management's knowledge, there are no other off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition of the company.

#### ***Critical Accounting Estimates***

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The preparation of the Company's financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

### Critical Judgments

#### *Going concern of operations*

Management has made the determination that the Company will continue as a going concern for the next year.

#### *Functional currencies*

Determination of an entity's functional currency involves judgment taking into account the transactions, events, and conditions relevant to each individual entity. Determination of functional currency involves evaluating evidence about the primary economic environment in which each entity operates and is re-evaluated when facts and circumstances indicate that conditions have changed.

### Estimates

#### *Deferred income taxes*

The determination of deferred income tax assets or liabilities requires subjective assumptions regarding future income tax rates and the likelihood of utilizing tax carry forwards. Changes in these assumptions could materially affect the recorded amounts, and therefore do not necessarily provide certainty as to their recorded values.

#### *Expected credit losses on accounts receivable and promissory notes receivable*

When determining expected credit losses ("ECLs"), the Company considers the historic credit losses observed by the Company, customer-specific payment history and economic conditions.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL's, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience, informed credit assessment and forward-looking information.

### ***Changes in Accounting Policies***

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During the nine month period ended June 30, 2022, the Company did not adopt any new or amended accounting policies that had a material impact on the statements of financial position or results of operations.

### ***Financial Instruments***

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#### **Risk Management**

The Company is exposed to risks that arise from its use of financial instruments. The Board of Directors has overall responsibility for the determination of the Company's risk management objectives and policies and, while retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Company's finance function.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Company's competitiveness and flexibility. Further details regarding these policies are set out below.

### **Market Risk**

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices are comprised of three types of risk: foreign currency risk, interest rate risk, and equity price risk. The Company is not subject to interest rate risk or equity price risk as at the date of these condensed consolidated interim financial statements.

#### Foreign Currency Risk

Foreign currency risk is the risk that a variation in exchange rates between the Canadian dollar and United States dollar or other foreign currencies will affect the Company's operations and financial results. The Company is exposed to currency risk to the extent that monetary assets and liabilities held by the Company are not denominated in Canadian dollars. The Company has not entered into any foreign currency contracts to mitigate this risk.

### **Credit Risk**

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Financial instruments which are potentially subject to credit risk for the Company consist primarily of cash. Cash is maintained with financial institutions of reputable credit and may be redeemed upon demand.

The carrying amount of financial assets represents the maximum credit exposure. The Company has gross credit exposure at June 30, 2022 relating to cash of \$8,089 (September 30, 2021 - \$115,285) held in deposits at Canadian chartered banks. The Company considers this credit risk to be minimal for all cash assets based on changes that are reasonably possible at the reporting date.

### **Liquidity Risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The key to success in managing liquidity is the degree of certainty in the cash flow projections. If future cash flows are fairly uncertain, the liquidity risk increases.

Typically, the Company ensures that it has sufficient cash on demand to meet expected operational expenses. To achieve this objective, the Company prepares annual capital expenditure budgets which are regularly monitored and updated as necessary. The Company monitors its risk of shortage of funds by monitoring the maturity dates of existing trade and other accounts payable and accrued liabilities.

The following table sets out the contractual maturities (representing undiscounted contractual cash flows) of financial liabilities:

	Up to 3 months	Between 3 & 12 months	Between 1 & 3 years	Total
<b>June 30, 2022</b>				
Accounts payable and accrued liabilities	\$ 67,666	\$ -	\$ -	\$ 67,666
	<u>\$ 67,666</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 67,666</u>
<b>September 30, 2021</b>				
Accounts payable and accrued liabilities	\$ 25,801	\$ -	\$ -	\$ 25,801
	<u>\$ 25,801</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 25,801</u>

### Fair Value of Financial Instruments

The Company provides information about financial instruments that are measured at fair value, grouped into Level 1 to 3 based on the degree to which the inputs used to determine the fair value are observable.

- Level 1 fair value measurements are those derived from quoted prices in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1, that are observable either directly or indirectly.
- Level 3 fair value measurements are those derived from valuation techniques that include inputs that are not based on observable market data.

Cash is measured using level 1 fair value inputs.

As at June 30, 2022, the Company believes the carrying values of its accounts payable and accrued liabilities approximate their fair values because of their nature and relatively short maturity dates or durations.

### Outstanding Share Data

As at June 30, 2022 and the Report Date, the following table summarizes the outstanding share capital of the Company:

	June 30, 2022	Report Date
Common Shares	26,895,633	28,820,633
Stock Options	-	-
Warrants (1)	20,933,330	19,008,330
Total, Fully Diluted	<u>47,828,963</u>	<u>47,828,963</u>

1) Consists of:

- 775,000 warrants exercisable at a price of \$0.16 per share until November 27, 2022;
- 758,330 warrants exercisable at a price of \$0.16 per share until March 8, 2023;
- 7,400,000 warrants exercisable at \$0.05 per share until December 29, 2025; and
- 12,000,000 warrants exercisable at \$0.055 per share until January 20, 2024

### ***Risks and Uncertainties***

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An investment in the Company's shares should be considered highly speculative due to the nature of the Company's business and the present stage of its development. In evaluating the company and its business, the Reader should carefully consider the following risk factors in addition to the other information contained in this management discussion and analysis. These risk factors are not a definitive list of all risk factors associated with the Company. It is believed that these are the factors that could cause actual results to be different from expected and historical results. Investors should not rely upon forward-looking statements as a prediction of future results. The Company is unlikely to generate revenues or pay dividends in the immediate or foreseeable future.

#### **COVID-19**

In March 2020 the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company's business or results of operations at this time.

#### **Global Economic Conditions**

Global economic conditions could have a negative effect on the Company's business and results of operations. Economic activity throughout much of the world has been volatile. Market disruptions have included extreme volatility in securities prices, as well as severely diminished liquidity and credit availability. An economic crisis may adversely affect the Company in a variety of ways. Access to lines of credit or the capital markets may be severely restricted, which may preclude the Company from raising funds required to commence profitable operations. It may be more difficult for the Company to complete strategic transactions with third parties. Such developments could decrease the Company's ability to obtain financing.

#### **Additional Requirements for Capital**

Substantial additional financing may be required if the Company is to be successful at identifying and acquiring new business opportunities or assets. No assurances can be given that the Company will be able to identify any assets or businesses to acquire, or have the financial resources necessary to complete an acquisition. Nor can there be any assurance that the Company will be able to raise additional capital that it may require for future developments. Any additional equity financing may be dilutive to investors and debt financing, if available, may involve restrictions on financing and operating activities. There is no assurance that additional financing will be available on terms acceptable to the Company, if at all. If the Company is unable to obtain additional financing as needed, it may be required to reduce the scope of its operations or anticipated expansion.

#### **Dependence on Management Team**

The Company's success depends to a certain degree upon key members of its senior management. It is expected that these individuals will be a significant factor in our growth and success. The loss of the service of members of the management team or certain key employees could have a material adverse effect on the Company.

#### **Smaller Companies**

Market perception of junior companies may change, potentially affecting the value of investors' holdings and the ability of the Company to raise further funds through the issue of additional Common Shares or otherwise. The



share price of publicly traded smaller companies can be highly volatile. The value of the Common Shares may be subject to sudden and large falls in value given the restricted marketability of the Common Shares.

**Subsequent Events**

- a) The Company issued 1,175,000 common shares on July 26, 2022 pursuant to the exercise of 1,175,000 warrants at \$0.05 per share for gross proceeds of \$58,750 and 750,000 common shares on July 26, 2022 pursuant to the exercise of 750,000 warrants at \$0.055 per share for gross proceeds of \$41,250.
- b) The Company received a loan of \$9,000 from a company controlled by a director of the Company. The loan is non-interest bearing with no specific terms of repayment.

**SCHEDULE "G"**

**YERBAÉ FINANCIAL STATEMENTS**

*[See attached]*

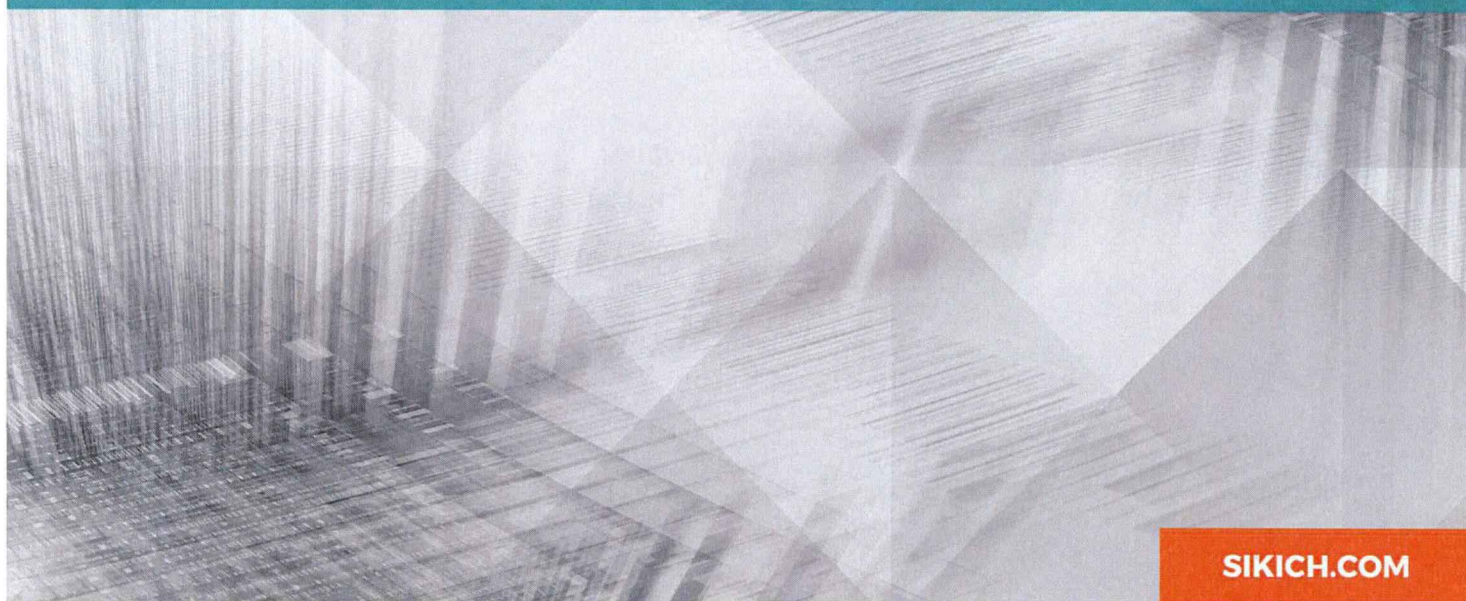


**YERBAÉ BRANDS CO.**

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FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S REPORT

For the Years Ended December 31, 2020 and 2019



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**YERBAÉ BRANDS CO.**  
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1415 West Diehl Road, Suite 400  
Naperville, IL 60563  
630.566.8400

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Yerbaé Brands Co.  
Scottsdale, Arizona

### **Opinion**

We have audited the financial statements of Yerbaé Brands Co. (the Company), which comprise the statements of financial position as at December 31, 2020 and 2019, and the statements of loss, changes in stockholders'/members' equity (deficit), and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

### **Basis for Opinion**

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

### **Other Information**

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audits or otherwise appear to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



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

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

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

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

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

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

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

The engagement partner on the audit resulting in this independent auditor's report is Jason Evans.

*Sikich LLP*

Naperville, Illinois  
May 9, 2022

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**FINANCIAL STATEMENTS**



**YERBAÉ BRANDS CO.**

STATEMENTS OF FINANCIAL POSITION  
(Expressed in U.S. Dollars)

December 31, 2020 and 2019

	2020	2019	As of January 1, 2019
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	\$ 239,267	\$ 542,633	\$ 219,143
Accounts receivable, net of expected credit loss (Note 2)	385,198	328,193	20,171
Inventories (Note 6)	418,765	417,144	482,598
Prepaid expenses and other current assets	-	-	5,583
<b>TOTAL ASSETS</b>	<b>\$ 1,043,230</b>	<b>\$ 1,287,970</b>	<b>\$ 727,495</b>
<b>LIABILITIES AND STOCKHOLDERS'/ MEMBERS' EQUITY (DEFICIT)</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable	\$ 462,091	\$ 193,582	\$ 230,699
Current portion of notes payable (Note 9)	-	-	2,154,521
Due to Gourmet Growth (Note 7)	369,319	-	-
Accrued interest	-	-	291,863
Accrued expenses	525,663	212,581	276,354
Total current liabilities	1,357,073	406,163	2,953,437
<b>NONCURRENT LIABILITIES</b>			
Due to stockholders (Note 8)	200,000	-	-
Notes payable (Note 9)	150,000	-	928,876
Total noncurrent liabilities	350,000	-	928,876
Total liabilities	1,707,073	406,163	3,882,313
<b>STOCKHOLDERS'/MEMBERS' EQUITY (DEFICIT)</b>			
Common stock, \$.0001 par value, 25,000,000 shares authorized, 15,079,308 shares issued and outstanding at December 31, 2020 (Note 12)	1,508	-	-
Additional paid-in capital	880,299	-	-
Accumulated deficit	(1,545,650)	-	-
Members' equity (deficit) (Note 12)	-	881,807	(3,154,818)
Total stockholders'/members' equity (deficit)	(663,843)	881,807	(3,154,818)
<b>TOTAL LIABILITIES AND STOCKHOLDERS'/ MEMBERS' EQUITY (DEFICIT)</b>	<b>\$ 1,043,230</b>	<b>\$ 1,287,970</b>	<b>\$ 727,495</b>

See accompanying notes to financial statements.

**YERBAÉ BRANDS CO.**STATEMENTS OF LOSS  
(Expressed in U.S. Dollars)

For the Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<b>REVENUES</b>		
Gross revenues	\$ 5,867,823	\$ 4,672,709
Less discounts	(1,087,778)	(699,062)
Total net revenues	4,780,045	3,973,647
<b>COST OF SALES</b>	<u>1,805,106</u>	<u>1,678,429</u>
Gross profit	2,974,939	2,295,218
<b>OPERATING EXPENSES</b>	<u>4,770,560</u>	<u>4,984,095</u>
Loss from operations	(1,795,621)	(2,688,877)
<b>OTHER INCOME (EXPENSE)</b>		
Other income (Note 14)	312,126	-
Interest expense	(62,155)	(5,437)
Total other income (expense)	<u>249,971</u>	<u>(5,437)</u>
<b>NET LOSS BEFORE INCOME TAXES</b>	<u>(1,545,650)</u>	<u>(2,694,314)</u>
Income tax expense (Note 10)	<u>-</u>	<u>-</u>
<b>NET LOSS</b>	<u>\$ (1,545,650)</u>	<u>\$ (2,694,314)</u>
<b>LOSS PER SHARE/UNIT</b>		
Basic (Note 16)	\$ (0.10)	\$ (0.23)
Diluted (Note 16)	\$ (0.10)	\$ (0.23)

See accompanying notes to financial statements.

**YERBAÉ BRANDS CO.**

STATEMENTS OF CHANGES IN STOCKHOLDERS'/MEMBERS' EQUITY (DEFICIT)  
(Expressed in U.S. Dollars)

For the Years Ended December 31, 2020 and 2019

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Members' Equity (Deficit)	Total
	Number of Shares	Amount				
<b>BALANCE (DEFICIT), DECEMBER 31, 2018</b>	-	\$ -	\$ -	\$ -	\$ (3,154,818)	\$ (3,154,818)
Contributions	-	-	-	-	6,730,939	6,730,939
Net loss	-	-	-	-	(2,694,314)	(2,694,314)
<b>BALANCE, DECEMBER 31, 2019</b>	-	-	-	-	881,807	881,807
Shares issued due to conversion from LLC to C-Corp (Note 12)	15,079,308	1,508	880,299	-	(881,807)	-
Net loss	-	-	-	(1,545,650)	-	(1,545,650)
<b>BALANCE (DEFICIT), DECEMBER 31, 2020</b>	15,079,308	\$ 1,508	\$ 880,299	\$ (1,545,650)	\$ -	\$ (663,843)

See accompanying notes to financial statements.

**YERBAE BRANDS CO.**

STATEMENTS OF CASH FLOWS  
(Expressed in U.S. Dollars)

For the Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	\$ (1,545,650)	\$ (2,694,314)
Adjustments to reconcile net loss to net cash flows from operating activities		
Credit loss	9,062	-
(Increase) decrease in		
Accounts receivable	(66,209)	(308,022)
Inventories	(1,621)	65,454
Prepaid expenses and other current assets	-	5,583
Increase (decrease) in		
Accounts payable	268,651	(37,117)
Accrued interest	-	(291,863)
Accrued expenses	313,082	(63,773)
Total adjustments	<u>522,965</u>	<u>(629,738)</u>
Net cash from operating activities	<u>(1,022,685)</u>	<u>(3,324,052)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
None	<u>-</u>	<u>-</u>
Net cash from investing activities	<u>-</u>	<u>-</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Due to Gourmet Growth	369,319	-
Advances from stockholders	200,000	-
Proceeds from note payable	150,000	-
Member contributions	-	3,647,542
Net cash from financing activities	<u>719,319</u>	<u>3,647,542</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(303,366)	323,490
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>542,633</u>	<u>219,143</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 239,267</u>	<u>\$ 542,633</u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Cash paid for interest	<u>\$ (62,155)</u>	<u>\$ -</u>
<b>SUPPLEMENTAL DISCLOSURES OF NONCASH TRANSACTIONS</b>		
Notes payable and accrued interest converted to equity/members units	<u>\$ -</u>	<u>\$ 3,083,397</u>

See accompanying notes to financial statements.

## YERBAÉ BRANDS CO.

### NOTES TO FINANCIAL STATEMENTS (Expressed in U.S. Dollars)

December 31, 2020 and 2019

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#### 1. DESCRIPTION OF BUSINESS

Yerbaé, LLC (the Company) a limited liability corporation was formed in 2016 and is a distributor of enhanced sparkling water for distribution throughout the United States. The address of its registered office is 18801 N. Thompson Peak Parkway, Scottsdale, Arizona, 85255.

On September 14, 2020, Yerbaé Brands Co., a corporation was formed and all members interest in Yerbaé, LLC were converted to class A, B, D-1, and D-2 stock. See Note 12 for the details of the conversion.

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the significant accounting policies followed by the Company:

##### Basis of Preparation

The accompanying financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

These financial statements for the year ended December 31, 2020 are the first the Company has prepared in accordance with IFRS. Refer to Note 3 for information on how the Company adopted IFRS. The financial statements have been prepared on a historical cost basis. For all periods up to and including the year ended December 31, 2019, the Company prepared its financial statements in accordance with accounting principles generally accepted in the United States of America (USGAAP).

The financial statements of the Company were approved by the Board of Directors on May 9, 2022

##### Current Versus Noncurrent Classification

The Company presents assets and liabilities in the statement of financial position based on current/noncurrent classification. An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in the normal operating cycle,
- Held primarily for the purpose of trading,
- Expected to be realized within twelve months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period

All other assets are classified as noncurrent.



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

Current Versus Noncurrent Classification (Continued)

A liability is current when:

- It is expected to be settled in the normal operating cycle,
- It is held primarily for the purpose of trading,
- It is due to be settled within twelve months after the reporting date, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The terms of the liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

The Company classifies all other liabilities as noncurrent.

Deferred tax assets and liabilities are classified as noncurrent assets and liabilities.

Significant Accounting Judgments, Estimates, and Assumptions

The preparation of the Company's financial statements requires management to make judgments, estimates, and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Other disclosures relating to the Company's exposure to risks and uncertainties include:

- Financial instruments (See Note 5)

Judgments

In the process of applying the Company's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognized in the financial statements.

- Provision for income taxes (See Note 10)

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

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Company based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

- Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which depends on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option or appreciation right, volatility and dividend yield and making assumptions about them.
- Deferred tax assets are recognized for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits, together with future tax planning strategies. Further details on taxes are disclosed in Note 10.

Cash and Cash Equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand and short-term highly liquid deposits with a maturity date of three months or less, that are readily convertible to a known amount of cash and subject to an insignificant risk of changes in value. For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and short-term deposits.

Accounts Receivable

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. Accounts are considered delinquent when the account is not paid within the terms specified for each customer. To reduce credit risk with accounts receivable, the Company performs ongoing evaluations of its customers' financial condition and generally requires no collateral from its customers. The expected credit loss is the Company's best estimate of the amount of probable credit losses in the Company's existing accounts receivable. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Company does not have any off-balance-sheet credit exposure related to its customers. At December 31, 2020 and 2019, the Company has recorded an allowance of \$0 and \$6,500, respectively.

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

Inventories

Inventories are valued at the lower of cost or net realizable value with cost determined on a first-in/first-out (FIFO) basis. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Revenue From Contracts With Customers

The Company is in the business of manufacturing enhanced sparkling water and derives its revenues from one primary source, product sales. Revenue from contracts with customers is recognized when control of the goods are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods. The Company has generally concluded that it is the principal in its revenue arrangements because it typically controls the goods before transferring them to the customer.

Product Sales

Contracts with customers include the sale of sparkling water. The Company transfers control and recognizes revenue from the sale of product at a point in time upon delivery of sparkling water to customers or distributors pursuant to the terms of the contract. In general, the sale of sparkling water does not include multiple promised goods and services.

Sales taxes collected from customers are excluded from revenues and the obligation is included in accrued liabilities until the taxes are remitted to the appropriate taxing authorities. The Company accounts for shipping and handling activities as a fulfillment of its promise to transfer the goods. Accordingly, shipping and handling costs are included in cost of sales.

Performance Obligations and Significant Judgments and Estimates

The transaction price is allocated to each distinct performance obligation using an estimate of stand-alone selling price. The stand-alone selling price is generally based on observable prices. The establishment of stand-alone selling price requires judgment as to whether there is a sufficient quantity of items sold on a stand-alone basis and those prices demonstrate an appropriate level of concentration to conclude that a stand-alone selling price exists.



**YERBAÉ BRANDS CO.**  
NOTES TO FINANCIAL STATEMENTS (Continued)

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

Performance Obligations and Significant Judgments and Estimates (Continued)

The following reflects the disaggregation of the Company's net revenue from contracts with customers for the years ended December 31, 2020 and 2019:

Geographical Region

	2020	2019
United States - Midwest	\$ 1,293,256	\$ 1,072,844
United States - West	1,879,639	1,040,877
United States - East	1,280,261	1,497,176
<b>TOTAL NET REVENUE</b>	<b>\$ 4,453,156</b>	<b>\$ 3,610,897</b>

Timing of Net Revenue Recognition

	2020	2019
Goods and services transferred at a point in time	\$ 4,453,156	\$ 3,610,897
Services transferred over time	-	-
<b>TOTAL NET REVENUE</b>	<b>\$ 4,453,156</b>	<b>\$ 3,610,897</b>

Products are primarily sold to customers throughout the United States. Product orders are typically processed within five days of order receipt and collected within 60 days from shipment. Various economic factors affect the recognition of revenue and cash flows including availability of products at competitive prices from overseas manufacturers; skilled labor; and prompt payment by customers.

Contract Assets and Liabilities

The timing of revenue recognition, billings and cash collections results in billed accounts receivable (contract assets) on the statement of financial position. Amounts are billed upon shipment of the products and acceptance by the customer. The Company may request advances or deposits from customers before revenue is recognized, which results in contract liabilities. These contract liabilities are released as the performance obligations are satisfied. As of December 31, 2020 and 2019, there were no contract liabilities.

	2020	2019
Accounts receivable, net	\$ 385,198	\$ 328,193

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

Income Taxes

Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes. Deferred taxes are recognized for differences between the basis of assets and liabilities for financial statement and income tax purpose. The differences relate primarily to expected credit losses, basis of inventories, and certain liabilities. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be deductible or taxable when the assets and liabilities are recovered or settled. Deferred taxes also are recognized for operating losses and tax credits that are available to offset future taxable income.

Advertising

The Company expenses advertising costs as incurred. Total advertising expense was \$718,370 and \$729,742 for the years ended December 31, 2020 and 2019, respectively.

Fair Value Measurement

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

COVID-19 Pandemic

In March 2020, the World Health Organization declared the coronavirus (COVID-19) a global pandemic. This contagious disease outbreak, has led to adverse impacts on the global economies, disruptions of financial markets and has affected work forces, resulting in governments and central banks reacting with significant monetary and fiscal interventions designed to stabilize economic conditions.

The extent to which these events may impact the Company's business activities will depend on future developments, such as the duration of the outbreak, travel restrictions, business disruptions, and the effectiveness of actions taken to contain, prevent and treat the disease. Further expenses or delays relating to such events outside of the Company's control may be incurred, which could have a material adverse impact on the business, operating results and financial condition.



2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

COVID-19 Pandemic (Continued)

Although the financial impact of COVID-19 to the Company has not been significant date, the Company continues to monitor the progression of COVID-19 and its potential impact to the Company's future financial performance.

Loan Received under the Paycheck Protection Program (PPP) Established by the Coronavirus Aid, Relief, and Economic Security (CARES) Act, Implemented by the Small Business Administration

In response to the coronavirus (COVID-19) outbreak in 2020, the U.S. Federal Government enacted the CARES Act that, among other economic stimulus measures, established the PPP to provide loans to small businesses, as defined in the CARES Act. On April 9, 2020, the Company was granted a loan through the PPP under the CARES Act in the amount of \$302,126. The Company has elected to account for the loan as a debt obligation and should all or part of the loan be forgiven, will record the amount forgiven as forgiveness of debt in the statement of income in the year the Company receives a legal release of the debt. See Note 14 for further details.

Future Accounting Policy Changes

Standards issued but not yet effective up to the date of issuance of the Company's financial statements that are likely to have an impact on the Company are listed below. This listing is of standards and interpretations the Company reasonably expects to be applicable at a future date. The Company intends to adopt these standards when they become effective.

- Amendments to IAS 1, *Presentation of Financial Statements* - The amendments clarify that liabilities are classified as either current or noncurrent, depending on the rights that exist at the end of the reporting period. Classification is unaffected by expectations of the entity or events after the reporting date. The amendments also clarify that the settlement of a liability refers to the transfer by the counterparty of cash, equity instruments, and/or other assets or services. Early application is permitted. The Company intends to adopt the amendments to IAS 1 on the required effective date of January 1, 2023. The Company is in the process of assessing the impact of this amendment.
- LIBOR reform with amendments to IFRS 9, IAS 29, IFRS 7, and IFRS 16 - In August 2020, the IASB issued Interest Rate Benchmark Reform-Phase 2, which amends IFRS 9, *Financial Instruments*, IAS 39, *Financial Instruments: Recognition and Measurement*, IFRS 7, *Financial Instruments: Disclosures*, and IFRS 16, *Leases*. The amendments complement those issued in 2019 and focus on the effects on financial statements when a company replaces the old interest rate benchmark with an alternative benchmark rate as a result of the reform. The standard will be effective on January 1, 2021 for the Company. The Company is currently evaluating the impact of this standard on its financial statements.

### **3. FIRST-TIME ADOPTION OF IFRS**

These financial statements, for the year ended December 31, 2020, are the first the Company has prepared in accordance with IFRS. For periods up to and including the year ended December 31, 2019, the Company prepared its financial statements in accordance with USGAAP.

Accordingly, the Company has prepared financial statements that comply with IFRS applicable as at December 31, 2020, together with comparative period data for the year ended December 31, 2019, as described in the summary of significant accounting policies. In preparing the financial statements, the Company's opening statement of financial position was prepared as at January 1, 2019, the Company's date of transition to IFRS. This note explains the principal adjustments made by the Company in restating its USGAAP financial statements, including the statement of financial position as at January 1, 2019 and the financial statements as of, and for, the year ended December 31, 2019.

#### Exemptions Applied

IFRS 1 allows first-time adopters certain exemptions from the retrospective application of certain requirements under IFRS. The Company has applied the following exemptions:

- The Company assessed all contracts existing at January 1, 2019 to determine whether a contract contains a lease based upon the conditions in place as at January 1, 2019.

#### Estimates

The estimates at January 1, 2019 and at December 31, 2019 are consistent with those made for the same dates in accordance with USGAAP (after adjustments to reflect any differences in accounting policies) apart from the following item where application of USGAAP did not require estimation:

- Share-based payment transactions (See Note 13)

The estimates used by the Company to present these amounts in accordance with IFRS reflect conditions at January 1, 2019, the date of transition to IFRS and as at December 31, 2019. No adjustments were required to present the financial statements in accordance with IFRS, therefore, a reconciliation of balances as of January 1, 2020 was not necessary.

**YERBAÉ BRANDS CO.**  
NOTES TO FINANCIAL STATEMENTS (Continued)

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**4. CAPITAL MANAGEMENT**

The Company's objective when managing capital is to use short-term funding sources to manage its working capital requirements and fund expenditures required to execute its operating and strategic plans. The Company is not subject to any capital requirements imposed by regulators or creditors. As detailed in Note 17, subsequent to year end the Company entered into several convertible promissory notes which will be used to fund the working capital needs of the Company. As of December 31, 2020 and 2019, the Company's capital structure is composed of the following:

	2020	2019
Cash and cash equivalents	\$ 239,267	\$ 542,633
Due to Gourmet Growth	(369,319)	-
Due to stockholders	(200,000)	-
Notes payable	(150,000)	-
	<hr/>	<hr/>
Subtotal	(480,052)	542,633
Equity (deficit)	(663,843)	881,807
	<hr/>	<hr/>
NET CAPITAL (DEFICIT)	<u>\$ (1,143,895)</u>	<u>\$ 1,424,440</u>

**5. FINANCIAL INSTRUMENTS**

The Company's principal financial liabilities are comprised of loans, borrowings, and accounts payable. The main purpose of these financial liabilities is to finance the Company's operations. The Company's principal financial assets include accounts receivable and cash and cash equivalents that derive directly from its operations. The Company is exposed to credit risk, liquidity risk, and interest rate risk.

Credit Risk

Credit risk is the risk that a counter party will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk from its operating activities (primarily accounts receivable) and from its financing activities, including deposits with banks and financial institutions. The Company places its cash with high credit quality financial institutions, which are federally insured up to prescribed limits. At certain times, the amount of cash equivalents at any one institution may exceed the federally insured prescribed limits; however, no losses have been incurred to date.



**YERBAÉ BRANDS CO.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**5. FINANCIAL INSTRUMENTS (Continued)**

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The following are the contractual maturities of financial liabilities as of December 31:

<u>Financial Liabilities</u>	2020				
	Carrying Amount	Contractual Cash Flow	0 to 12 Months	13 to 24 Months	Thereafter
Accounts payable	\$ 462,091	\$ 462,091	\$ 462,091	\$ -	\$ -
Accrued expenses	525,663	525,663	525,663	-	-
Due to Gourmet Growth	369,319	369,319	369,319	-	-
Due to stockholders	200,000	210,000	-	210,000	-
Note payable	150,000	258,213	8,772	8,772	240,669
<b>TOTAL</b>	<b>\$ 1,707,073</b>	<b>\$ 1,825,286</b>	<b>\$ 1,365,845</b>	<b>\$ 218,772</b>	<b>\$ 240,669</b>

<u>Financial Liabilities</u>	2019				
	Carrying Amount	Contractual Cash Flow	0 to 12 Months	13 to 24 Months	Thereafter
Accounts payable	\$ 193,582	\$ 193,582	\$ 193,582	\$ -	\$ -
Accrued expenses	212,581	212,581	212,581	-	-
<b>TOTAL</b>	<b>\$ 406,163</b>	<b>\$ 406,163</b>	<b>\$ 406,163</b>	<b>\$ -</b>	<b>\$ -</b>

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of financial instruments will fluctuate as market interest rates change. The Company is exposed to interest rate risk on its note payable and due to stockholders, for which the interest rates charged are fixed.

**YERBAE BRANDS CO.**  
NOTES TO FINANCIAL STATEMENTS (Continued)

**5. FINANCIAL INSTRUMENTS (Continued)**

Measurement Categories and Fair Values

As explained in Note 2, financial assets and liabilities have been classified into categories that determine their basis of measurement and, for items measured at fair value, whether changes in fair value are recognized in the statement of loss. Those categories are: fair value through profit or loss; loans and receivables; and other financial liabilities. The following tables show the carrying values and the fair values of assets and liabilities for each of these categories as of December 31, 2020 and 2019 and January 1, 2019:

	<u>Loans and Receivables</u>		<u>Other Financial Liabilities</u>		<u>Fair Value Through Profit or Loss</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
<u>December 31, 2020</u>						
Cash and cash equivalents	\$ 239,267	\$ 239,267	\$ -	\$ -	\$ -	\$ -
Accounts receivable	385,198	385,198	-	-	-	-
Accounts payable	-	-	462,091	462,091	-	-
Accrued expenses	-	-	525,663	525,663	-	-
Due to Gourmet Growth	-	-	369,319	369,319	-	-
Due to stockholder	-	-	200,000	200,000	-	-
Note payable	-	-	150,000	150,000	-	-

	<u>Loans and Receivables</u>		<u>Other Financial Liabilities</u>		<u>Fair Value Through Profit or Loss</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
<u>December 31, 2019</u>						
Cash and cash equivalents	\$ 542,633	\$ 542,633	\$ -	\$ -	\$ -	\$ -
Accounts receivable	328,193	328,193	-	-	-	-
Accounts payable	-	-	193,582	193,582	-	-
Accrued expenses	-	-	212,581	212,581	-	-

	<u>Loans and Receivables</u>		<u>Other Financial Liabilities</u>		<u>Fair Value Through Profit or Loss</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
<u>January 1, 2019</u>						
Cash and cash equivalents	\$ 219,143	\$ 219,143	\$ -	\$ -	\$ -	\$ -
Accounts receivable	20,171	20,171	-	-	-	-
Accounts payable	-	-	230,699	230,699	-	-
Accrued expenses	-	-	276,354	276,354	-	-
Accrued interest	-	-	291,863	291,863	-	-
Notes payable	-	-	3,083,397	3,083,397	-	-

**YERBAÉ BRANDS CO.**  
NOTES TO FINANCIAL STATEMENTS (Continued)

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**6. INVENTORIES**

Inventories consist of the following as of December 31, 2020 and 2019:

	2020	2019
Raw material	\$ 24,788	\$ 79,201
Finished goods	394,473	347,785
Reserve for shrinkage	(496)	(9,842)
<b>TOTAL</b>	<b>\$ 418,765</b>	<b>\$ 417,144</b>

**7. DUE TO GOURMET GROWTH**

On December 16, 2019, the Company signed a production run sale agreement with Gourmet Growth LLC. The agreement indicates that Gourmet Growth will advance funds for production runs for an advance fee of .5% of the invoice. If the production requires an advance deposit, Gourmet Growth may add a mark up to the invoice in the amount of .5% to the deposit invoice. The interest charged by Gourmet Growth on all outstanding invoices is 1% per month. The agreement automatically extends for one year annually and is guaranteed by a stockholder of the Company. The outstanding balance due to Gourmet Growth was \$369,319 and \$0 at December 31, 2020 and 2019, respectively. The agreement has no fixed repayment terms.

**8. DUE TO STOCKHOLDERS**

In October 2020, the Company issued to stockholders convertible promissory notes in the aggregate principal amount of \$200,000. The notes bear interest at a fixed annual rate of 5%. All principal and interest on the notes are due on October 15, 2022. At the sole discretion of the note holders, on or before the maturity date, all principal and accrued interest on the notes could be convertible into shares of the Company's Class A common stock. The notes are convertible at a conversion price equal to the lesser of 50% of the lowest price per share of equity paid by other investors and the average price per share outstanding immediately prior to the conversion. At December 31, 2020 and 2019, the principal balance of the notes were \$200,000 and \$0, respectively



**YERBAÉ BRANDS CO.**  
NOTES TO FINANCIAL STATEMENTS (Continued)

**9. NOTES PAYABLE**

Notes payable consisted of the following at December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Note payable to the SBA, secured by all assets of the Company, due July 2050, payable in monthly principal and interest payments of \$731. Interest on the note is at 3.75%. The first monthly installment is due in October 2022.	\$ 150,000	\$ -
Less current maturities	<u>-</u>	<u>-</u>
<b>TOTAL</b>	<u><u>\$ 150,000</u></u>	<u><u>\$ 150,000</u></u>

Future principal maturities of long-term debt at December 31 were as follows:

2021	\$ -
2022	2,193
2023	8,772
2024	8,772
2025	8,772
Thereafter	<u>121,491</u>
<b>TOTAL</b>	<u><u>\$ 150,000</u></u>

**10. INCOME TAXES**

As disclosed in Note 1, the Company was converted to a corporation on September 14, 2020. Prior to September 14, 2020, the Company elected to be taxed as a partnership and was not directly subject to federal or state income taxes under the provisions of the Internal Revenue Code and applicable state statutes. Therefore, taxable income or loss was reported to the individual member for inclusion in the members' tax returns and no provision for federal and state income taxes has been included in the accompanying financial statements for the year ended December 31, 2019.

**YERBAÉ BRANDS CO.**  
NOTES TO FINANCIAL STATEMENTS (Continued)

**10. INCOME TAXES (Continued)**

Income tax expense attributable to income before income taxes differs from the amounts computed by applying the combined federal and state tax rate of 26.1% to pre-tax income as a result of the following:

Net loss	\$ (1,545,650)
Net loss on LLC short period tax return (Note 12)	<u>(949,421)</u>
Net loss attributable to corporation	(596,229)
Increase (decrease) in taxable income:	
Permanent differences	(288,027)
Temporary differences	<u>(472)</u>
Taxable net loss attributable to corporation	(884,728)
Federal and state blended tax rate	<u>26.1%</u>
Computed expected income taxes	(230,914)
Increase (decrease) in taxes:	
Temporary difference for inventories	(129)
Change in unrecognized deferred tax assets	<u>231,043</u>
INCOME TAX EXPENSE	<u>\$ -</u>

Deferred tax assets and liabilities are determined based on the difference between the financial statement and tax basis of assets and liabilities, using enacted tax rates in effect for the year in which the differences are expected to reverse. Current income taxes are based on the year's income taxable for federal and state income tax reporting purposes. Total tax provision differs from the statutory tax rates applied to income before provision for income taxes due principally to loan forgiveness amounts that are not taxable and expenses charged which are not tax deductible.

The net deferred tax assets in the accompanying statement of financial position as of December 31, 2020 included the following components:

Deferred tax asset	\$ 231,043
Valuation allowance	<u>(231,043)</u>
DEFERRED TAX ASSET	<u>\$ -</u>

The deferred tax asset as of December 31, 2020 was comprised of the tax effect of cumulative temporary differences as follows:

Inventory	\$ 129
Net operating loss - federal	173,785
Net operating loss - state	57,129
Valuation allowance	<u>(231,043)</u>
TOTAL	<u>\$ -</u>

**YERBAÉ BRANDS CO.**  
NOTES TO FINANCIAL STATEMENTS (Continued)

**10. INCOME TAXES (Continued)**

The Company has available at December 31, 2020 unused operating loss carryforwards of approximately \$230,914, which can be carried forward indefinitely and may provide future tax benefits.

The Company recorded a valuation allowance against loss carryforwards and inventories of \$231,043 during the year ended December 31, 2020. The Company has provided the allowances because it is more-likely-than-not that a substantial portion of the assets will not be realized.

**11. OPERATING LEASE**

The Company leases office space from one of its members on a month-to-month basis with monthly rentals amounting to \$6,069. The Company applies the short-term lease recognition exemption to its office lease. Lease payments on short-term leases are recognized as expense on a straight-line basis over the lease term. Total amounts paid for rent amounted to \$73,070 for the years ended December 31, 2020 and 2019.

**12. STOCK TRANSACTION**

On August 21, 2020, Yerbaé, LLC converted from a Delaware limited liability company into a Delaware corporation and changed its name to Yerbaé Brands, Co. Effective September 14, 2020, all of the then Yerbaé, LLC outstanding Class A, Class B, Class C, and Class D units were converted into Yerbaé Brands, Co. common stock on a 1 to 1 basis. There are no preferences with the stock. Class A and Class B have the same rights as Class D-1 and Class D-2, but in addition, have voting rights. See summary of stock classes below:

Class	Voting	Authorized	Issued and Outstanding
A	Voting	11,000,000	8,771,110
B	Voting	6,000,000	4,538,967
D-1	Nonvoting	2,000,000	961,538
D-2	Nonvoting	1,000,000	807,693
2020-1	Nonvoting	500,000	-
Unassigned	Nonvoting	4,500,000	-
TOTAL		25,000,000	15,079,308

**YERBAÉ BRANDS CO.**  
NOTES TO FINANCIAL STATEMENTS (Continued)

**13. EQUITY APPRECIATION RIGHTS PLAN**

During the year ended December 31, 2018, the Company entered into an equity appreciation rights plan with certain employees. Under the plan, individuals earn compensation based on the excess of the current fair market values per share of the Company over the fair market values per share of the Company in the year the rights were awarded. These fair value estimates have been based on an agreed upon Company valuation model, as detailed in the Equity Appreciation Rights Plan. At December 31, 2020 and 2019, the equity appreciation rights carried a \$1.14 and \$1.04 value, respectively. The total accrued compensation was insignificant for the years ended December 31, 2020 and 2019. The rights vest over graded vesting schedules ranging three to five years and are settled in cash. During the years ended December 31, 2020 and 2019, \$235,000 and \$535,000, respectively, of additional rights were granted to certain employees. As of December 31, 2020 and 2019, there was \$619,970 and \$398,600, respectively, of unrecognized compensation expense related to nonvested rights which will be recognized over the remaining vesting period. The weighted average remaining vesting period, in years, is 2.79 and 3.00 as of December 31, 2020 and 2019, respectively.

As of and for the years ended December 31, 2020 and 2019, the number of rights outstanding and vested are as follows:

	Rights Outstanding	Rights Vested
BALANCE, DECEMBER 31, 2018	260,000	\$ -
Rights vested	-	-
Rights granted	535,000	-
Rights settled	-	-
Rights forfeited	(100,000)	-
Change in fair value	-	-
BALANCE, DECEMBER 31, 2019	695,000	-
Rights vested	-	110,580
Rights granted	235,000	-
Rights settled	-	-
Rights forfeited	(275,000)	-
Change in fair value	-	-
BALANCE, DECEMBER 31, 2020	655,000	\$ 110,580



**YERBAÉ BRANDS CO.**  
NOTES TO FINANCIAL STATEMENTS (Continued)

**14. PAYCHECK PROTECTION PROGRAM (PPP) LOAN**

The Company received forgivable PPP funds of \$302,126 on April 9, 2020, which was the first day of the covered period, as defined in the CARES Act. The Company opted for a 24-week covered period, which concluded on September 17, 2020. PPP proceeds were used for qualifying expenses as defined in the CARES Act. On December 9, 2020, the Company received notification of forgiveness of the PPP loan. As a result, the loan in the amount of \$302,126 was recognized as other income in the accompanying statements of loss.

**15. EXPENSES BY NATURE**

Expenses by nature consist of the following as of December 31, 2020 and 2019:

	2020	2019
Materials	\$ 1,627,930	\$ 1,506,268
Employee benefits	1,563,076	1,385,338
Shipping	1,166,081	690,749
Advertising, marketing, and promotions	1,072,955	1,847,628
Slotting fees	326,889	362,750
Rent	253,547	154,262
Travel expenses	155,496	292,169
Professional fees	102,873	147,557
Insurance	83,783	94,876
Miscellaneous	72,814	45,747
Dues and subscriptions	51,164	41,968
Office expenses	41,549	29,531
Meals and entertainment	36,116	63,007
Taxes and licenses	12,331	674
Bad debt	9,062	-
<b>TOTAL</b>	<b>\$ 6,575,666</b>	<b>\$ 6,662,524</b>

**16. LOSS PER SHARE/UNIT**

Basic loss per share is calculated by dividing the net loss by the weighted average number of common shares in issue during the year ended December 31, 2020. Basic loss per member unit is calculated by dividing the net loss by the weighted average number of members units in issue during the year ended December 31, 2019.

Diluted loss per share is calculated by adjusting the weighted average number of common shares outstanding to assume conversion of all dilutive potential common shares at December 31, 2020.

**YERBAÉ BRANDS CO.**  
NOTES TO FINANCIAL STATEMENTS (Continued)

**16. LOSS PER SHARE/UNIT (Continued)**

The following table reflects the loss and share or unit data used in the basic loss per share and loss per member unit calculations:

	2020	2019
Net loss	\$ (1,545,650)	\$ (2,694,314)
Weighted average number of common shares or member units in issue	15,079,308	11,611,137
<b>BASIC LOSS PER SHARE/UNIT</b>	<b>\$ (0.10)</b>	<b>\$ (0.23)</b>

The following table reflects the loss and share or unit data used in the diluted loss per share and loss per member unit calculations:

	2020	2019
Net loss	\$ (1,545,650)	\$ (2,694,314)
Weighted average number of common shares or member units for basic loss per share/unit	15,079,308	11,611,137
Effect of dilution from convertible notes	194,838	-
Weighted average number of common shares or member units adjusted for the effect of dilution	15,274,146	11,611,137
<b>DILUTED LOSS PER SHARE/UNIT</b>	<b>\$ (0.10)</b>	<b>\$ (0.23)</b>

**17. SUBSEQUENT EVENTS**

Subsequent events are events or transactions that occur after the reporting date but before financial statements are issued or are available to be issued. These events and transactions either provide additional evidence about conditions that existed at the date of the reporting date, including the estimates inherent in the process of preparing financial statements (that is, recognized subsequent events), or provide evidence about conditions that did not exist at the reporting date but arose after (that is, nonrecognized subsequent events).

Management has evaluated subsequent events through May 9, 2022, which was the date that these financial statements were available for issuance, and determined that there were no significant nonrecognized subsequent events through that date, except as described below.

During 2021, the Company entered into several convertible promissory notes with unrelated third parties in the amount of \$2,750,000. On October 7, 2021, all of the promissory notes and the \$200,000 due to stockholders outstanding at December 31, 2021, as discussed in Note 8, were converted to common stock.

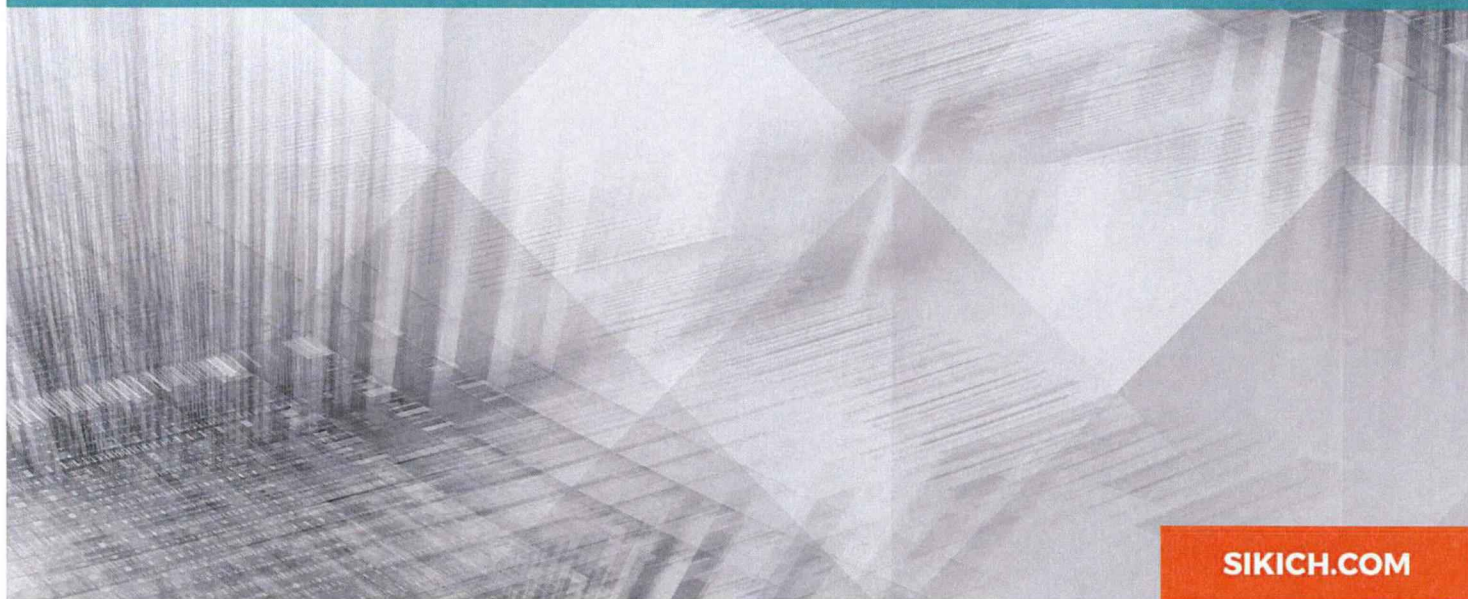


**YERBAÉ BRANDS CO.**

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FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S REPORT

For the Years Ended December 31, 2021 and 2020



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**YERBAÉ BRANDS CO.**  
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1415 West Diehl Road, Suite 400  
Naperville, IL 60563  
630.566.8400

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Yerbaé Brands Co.  
Scottsdale, Arizona

### Opinion

We have audited the financial statements of Yerbaé Brands Co. (the Company), which comprise the statements of financial position as at December 31, 2021 and 2020, and the statements of loss, changes in stockholders' equity (deficit), and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

### Basis for Opinion

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

### Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audits or otherwise appear to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

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

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

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

The engagement partner on the audit resulting in this independent auditor's report is Jason Evans.

*Sikich LLP*

Naperville, Illinois  
May 9, 2022

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**FINANCIAL STATEMENTS**



**YERBAÉ BRANDS CO.****STATEMENTS OF FINANCIAL POSITION**  
(Expressed in U.S. Dollars)

December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 347,806	\$ 239,267
Accounts receivable (Note 2)	308,417	385,198
Inventories (Note 6)	437,376	418,765
Prepaid expenses and other current assets	110,847	-
Total current assets	1,204,446	1,043,230
Property and equipment, net (Note 5)	241,891	-
<b>TOTAL ASSETS</b>	<u>\$ 1,446,337</u>	<u>\$ 1,043,230</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 799,184	\$ 462,091
Current maturities of notes payable (Note 9)	61,681	-
Due to Gourmet Growth (Note 7)	319,276	369,319
Accrued expenses	367,821	525,663
Total current liabilities	1,547,962	1,357,073
<b>NONCURRENT LIABILITIES</b>		
Due to stockholders (Note 8)	-	200,000
Notes payable (Note 9)	315,030	150,000
Total noncurrent liabilities	315,030	350,000
Total liabilities	1,862,992	1,707,073
<b>STOCKHOLDERS' EQUITY (DEFICIT)</b>		
Common stock, \$.0001 par value, 25,000,000 shares authorized, 18,404,032 and 15,079,308 shares issued and outstanding at December 31, 2021 and 2020, respectively (Note 12)	1,840	1,508
Additional paid-in capital	4,928,816	880,299
Accumulated deficit	(5,347,311)	(1,545,650)
Total stockholders' equity (deficit)	(416,655)	(663,843)
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>	<u>\$ 1,446,337</u>	<u>\$ 1,043,230</u>

See accompanying notes to financial statements.

**YERBAÉ BRANDS CO.**STATEMENTS OF LOSS  
(Expressed in U.S. Dollars)

For the Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
<b>REVENUES</b>		
Gross revenues	\$ 6,839,879	\$ 5,867,823
Less discounts	(794,790)	(1,087,778)
Total net revenues	6,045,089	4,780,045
<b>COST OF SALES</b>	2,423,723	1,805,106
Gross profit	3,621,366	2,974,939
<b>OPERATING EXPENSES</b>	7,248,056	4,770,560
Loss from operations	(3,626,690)	(1,795,621)
<b>OTHER INCOME (EXPENSE)</b>		
Other income (Note 14)	-	312,126
Interest expense	(174,971)	(62,155)
Total other income (expense)	(174,971)	249,971
<b>NET LOSS BEFORE INCOME TAXES</b>	(3,801,661)	(1,545,650)
Income tax expense (Note 10)	-	-
<b>NET LOSS</b>	<u>\$ (3,801,661)</u>	<u>\$ (1,545,650)</u>
<b>LOSS PER SHARE</b>		
Basic (Note 16)	\$ (0.24)	\$ (0.10)
Diluted (Note 16)	\$ (0.24)	\$ (0.10)

See accompanying notes to financial statements.

**YERBAÉ BRANDS CO.**

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)  
(Expressed in U.S. Dollars)

For the Years Ended December 31, 2021 and 2020

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Members' Equity	Total
	Number of Shares	Amount				
<b>BALANCE, DECEMBER 31, 2019</b>	-	\$ -	\$ -	\$ -	\$ 881,807	\$ 881,807
Shares issued due to conversion from LLC to C-Corp (Note 12)	15,079,308	1,508	880,299	-	(881,807)	-
Net loss	-	-	-	(1,545,650)	-	(1,545,650)
<b>BALANCE (DEFICIT), DECEMBER 31, 2020</b>	15,079,308	1,508	880,299	(1,545,650)	-	(663,843)
Issuance of common stock (Note 12)	3,324,724	332	4,048,517	-	-	4,048,849
Net loss	-	-	-	(3,801,661)	-	(3,801,661)
<b>BALANCE (DEFICIT), DECEMBER 31, 2021</b>	18,404,032	\$ 1,840	\$ 4,928,816	\$ (5,347,311)	\$ -	\$ (416,655)

See accompanying notes to financial statements.

**YERBAÉ BRANDS CO.**

STATEMENTS OF CASH FLOWS  
(Expressed in U.S. Dollars)

For the Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	\$ (3,801,661)	\$ (1,545,650)
Adjustments to reconcile net loss to net cash flows from operating activities		
Bad debt	25,304	9,062
Depreciation	11,563	-
(Increase) decrease in		
Accounts receivable	51,150	(66,209)
Inventory	(18,611)	(1,621)
Prepaid expenses and other current assets	(110,847)	-
Increase (decrease) in		
Accounts payable	337,093	268,651
Accrued expenses	(157,842)	313,082
	<u>137,810</u>	<u>522,965</u>
Total adjustments		
Net cash from operating activities	<u>(3,663,851)</u>	<u>(1,022,685)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	<u>(253,454)</u>	-
Net cash from investing activities	<u>(253,454)</u>	-
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments to Gourmet Growth	(2,314,446)	-
Proceeds from Gourmet Growth	2,264,403	369,319
Payments on note payable	(5,743)	-
Proceeds from note payable	232,454	150,000
Advances from stockholder	-	200,000
Proceeds from issuance of common stock	<u>3,849,176</u>	-
Net cash from financing activities	<u>4,025,844</u>	<u>719,319</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	108,539	(303,366)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>239,267</u>	<u>542,633</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 347,806</u>	<u>\$ 239,267</u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Cash paid for interest	<u>\$ (174,971)</u>	<u>\$ (62,155)</u>
<b>SUPPLEMENTAL DISCLOSURES OF NONCASH TRANSACTIONS</b>		
Notes payable and accrued interest converted to equity	<u>\$ 199,673</u>	<u>\$ -</u>

See accompanying notes to financial statements.



## YERBAÉ BRANDS CO.

### NOTES TO FINANCIAL STATEMENTS (Expressed in U.S. Dollars)

December 31, 2021 and 2020

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#### 1. DESCRIPTION OF BUSINESS

Yerbaé, LLC (the Company) a limited liability corporation was formed in 2016 and is a distributor of enhanced sparkling water for distribution throughout the United States. The address of its registered office is 18801 N. Thompson Peak Parkway, Scottsdale, Arizona, 85255.

On September 14, 2020, Yerbaé Brands Co., a corporation was formed and all members interest in Yerbaé, LLC were converted to class A, B, D-1, and D-2 stock. See Note 12 for the details of the conversion.

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the significant accounting policies followed by the Company:

##### Basis of Preparation

The accompanying financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The financial statements of the Company were approved by the Board of Directors on May 9, 2022.

##### Current Versus Noncurrent Classification

The Company presents assets and liabilities in the statement of financial position based on current/noncurrent classification. An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in the normal operating cycle,
- Held primarily for the purpose of trading,
- Expected to be realized within twelve months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period

All other assets are classified as noncurrent.

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

Current Versus Noncurrent Classification (Continued)

A liability is current when:

- It is expected to be settled in the normal operating cycle,
- It is held primarily for the purpose of trading,
- It is due to be settled within twelve months after the reporting date, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The terms of the liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

The Company classifies all other liabilities as noncurrent.

Deferred tax assets and liabilities are classified as noncurrent assets and liabilities.

Significant Accounting Judgments, Estimates and Assumptions

The preparation of the Company's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Other disclosures relating to the Company's exposure to risks and uncertainties include:

- Financial instruments (See Note 4)

Judgments

In the process of applying the Company's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognized in the financial statements.

- Provision for income taxes (See Note 10)

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

### Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Company based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

- Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which depends on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option or appreciation right, volatility and dividend yield and making assumptions about them.
- Deferred tax assets are recognized for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgement is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits, together with future tax planning strategies. Further details on taxes are disclosed in Note 10.

### Cash and Cash Equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand and short-term highly liquid deposits with a maturity date of three months or less, that are readily convertible to a known amount of cash and subject to an insignificant risk of changes in value. For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and short-term deposits.

### Accounts Receivable

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. Accounts are considered delinquent when the account is not paid within the terms specified for each customer. To reduce credit risk with accounts receivable, the Company performs ongoing evaluations of its customers' financial condition and generally requires no collateral from its customers. The expected credit loss is the Company's best estimate of the amount of probable credit losses in the Company's existing accounts receivable. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Company does not have any off-balance-sheet credit exposure related to its customers.



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

Inventories

Inventories are valued at the lower of cost or net realizable value with cost determined on a first-in/first-out (FIFO) basis. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Property and Equipment

Property and equipment are recorded at cost. Depreciation is computed on a straight-line method over the following estimated useful lives of the assets:

	<u>Years</u>
Vehicles	5

Depreciation expense totaled \$11,563 and \$0 for the years ended December 31, 2021 and 2020, respectively.

Revenue From Contracts With Customers

The Company is in the business of manufacturing enhanced sparkling water and derives its revenues from one primary source, product sales. Revenue from contracts with customers is recognized when control of the goods are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods. The Company has generally concluded that it is the principal in its revenue arrangements because it typically controls the goods before transferring them to the customer.

Product Sales

Contracts with customers include the sale of sparkling water. The Company transfers control and recognizes revenue from the sale of product at a point in time upon delivery of sparkling water to customers or distributors pursuant to the terms of the contract. In general, the sale of sparkling water does not include multiple promised goods and services.

Sales taxes collected from customers are excluded from revenues and the obligation is included in accrued liabilities until the taxes are remitted to the appropriate taxing authorities. The Company accounts for shipping and handling activities as a fulfillment of its promise to transfer the goods. Accordingly, shipping and handling costs are included in cost of sales.

**YERBAÉ BRANDS CO.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

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

Performance Obligations and Significant Judgments and Estimates

The transaction price is allocated to each distinct performance obligation using an estimate of stand-alone selling price. The stand-alone selling price is generally based on observable prices. The establishment of stand-alone selling price requires judgment as to whether there is a sufficient quantity of items sold on a stand-alone basis and those prices demonstrate an appropriate level of concentration to conclude that a stand-alone selling price exists.

The following reflects the disaggregation of the Company's net revenue from contracts with customers for the years ended December 31, 2021 and 2020:

Geographical Region

	2021	2020
United States - Midwest	\$ 2,545,879	\$ 1,620,145
United States - West	1,825,989	1,879,639
United States - East	1,673,221	1,280,261
<b>TOTAL NET REVENUE</b>	<b>\$ 6,045,089</b>	<b>\$ 4,780,045</b>

Timing of Net Revenue Recognition

	2021	2020
Goods and services transferred at a point in time	\$ 6,045,089	\$ 4,780,045
Services transferred over time	-	-
<b>TOTAL NET REVENUE</b>	<b>\$ 6,045,089</b>	<b>\$ 4,780,045</b>

Products are primarily sold to customers throughout the United States. Product orders are typically processed within five days of order receipt and collected within 60 days from shipment. Various economic factors affect the recognition of revenue and cash flows including availability of products at competitive prices from overseas manufacturers; skilled labor; and prompt payment by customers.

Contract Assets and Liabilities

The timing of revenue recognition, billings, and cash collections results in billed accounts receivable (contract assets) on the statement of financial position. Amounts are billed upon shipment of the products and acceptance by the customer. The Company may request advances or deposits from customers before revenue is recognized, which results in contract liabilities. These contract liabilities are released as the performance obligations are satisfied. As of December 31, 2021 and 2020, there were no contract liabilities.

	2021	2020
Accounts receivable	\$ 308,417	\$ 385,198

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

Income Taxes

Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes. Deferred taxes are recognized for differences between the basis of assets and liabilities for financial statement and income tax purpose. The differences relate primarily to depreciable assets, expected credit losses, basis of inventories, and certain liabilities. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be deductible or taxable when the assets and liabilities are recovered or settled. Deferred taxes also are recognized for operating losses and tax credits that are available to offset future taxable income.

Advertising

The Company expenses advertising costs as incurred. Total advertising expense was \$2,215,823 and \$718,370 for the years ended December 31, 2021 and 2020, respectively.

Fair Value Measurement

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

COVID-19 Pandemic

In March 2020, the World Health Organization declared the coronavirus (COVID-19) a global pandemic. This contagious disease outbreak, has led to adverse impacts on the global economies, disruptions of financial markets and has affected work forces, resulting in governments and central banks reacting with significant monetary and fiscal interventions designed to stabilize economic conditions.



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

COVID-19 Pandemic (Continued)

The extent to which these events may impact the Company's business activities will depend on future developments, such as the duration of the outbreak, travel restrictions, business disruptions, and the effectiveness of actions taken to contain, prevent and treat the disease. Further expenses or delays relating to such events outside of the Company's control may be incurred, which could have a material adverse impact on the business, operating results and financial condition.

Although the financial impact of COVID-19 to the Company has not been significant date, the Company continues to monitor the progression of COVID-19 and its potential impact to the Company's future financial performance.

Loan Received under the Paycheck Protection Program (PPP) Established by the Coronavirus Aid, Relief, and Economic Security (CARES) Act, Implemented by the Small Business Administration

In response to the coronavirus (COVID-19) outbreak in 2020, the U.S. Federal Government enacted the CARES Act that, among other economic stimulus measures, established the PPP to provide loans to small businesses, as defined in the CARES Act. On April 9, 2020, the Company was granted a loan through the PPP under the CARES Act in the amount of \$302,126. See Note 14 for further details.

Future Accounting Policy Changes

Standards issued but not yet effective up to the date of issuance of the Company's financial statements that are likely to have an impact on the Company are listed below. This listing is of standards and interpretations the Company reasonably expects to be applicable at a future date. The Company intends to adopt these standards when they become effective.

- Amendments to IAS 1, *Presentation of Financial Statements* - The amendments clarify that liabilities are classified as either current or noncurrent, depending on the rights that exist at the end of the reporting period. Classification is unaffected by expectations of the entity or events after the reporting date. The amendments also clarify that the settlement of a liability refers to the transfer by the counterparty of cash, equity instruments, and/or other assets or services. Early application is permitted. The Company intends to adopt the amendments to IAS 1 on the required effective date of January 1, 2023. The Company is in the process of assessing the impact of this amendment.

**YERBAÉ BRANDS CO.**  
NOTES TO FINANCIAL STATEMENTS (Continued)

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**3. CAPITAL MANAGEMENT**

The Company's objective when managing capital is to use short-term funding sources to manage its working capital requirements and fund expenditures required to execute its operating and strategic plans. The Company is not subject to any capital requirements imposed by regulators or creditors. As of December 31, 2021 and 2020, the Company's capital structure is composed of the following:

	2021	2020
Cash and cash equivalents	\$ 347,806	\$ 239,267
Due to Gourmet Growth	(319,276)	(369,319)
Due to stockholders	-	(200,000)
Notes payable	(376,711)	(150,000)
	<hr/>	<hr/>
Subtotal	(348,181)	(480,052)
Equity (deficit)	(416,655)	(663,843)
	<hr/>	<hr/>
NET CAPITAL (DEFICIT)	\$ (764,836)	\$ (1,143,895)

**4. FINANCIAL INSTRUMENTS**

The Company's principal financial liabilities are comprised of loans, borrowings, and accounts payable. The main purpose of these financial liabilities is to finance the Company's operations. The Company's principal financial assets include accounts receivable and cash and cash equivalents that derive directly from its operations. The Company is exposed to credit risk, liquidity risk, and interest rate risk.

Credit Risk

Credit risk is the risk that a counter party will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk from its operating activities (primarily accounts receivable) and from its financing activities, including deposits with banks and financial institutions. The Company places its cash with high credit quality financial institutions, which are federally insured up to prescribed limits. At certain times, the amount of cash equivalents at any one institution may exceed the federally insured prescribed limits; however, no losses have been incurred to date.



**YERBAÉ BRANDS CO.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**4. FINANCIAL INSTRUMENTS (Continued)**

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The following are the contractual maturities of financial liabilities as of December 31:

<u>Financial Liabilities</u>	2021				
	Carrying Amount	Contractual Cash Flow	0 to 12 Months	13 to 24 Months	Thereafter
Accounts payable	\$ 799,184	\$ 799,184	\$ 799,184	\$ -	\$ -
Accrued expenses	367,821	367,821	367,821	-	-
Due to Gourmet Growth	319,276	319,276	319,276	-	-
Notes payable	376,711	522,109	61,806	61,806	398,497
<b>TOTAL</b>	<b>\$ 1,862,992</b>	<b>\$ 2,008,390</b>	<b>\$ 1,548,087</b>	<b>\$ 61,806</b>	<b>\$ 398,497</b>

<u>Financial Liabilities</u>	2020				
	Carrying Amount	Contractual Cash Flow	0 to 12 Months	13 to 24 Months	Thereafter
Accounts payable	\$ 462,091	\$ 462,091	\$ 462,091	\$ -	\$ -
Accrued expenses	525,663	525,663	525,663	-	-
Due to Gourmet Growth	369,319	369,319	369,319	-	-
Due to stockholders	200,000	210,000	-	210,000	-
Note payable	150,000	258,213	8,772	8,772	240,669
<b>TOTAL</b>	<b>\$ 1,707,073</b>	<b>\$ 1,825,286</b>	<b>\$ 1,365,845</b>	<b>\$ 218,772</b>	<b>\$ 240,669</b>

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of financial instruments will fluctuate as market interest rates change. The Company is exposed to interest rate risk on its note payable and due to stockholders, for which the interest rates charged are fixed.

**YERBAÉ BRANDS CO.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**4. FINANCIAL INSTRUMENTS (Continued)**

Measurement Categories and Fair Values

As explained in Note 2, financial assets and liabilities have been classified into categories that determine their basis of measurement and, for items measured at fair value, whether changes in fair value are recognized in the statement of loss. Those categories are: fair value through profit or loss; loans and receivables; and other financial liabilities. The following tables show the carrying values and the fair values of assets and liabilities for each of these categories as of December 31, 2021 and 2020:

December 31, 2021	Loans and Receivables		Other Financial Liabilities		Fair Value Through Profit or Loss	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	\$ 347,806	\$ 347,806	\$ -	\$ -	\$ -	\$ -
Accounts receivable	308,417	308,417	-	-	-	-
Accounts payable	-	-	799,184	799,184	-	-
Accrued expenses	-	-	367,821	367,821	-	-
Due to Gourmet Growth	-	-	319,276	319,276	-	-
Notes payable	-	-	376,711	376,711	-	-

December 31, 2020	Loans and Receivables		Other Financial Liabilities		Fair Value Through Profit or Loss	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	\$ 239,267	\$ 239,267	\$ -	\$ -	\$ -	\$ -
Accounts receivable	385,198	385,198	-	-	-	-
Accounts payable	-	-	462,091	462,091	-	-
Accrued expenses	-	-	525,663	525,663	-	-
Due to Gourmet Growth	-	-	369,319	369,319	-	-
Due to stockholder	-	-	200,000	200,000	-	-
Note payable	-	-	150,000	150,000	-	-

**YERBAÉ BRANDS CO.**  
NOTES TO FINANCIAL STATEMENTS (Continued)

**5. PROPERTY AND EQUIPMENT**

Property and equipment consist of the following as of December 31, 2021:

	<u>Vehicles</u>
<u>Cost</u>	
Balance at January 1, 2021	\$ -
Additions	253,454
Balance at December 31, 2021	<u>253,454</u>
<u>Accumulated Depreciation</u>	
Balance at January 1, 2021	-
Additions	11,563
Balance at December 31, 2021	<u>11,563</u>
<u>Carrying Amount</u>	
At December 31, 2020	\$ -
At December 31, 2021	241,891

**6. INVENTORIES**

Inventories consist of the following as of December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Raw material	\$ 45,133	\$ 24,788
Finished goods	393,146	394,473
Reserve for shrinkage	(903)	(496)
TOTAL	<u>\$ 437,376</u>	<u>\$ 418,765</u>

**7. DUE TO GOURMET GROWTH**

On December 16, 2019, the Company signed a production run sale agreement with Gourmet Growth LLC. The agreement indicates that Gourmet Growth will advance funds for production runs for an advance fee of .5% of the invoice. If the production requires an advance deposit, Gourmet Growth may add a mark up to the invoice in the amount of .5% to the deposit invoice. The interest charged by Gourmet Growth on all outstanding invoices is 1% per month. The agreement automatically extends for one year annually and is guaranteed by a stockholder of the Company. The outstanding balance due to Gourmet Growth was \$319,276 and \$369,319 at December 31, 2021 and 2020, respectively. The agreement has no fixed repayment terms.

**YERBAÉ BRANDS CO.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**8. DUE TO STOCKHOLDERS**

In October 2020, the Company issued to stockholders convertible promissory notes in the aggregate principal amount of \$200,000. The notes bear interest at a fixed annual rate of 5%. All principal and interest on the notes are due on October 15, 2022. At the sole discretion of the note holders, on or before the maturity date, all principal and accrued interest on the notes could be convertible into shares of the Company's Class A common stock. The notes are convertible at a conversion price equal to the lesser of 50% of the lowest price per share of equity paid by other investors and the average price per share outstanding immediately prior to the conversion. At December 31, 2020, the principal balance of the notes was \$200,000. On October 7, 2021, the principal balance of \$200,000 plus accrued interest of \$10,427 was converted into 194,838 shares of the Company's Class A common stock.

**9. NOTES PAYABLE**

Notes payable consisted of the following at December 31, 2021 and 2020:

	2021	2020
Note payable to the SBA, secured by all assets of the Company, due July 2050, payable in monthly principal and interest payments of \$731. Interest on the note is at 3.75%. The first monthly installment is due in October 2022.	\$ 150,000	\$ 150,000
Notes payable in monthly installments ranging from \$543 to \$652, including interest ranging from 2.90% to 5.49%, due October 2026 to December 2026. The notes are secured by vehicles.	226,711	-
Subtotal	376,711	150,000
Less current maturities	(61,681)	-
<b>TOTAL</b>	<b>\$ 315,030</b>	<b>\$ 150,000</b>

Future principal maturities of long-term debt at December 31 were as follows:

2022	\$ 61,681
2023	61,681
2024	61,681
2025	61,681
2026	23,847
Thereafter	106,140
<b>TOTAL</b>	<b>\$ 376,711</b>



**YERBAÉ BRANDS CO.**

## NOTES TO FINANCIAL STATEMENTS (Continued)

**10. INCOME TAXES**

As disclosed in Note 1, the Company was converted to a corporation on September 14, 2020. Prior to September 14, 2020, the Company elected to be taxed as a partnership and was not directly subject to federal or state income taxes under the provisions of the Internal Revenue Code and applicable state statutes.

Income tax expense attributable to income before income taxes differs from the amounts computed by applying the combined federal and state tax rate of 26.1% to pre-tax income as a result of the following:

	2021	2020
Net loss	\$ (3,801,661)	\$ (1,545,650)
Net loss on LLC short period tax return (note 12)	-	(949,421)
Net loss attributable to corporation	(3,801,661)	(596,229)
Increase (decrease) in taxable income:		
Permanent differences	2,454	(288,027)
Temporary differences	(62,503)	(472)
Taxable net loss attributable to corporation	(3,861,710)	(884,728)
Federal and state blended tax rate	26.1%	26.1%
Computed expected income taxes	(1,007,906)	(230,914)
Increase (decrease) in taxes:		
Temporary difference for inventories	(106)	(129)
Stock appreciation rights	(46,717)	-
Depreciation	63,137	-
Change in unrecognized deferred tax assets	991,592	231,043
<b>INCOME TAX EXPENSE</b>	<b>\$ -</b>	<b>\$ -</b>

Deferred tax assets and liabilities are determined based on the difference between the financial statement and tax basis of assets and liabilities, using enacted tax rates in effect for the year in which the differences are expected to reverse. Current income taxes are based on the year's income taxable for federal and state income tax reporting purposes. Total tax provision differs from the statutory tax rates applied to income before provision for income taxes due principally to loan forgiveness amounts that are not taxable and expenses charged which are not tax deductible.

**YERBAÉ BRANDS CO.**  
NOTES TO FINANCIAL STATEMENTS (Continued)

**10. INCOME TAXES (Continued)**

The net deferred tax assets in the accompanying statement of financial position as of December 31, 2021 and 2020 included the following components:

	2021	2020
Deferred tax asset	\$ 991,592	\$ 231,043
Valuation allowance	(991,592)	(231,043)
<b>DEFERRED TAX ASSET</b>	<b>\$ -</b>	<b>\$ -</b>

The deferred tax asset as of December 31, 2021 and 2020 was comprised of the tax effect of cumulative temporary differences as follows:

	2021	2020
Inventory	\$ 106	\$ 129
Stock appreciation rights	46,717	-
Depreciation	(63,137)	-
Net operating loss carryforward - federal	249,364	173,785
Net operating loss carryforward - state	758,542	57,129
Valuation allowance	(991,592)	(231,043)
<b>TOTAL</b>	<b>\$ -</b>	<b>\$ -</b>

The Company has available at December 31, 2021 and 2020 unused operating loss carryforwards of \$1,007,906 and \$230,914, respectively, which can be carried forward indefinitely and may provide future tax benefits.

The Company recorded a valuation allowance against loss carryforwards of \$991,592 and \$231,043 during the years ended December 31, 2021 and 2020, respectively. The Company has provided the allowances because it is more-likely-than-not that a substantial portion of the assets will not be realized.

**11. OPERATING LEASE**

The Company leases office space from one of its members on a month-to-month basis with monthly rentals amounting to \$10,378. The Company applies the short-term lease recognition exemption to its office lease. Lease payments on short-term leases are recognized as expense on a straight-line basis over the lease term. Total amounts paid for rent amounted to \$121,832 and \$73,070 for the years ended December 31, 2021 and 2020, respectively.

**YERBAÉ BRANDS CO.**  
NOTES TO FINANCIAL STATEMENTS (Continued)

**12. STOCK TRANSACTION**

On August 21, 2020, Yerbaé, LLC converted from a Delaware limited liability company into a Delaware corporation and changed its name to Yerbaé Brands, Co. Effective September 14, 2020, all of the then Yerbaé, LLC outstanding Class A, Class B, Class C, and Class D units were converted into Yerbaé Brands, Co. common stock on a 1 to 1 basis. There are no preferences with the stock. Class A and Class B have the same rights as Class D-1 and Class D-2, but in addition, have voting rights. All classes of stock have par value of \$0.0001.

The following is information pertinent to common stock as of December 31, 2021:

Class	Voting	Authorized	Issued and Outstanding
A	Voting	11,000,000	8,965,949
B	Voting	6,000,000	5,488,527
D-1	Nonvoting	2,000,000	1,197,268
D-2	Nonvoting	2,220,637	2,220,637
2020-1	Nonvoting	531,651	531,651
Unassigned	Nonvoting	3,247,712	-
TOTAL		25,000,000	18,404,032

The following is information pertinent to common stock as of December 31, 2020:

Class	Voting	Authorized	Issued and Outstanding
A	Voting	11,000,000	8,771,110
B	Voting	6,000,000	4,538,967
D-1	Nonvoting	2,000,000	961,538
D-2	Nonvoting	1,000,000	807,693
2020-1	Nonvoting	500,000	-
Unassigned	Nonvoting	4,500,000	-
TOTAL		25,000,000	15,079,308



**13. EQUITY APPRECIATION RIGHTS PLAN**

During the year ended December 31, 2018, the Company entered into an equity appreciation rights plan with certain employees. Under the plan, individuals earn compensation based on the excess of the current fair market values per share of the Company over the fair market values per share of the Company in the year the rights were awarded. These fair value estimates have been based on an agreed upon Company valuation model, as detailed in the Equity Appreciation Rights Plan. At December 31, 2021 and 2020, the equity appreciation rights carried a \$1.14 value. At December 31, 2021, cumulative compensation expense was recorded in the amount of \$178,980, which is included in operating expenses with a corresponding increase to accrued expenses. The rights vest over graded vesting schedules ranging three to five years and are settled in cash. During the years ended December 31, 2021 and 2020, \$285,000 and \$235,000, respectively, of additional rights were granted to certain employees. As of December 31, 2021 and 2020, there was \$731,190 and \$619,970, respectively, of unrecognized compensation expense related to nonvested rights which will be recognized over the remaining vesting period. The weighted average remaining vesting period, in years, is 2.54 and 2.79 as of December 31, 2021 and 2020, respectively.

As of and for the years ended December 31, 2021 and 2020, the number of rights outstanding and vested are as follows:

	Rights Outstanding	Rights Vested
BALANCE, DECEMBER 31, 2019	695,000	\$ -
Rights vested	-	110,580
Rights granted	235,000	-
Rights forfeited	(275,000)	-
BALANCE, DECEMBER 31, 2020	655,000	110,580
Rights vested	-	68,400
Rights granted	285,000	-
Rights forfeited	(8,000)	-
BALANCE, DECEMBER 31, 2021	932,000	\$ 178,980

**14. PAYCHECK PROTECTION PROGRAM (PPP) LOAN**

The Company received forgivable PPP funds of \$302,126 on April 9, 2020, which was the first day of the covered period, as defined in the CARES Act. The Company opted for a 24-week covered period, which concluded on September 17, 2020. PPP proceeds were used for qualifying expenses as defined in the CARES Act. On December 9, 2020, the Company received notification of forgiveness of the PPP loan. As a result, the loan in the amount of \$302,126 was recognized as other income in the accompanying statements of loss for the year ended December 31, 2020.



**YERBAÉ BRANDS CO.**  
NOTES TO FINANCIAL STATEMENTS (Continued)

**15. EXPENSES BY NATURE**

Expenses by nature consist of the following as of December 31, 2021 and 2020:

	2021	2020
Advertising, marketing, and promotions	\$ 2,558,497	\$ 1,072,955
Materials	2,195,340	1,627,930
Employee benefits	2,016,930	1,563,076
Shipping	1,668,067	1,166,081
Rent	350,215	253,547
Travel expenses	191,832	155,496
Professional fees	137,268	102,873
Miscellaneous	119,554	72,814
Slotting fees	103,225	326,889
Insurance	99,578	83,783
Dues and subscriptions	71,932	51,164
Office expenses	62,015	41,549
Meals and entertainment	51,112	36,116
Bad debt	25,304	9,062
Depreciation	11,563	-
Taxes and licenses	9,347	12,331
<b>TOTAL</b>	<b>\$ 9,671,779</b>	<b>\$ 6,575,666</b>

**16. LOSS PER SHARE/UNIT**

Basic loss per share is calculated by dividing the net loss by the weighted average number of common shares in issue during the years ended December 31, 2021 and 2020.

Diluted loss per share is calculated by adjusting the weighted average number of common shares outstanding to assume conversion of all dilutive potential common shares at December 31, 2021 and 2020.

The following table reflects the loss and share data used in the basic loss per share calculations:

	2021	2020
Net loss	\$ (3,801,661)	\$ (1,545,650)
Weighted average number of common shares in issue	15,910,489	15,079,308
<b>BASIC LOSS PER SHARE</b>	<b>\$ (0.24)</b>	<b>\$ (0.10)</b>

**YERBAÉ BRANDS CO.**  
NOTES TO FINANCIAL STATEMENTS (Continued)

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**16. LOSS PER SHARE/UNIT (Continued)**

The following table reflects the loss and share data used in the diluted loss per share calculations:

	<u>2021</u>	<u>2020</u>
Net loss	\$ (3,801,661)	\$ (1,545,650)
Weighted average number of common shares for basic loss per share	15,910,489	15,079,308
Effect of dilution from convertible notes	<u>-</u>	<u>194,838</u>
Weighted average number of common shares adjusted for the effect of dilution	<u>15,910,489</u>	<u>15,274,146</u>
<b>DILUTED LOSS PER SHARE</b>	<u><u>\$ (0.24)</u></u>	<u><u>\$ (0.10)</u></u>

**17. SUBSEQUENT EVENTS**

Subsequent events are events or transactions that occur after the reporting date but before financial statements are issued or are available to be issued. These events and transactions either provide additional evidence about conditions that existed at the date of the reporting date, including the estimates inherent in the process of preparing financial statements (that is, recognized subsequent events), or provide evidence about conditions that did not exist at the reporting date but arose after (that is, nonrecognized subsequent events).

Management has evaluated subsequent events through May 9, 2022, which was the date that these financial statements were available for issuance, and determined that there were no significant nonrecognized subsequent events through that date.



**YERBAÉ BRANDS CO.**

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**FINANCIAL STATEMENTS AND  
INDEPENDENT ACCOUNTANT'S REVIEW REPORT**

**For the Six Months Ended  
June 30, 2022 and June 30, 2021**



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**YERBAÉ BRANDS CO.**  
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1415 West Diehl Road, Suite 400  
Naperville, IL 60563  
630.566.8400

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## REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

To the Board of Directors  
Yerbaé Brands Co.  
Scottsdale, Arizona

### Introduction

We have reviewed the accompanying statement of financial position of Yerbaé Brands Co. (the Company) as of June 30, 2022 and 2021 and the related statements of loss, changes in stockholders' equity (deficit), and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. In addition, we reviewed the related statements of loss for the three-month period ended June 30, 2022 and 2021. Management is responsible for the preparation and fair presentation of this interim financial information in accordance with International Financial Reporting Standards in Canada. Our responsibility is to express a conclusion on this interim financial information based on our review.

### Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not give a true and fair view of the financial position of Yerbaé Brands Co. as at June 30, 2022 and 2021, and of its financial performance and its cash flows for the six-month period then ended in accordance with International Financial Reporting Standards in Canada.

### Conclusion Related to Going Concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Conclusion section of this report, nothing has come to our attention to suggest that management have inappropriately adopted the going concern basis of accounting or that management have identified material uncertainties relating to going concern that are not appropriately disclosed.

This conclusion is based on the review procedures performed in accordance with this review, however events or conditions may cause the entity to cease to continue as a going concern.

## **Emphasis of Matter**

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 16 to the financial statements, the Company's significant operating losses, working capital deficit, negative cash flows from operations, and stockholders' deficit, raise substantial doubt about its ability to continue as a going concern. Management's evaluation of the events and conditions and management's plans regarding those matters are also described in Note 16. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our conclusion is not modified with respect to that matter.

*Sikich LLP*

Naperville, Illinois  
October 11, 2022

## **FINANCIAL STATEMENTS**

**YERBAÉ BRANDS CO.**

STATEMENTS OF FINANCIAL POSITION  
(Expressed in U.S. Dollars)

June 30, 2022 and June 30, 2021

	<b>June 30, 2022</b>	<b>June 30, 2021</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 934,416	\$ 2,030,049
Accounts receivable (Note 2)	795,720	1,538,414
Inventories (Note 6)	860,051	640,522
Prepaid expenses and other current assets	148,969	17,716
	<hr/>	<hr/>
Total current assets	2,739,156	4,226,701
Property and equipment, net (Note 5)	261,910	-
	<hr/>	<hr/>
<b>TOTAL ASSETS</b>	<b>\$ 3,001,066</b>	<b>\$ 4,226,701</b>
	<hr/> <hr/>	<hr/> <hr/>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 1,128,551	\$ 679,717
Current maturities of notes payable (Note 8)	3,555,102	-
Due to Gourmet Growth (Note 7)	1,150,159	1,146,336
Accrued expenses	586,530	211,573
	<hr/>	<hr/>
Total current liabilities	6,420,342	2,037,626
<b>NONCURRENT LIABILITIES</b>		
Notes payable (Note 8)	300,753	150,000
	<hr/>	<hr/>
Total noncurrent liabilities	300,753	150,000
	<hr/>	<hr/>
Total liabilities	6,721,095	2,187,626
	<hr/>	<hr/>
<b>STOCKHOLDERS' EQUITY (DEFICIT)</b>		
Common stock, \$.00006 par value, 25,000,000 shares authorized, 29,383,383 and 29,353,847 shares issued and outstanding at June 30, 2022 and 2021, respectively (Note 11)	1,843	1,840
Additional paid-in capital	4,948,813	4,928,816
Accumulated deficit	(8,670,685)	(2,891,581)
	<hr/>	<hr/>
Total stockholders' equity (deficit)	(3,720,029)	2,039,075
	<hr/>	<hr/>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>	<b>\$ 3,001,066</b>	<b>\$ 4,226,701</b>
	<hr/> <hr/>	<hr/> <hr/>

See accompanying notes to financial statements.



**YERBAÉ BRANDS CO.****STATEMENTS OF LOSS**  
(Expressed in U.S. Dollars)For the Six Months Ended June 30, 2022 and June 30, 2021 and  
For the Three Months Ended June 30, 2022 and June 30, 2021

	<b>Three Month Period Ended</b>		<b>Six Month Period Ended</b>	
	<b>June 30, 2022</b>	<b>June 30, 2021</b>	<b>June 30, 2022</b>	<b>June 30, 2021</b>
<b>REVENUES</b>				
Gross revenues	\$ 2,091,027	\$ 1,708,286	\$ 3,738,264	\$ 4,130,426
Less discounts	(241,858)	(162,001)	(358,662)	(531,112)
Total net revenues	1,849,169	1,546,285	3,379,602	3,599,314
<b>COST OF SALES</b>	578,958	623,842	1,098,241	1,508,916
Gross profit	1,270,211	922,443	2,281,361	2,090,398
<b>OPERATING EXPENSES</b>	3,050,429	1,639,651	5,540,377	3,359,950
Loss from operations	(1,780,218)	(717,208)	(3,259,016)	(1,269,552)
<b>OTHER INCOME (EXPENSE)</b>				
Interest expense	(37,292)	(56,610)	(64,358)	(76,379)
Total other income (expense)	(37,292)	(56,610)	(64,358)	(76,379)
<b>NET LOSS BEFORE INCOME TAXES</b>	(1,817,510)	(773,818)	(3,323,374)	(1,345,931)
Income tax expense (Note 9)	-	-	-	-
<b>NET LOSS</b>	<b>\$ (1,817,510)</b>	<b>\$ (773,818)</b>	<b>\$ (3,323,374)</b>	<b>\$ (1,345,931)</b>
<b>LOSS PER SHARE</b>				
Basic (Note 14)	\$ (0.06)	\$ (0.03)	\$ (0.11)	\$ (0.05)
Diluted (Note 14)	(0.06)	(0.03)	(0.11)	(0.05)

See accompanying notes to financial statements.

**YERBAÉ BRANDS CO.**

**STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)**  
(Expressed in U.S. Dollars)

For the Six Months Ended June 30, 2022 and June 30, 2021

	<u>Common Stock</u>		<u>Additional Paid-In Capital</u>	<u>Accumulated Deficit</u>	<u>Total</u>
	<u>Number of Shares</u>	<u>Amount</u>			
<b>BALANCE (DEFICIT), DECEMBER 31, 2020 (Note 11)</b>	24,051,496	\$ 1,508	\$ 880,299	\$ (1,545,650)	\$ (663,843)
Issuance of common stock (Note 11)	5,302,935	332	4,048,517	-	4,048,849
Net loss	-	-	-	(1,345,931)	(1,345,931)
<b>BALANCE (DEFICIT), JUNE 30, 2021</b>	29,354,431	1,840	4,928,816	(2,891,581)	2,039,075
Net loss	-	-	-	(2,455,730)	(2,455,730)
<b>BALANCE (DEFICIT), DECEMBER 31, 2021</b>	29,354,431	1,840	4,928,816	(5,347,311)	(416,655)
Issuance of common stock (Note 11)	29,536	3	19,997	-	20,000
Net loss	-	-	-	(3,323,374)	(3,323,374)
<b>BALANCE (DEFICIT), JUNE 30, 2022</b>	29,383,967	\$ 1,843	\$ 4,948,813	\$ (8,670,685)	\$ (3,720,029)

See accompanying notes to financial statements.

**YERBAÉ BRANDS CO.**

STATEMENTS OF CASH FLOWS  
(Expressed in U.S. Dollars)

For the Six Months Ended June 30, 2022 and June 30, 2021

	<u>June 30,</u> <u>2022</u>	<u>June 30,</u> <u>2021</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	\$ (3,323,374)	\$ (1,345,931)
Adjustments to reconcile net loss to net cash flows from operating activities		
Bad debt	591	-
Depreciation	34,418	-
(Increase) decrease in		
Accounts receivable	(487,894)	(1,153,216)
Inventory	(422,675)	(221,757)
Prepaid expenses and other current assets	(38,122)	(17,716)
Increase (decrease) in		
Accounts payable	329,367	217,626
Accrued expenses	218,709	(314,090)
	<u>(365,606)</u>	<u>(1,489,153)</u>
Net cash from operating activities	<u>(3,688,980)</u>	<u>(2,835,084)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	<u>(54,437)</u>	-
Net cash from investing activities	<u>(54,437)</u>	-
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments to Gourmet Growth	(808,292)	(737,731)
Proceeds from Gourmet Growth	1,639,175	1,514,748
Payments on note payable	(20,856)	-
Proceeds from note payable	3,500,000	-
Proceeds from issuance of common stock	20,000	3,848,849
Net cash from financing activities	<u>4,330,027</u>	<u>4,625,866</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	586,610	1,790,782
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>347,806</u>	<u>239,267</u>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<u>\$ 934,416</u>	<u>\$ 2,030,049</u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Cash paid for interest	<u>\$ (60,043)</u>	<u>\$ (52,990)</u>
<b>SUPPLEMENTAL DISCLOSURES OF NONCASH TRANSACTIONS</b>		
Notes payable and accrued interest converted to equity	<u>\$ -</u>	<u>\$ 200,000</u>

See accompanying notes to financial statements.

# YERBAÉ BRANDS CO.

## NOTES TO FINANCIAL STATEMENTS (Expressed in U.S. Dollars)

June 30, 2022 and 2021

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### 1. DESCRIPTION OF BUSINESS

Yerbaé, LLC (the Company) a limited liability corporation was formed in 2016 and is a distributor of enhanced sparkling water for distribution throughout the United States. The address of its registered office is 18801 N. Thompson Peak Parkway, Suite D-380, Scottsdale, Arizona, 85255.

On September 14, 2020, Yerbaé Brands Co., a corporation was formed and all members interest in Yerbaé, LLC were converted to class A, B, D-1, and D-2 stock. See Note 11 for the details of the conversion.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the significant accounting policies followed by the Company:

#### Basis of Preparation and Statement of Compliance

These interim financial statements have been prepared in accordance with International Accounting Standards (“IAS”) 34, Interim Financial Reporting as issued by the International Accounting Standards Board and use the same accounting policies as the most recent audited annual financial statements. These interim financial statements were authorized for issue by the Audit Committee of the Company’s Board of Directors on October 11, 2022. These interim financial statements should be read in conjunction with the Company’s financial statements for the years ended December 31, 2021 and 2020.

#### Current Versus Noncurrent Classification

The Company presents assets and liabilities in the statement of financial position based on current/noncurrent classification. An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in the normal operating cycle,
- Held primarily for the purpose of trading,
- Expected to be realized within twelve months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period

All other assets are classified as noncurrent.

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

### Current Versus Noncurrent Classification (Continued)

A liability is current when:

- It is expected to be settled in the normal operating cycle,
- It is held primarily for the purpose of trading,
- It is due to be settled within twelve months after the reporting date, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The terms of the liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

The Company classifies all other liabilities as noncurrent.

Deferred tax assets and liabilities are classified as noncurrent assets and liabilities.

### Significant Accounting Judgments, Estimates, and Assumptions

The preparation of the Company's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Other disclosures relating to the Company's exposure to risks and uncertainties include:

- Financial instruments (See Note 4)

### Judgments

In the process of applying the Company's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognized in the financial statements.

- Provision for income taxes (See Note 9)

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

### Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Company based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

- Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which depends on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option or appreciation right, volatility and dividend yield and making assumptions about them.
- Deferred tax assets are recognized for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgement is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits, together with future tax planning strategies. Further details on taxes are disclosed in Note 9.

### Cash and Cash Equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand and short-term highly liquid deposits with a maturity date of three months or less, that are readily convertible to a known amount of cash and subject to an insignificant risk of changes in value. For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and short-term deposits.

### Accounts Receivable

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. Accounts are considered delinquent when the account is not paid within the terms specified for each customer. To reduce credit risk with accounts receivable, the Company performs ongoing evaluations of its customers' financial condition and generally requires no collateral from its customers. The expected credit loss is the Company's best estimate of the amount of probable credit losses in the Company's existing accounts receivable. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Company does not have any off-balance-sheet credit exposure related to its customers.

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

Inventories

Inventories are valued at the lower of cost or net realizable value with cost determined on a first-in/first-out (FIFO) basis. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Property and Equipment

Property and equipment are recorded at cost. Depreciation is computed on a straight-line method over the following estimated useful lives of the assets:

	<u>Years</u>
Vehicles	5

Depreciation expense totaled \$34,418 and \$0 for the six months ended June 30, 2022 and 2021, respectively.

Revenue From Contracts With Customers

The Company is in the business of manufacturing enhanced sparkling water and derives its revenues from one primary source, product sales. Revenue from contracts with customers is recognized when control of the goods are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods. The Company has generally concluded that it is the principal in its revenue arrangements because it typically controls the goods before transferring them to the customer.

Product Sales

Contracts with customers include the sale of sparkling water. The Company transfers control and recognizes revenue from the sale of product at a point in time upon delivery of sparkling water to customers or distributors pursuant to the terms of the contract. In general, the sale of sparkling water does not include multiple promised goods and services.

Sales taxes collected from customers are excluded from revenues and the obligation is included in accrued liabilities until the taxes are remitted to the appropriate taxing authorities. The Company accounts for shipping and handling activities as the cost of doing business. Accordingly, shipping and handling costs are included in operating expenses.

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

Performance Obligations and Significant Judgments and Estimates

The transaction price is allocated to each distinct performance obligation using an estimate of stand-alone selling price. The stand-alone selling price is generally based on observable prices. The establishment of stand-alone selling price requires judgment as to whether there is a sufficient quantity of items sold on a stand-alone basis and those prices demonstrate an appropriate level of concentration to conclude that a stand-alone selling price exists.

The following reflects the disaggregation of the Company's net revenue from contracts with customers for the six months ended June 30, 2022 and 2021:

Geographical Region

	June 30, 2022	June 30, 2021
United States - Midwest	\$ 973,641	\$ 1,511,712
United States - West	1,519,216	1,079,794
United States - East	886,745	1,007,808
<b>TOTAL NET REVENUE</b>	<b>\$ 3,379,602</b>	<b>\$ 3,599,314</b>

Timing of Net Revenue Recognition

	June 30, 2022	June 30, 2021
Goods and services transferred at a point in time	\$ 3,379,602	\$ 3,599,314
Services transferred over time	-	-
<b>TOTAL NET REVENUE</b>	<b>\$ 3,379,602</b>	<b>\$ 3,599,314</b>

Products are primarily sold to customers throughout the United States. Product orders are typically processed within five days of order receipt and collected within 60 days from shipment. Various economic factors affect the recognition of revenue and cash flows including availability of products at competitive prices from overseas manufacturers; skilled labor; and prompt payment by customers.

Contract Assets and Liabilities

The timing of revenue recognition, billings, and cash collections results in billed accounts receivable (contract assets) on the statement of financial position. Amounts are billed upon shipment of the products and acceptance by the customer. The Company may request advances or deposits from customers before revenue is recognized, which results in contract liabilities. These contract liabilities are released as the performance obligations are satisfied. As of June 30, 2022 and 2021, there were no contract liabilities.



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

Contract Assets and Liabilities (Continued)

	June 30, 2022	June 30, 2021
Accounts receivable	\$ 795,720	\$ 1,538,414

Income Taxes

Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes. Deferred taxes are recognized for differences between the basis of assets and liabilities for financial statement and income tax purpose. The differences relate primarily to depreciable assets, expected credit losses, basis of inventories, and certain liabilities. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be deductible or taxable when the assets and liabilities are recovered or settled. Deferred taxes also are recognized for operating losses and tax credits that are available to offset future taxable income.

Advertising

The Company expenses advertising costs as incurred. Total advertising expense was \$2,261,220 and \$1,105,408 for the six months ended June 30, 2022 and 2021, respectively.

Fair Value Measurement

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

### COVID-19 Pandemic

In March 2020, the World Health Organization declared the coronavirus (COVID-19) a global pandemic. This contagious disease outbreak, has led to adverse impacts on the global economies, disruptions of financial markets and has affected work forces, resulting in governments and central banks reacting with significant monetary and fiscal interventions designed to stabilize economic conditions.

The extent to which these events may impact the Company's business activities will depend on future developments, such as the duration of the outbreak, travel restrictions, business disruptions, and the effectiveness of actions taken to contain, prevent and treat the disease. Further expenses or delays relating to such events outside of the Company's control may be incurred, which could have a material adverse impact on the business, operating results and financial condition.

Although the financial impact of COVID-19 to the Company has not been significant to date, the Company continues to monitor the progression of COVID-19 and its potential impact to the Company's future financial performance.

### Future Accounting Policy Changes

Standards issued but not yet effective up to the date of issuance of the Company's financial statements that are likely to have an impact on the Company are listed below. This listing is of standards and interpretations the Company reasonably expects to be applicable at a future date. The Company intends to adopt these standards when they become effective.

- Amendments to IAS 1, *Presentation of Financial Statements* - The amendments clarify that liabilities are classified as either current or noncurrent, depending on the rights that exist at the end of the reporting period. Classification is unaffected by expectations of the entity or events after the reporting date. The amendments also clarify that the settlement of a liability refers to the transfer by the counterparty of cash, equity instruments, and/or other assets or services. Early application is permitted. The Company intends to adopt the amendments to IAS 1 on the required effective date of January 1, 2023. The Company is in the process of assessing the impact of this amendment.

**3. CAPITAL MANAGEMENT**

The Company's objective when managing capital is to use short-term funding sources to manage its working capital requirements and fund expenditures required to execute its operating and strategic plans. The Company is not subject to any capital requirements imposed by regulators or creditors. As of June 30, 2022 and 2021, the Company's capital structure is composed of the following:

	June 30, 2022	June 30, 2021
Cash and cash equivalents	\$ 934,416	\$ 2,030,049
Due to Gourmet Growth	(1,150,159)	(1,146,336)
Notes payable	(3,855,855)	(150,000)
Subtotal	(4,071,598)	733,713
Equity (deficit)	(3,720,029)	2,039,075
NET CAPITAL (DEFICIT)	<u>\$ (7,791,627)</u>	<u>\$ 2,772,788</u>

**4. FINANCIAL INSTRUMENTS**

The Company's principal financial liabilities are comprised of loans, borrowings, and accounts payable. The main purpose of these financial liabilities is to finance the Company's operations. The Company's principal financial assets include accounts receivable and cash and cash equivalents that derive directly from its operations. The Company is exposed to credit risk, liquidity risk, and interest rate risk.

Credit Risk

Credit risk is the risk that a counter party will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk from its operating activities (primarily accounts receivable) and from its financing activities, including deposits with banks and financial institutions. The Company places its cash with high credit quality financial institutions, which are federally insured up to prescribed limits. At certain times, the amount of cash equivalents at any one institution may exceed the federally insured prescribed limits; however, no losses have been incurred to date.

**YERBAÉ BRANDS CO.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**4. FINANCIAL INSTRUMENTS (Continued)**

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The following are the contractual maturities of financial liabilities as of June 30, 2022 and 2021:

<u>Financial Liabilities</u>	June 30, 2022				
	Carrying Amount	Contractual Cash Flow	0 to 12 Months	13 to 24 Months	Thereafter
Accounts payable	\$ 1,128,551	\$ 1,128,551	\$ 1,128,551	\$ -	\$ -
Accrued expenses	586,530	586,530	586,530	-	-
Due to Gourmet Growth	1,150,159	1,150,159	1,150,159	-	-
Notes payable	3,855,855	3,855,855	3,555,102	61,806	238,947
<b>TOTAL</b>	<b>\$ 6,721,095</b>	<b>\$ 6,721,095</b>	<b>\$ 6,420,342</b>	<b>\$ 61,806</b>	<b>\$ 238,947</b>

<u>Financial Liabilities</u>	June 30, 2021				
	Carrying Amount	Contractual Cash Flow	0 to 12 Months	13 to 24 Months	Thereafter
Accounts payable	\$ 679,718	\$ 679,718	\$ 679,718	\$ -	\$ -
Accrued expenses	211,573	211,573	211,573	-	-
Due to Gourmet Growth	1,146,336	1,146,336	1,146,336	-	-
Notes payable	150,000	150,000	-	-	150,000
<b>TOTAL</b>	<b>\$ 2,187,627</b>	<b>\$ 2,187,627</b>	<b>\$ 2,037,627</b>	<b>\$ -</b>	<b>\$ 150,000</b>

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of financial instruments will fluctuate as market interest rates change. The Company is exposed to interest rate risk on its note payable and due to stockholders, for which the interest rates charged are fixed.

Measurement Categories and Fair Values

As explained in Note 2, financial assets and liabilities have been classified into categories that determine their basis of measurement and, for items measured at fair value, whether changes in fair value are recognized in the statement of loss. Those categories are: fair value through profit or loss; loans and receivables; and other financial liabilities. The following tables show the carrying values and the fair values of assets and liabilities for each of these categories as of June 30, 2022 and 2021:

**YERBAÉ BRANDS CO.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**4. FINANCIAL INSTRUMENTS (Continued)**

Measurement Categories and Fair Values (Continued)

	Loans and Receivables		Other Financial Liabilities		Fair Value Through Profit or Loss	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
June 30, 2022						
Cash and cash equivalents	\$ 934,416	\$ 934,416	\$ -	\$ -	\$ -	\$ -
Accounts receivable	795,720	795,720	-	-	-	-
Accounts payable	-	-	1,128,551	1,128,551	-	-
Accrued expenses	-	-	586,530	586,530	-	-
Due to Gourmet Growth	-	-	1,150,159	1,150,159	-	-
Notes payable	-	-	3,855,855	3,855,855	-	-
June 30, 2021						
Cash and cash equivalents	\$ 2,030,049	\$ 2,030,049	\$ -	\$ -	\$ -	\$ -
Accounts receivable	1,538,414	1,538,414	-	-	-	-
Accounts payable	-	-	679,717	679,717	-	-
Accrued expenses	-	-	211,573	211,573	-	-
Due to Gourmet Growth	-	-	1,146,336	1,146,336	-	-
Notes payable	-	-	150,000	150,000	-	-

**5. PROPERTY AND EQUIPMENT**

Property and equipment consist of the following as of June 30, 2022:

	<u>Vehicles</u>
<u>Cost</u>	
Balance at January 1, 2022	\$ 253,454
Additions	54,437
Balance at June 30, 2022	<u>307,891</u>
<u>Accumulated Depreciation</u>	
Balance at January 1, 2022	11,563
Additions	34,418
Balance at June 30, 2022	<u>45,981</u>
<u>Carrying Amount</u>	
At June 30, 2021	\$ -
At June 30, 2022	<u>\$ 261,910</u>

**YERBAÉ BRANDS CO.**  
NOTES TO FINANCIAL STATEMENTS (Continued)

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**6. INVENTORIES**

Inventories consist of the following as of June 30, 2022 and 2021:

	June 30, 2022	June 30, 2021
Raw material	\$ 108,000	\$ 42,380
Finished goods	754,212	598,986
Reserve for shrinkage	(2,161)	(844)
<b>TOTAL</b>	<b>\$ 860,051</b>	<b>\$ 640,522</b>

**7. DUE TO GOURMET GROWTH**

On December 16, 2019, the Company signed a production run sale agreement with Gourmet Growth LLC. The agreement indicates that Gourmet Growth will advance funds for production runs for an advance fee of .5% of the invoice. If the production requires an advance deposit, Gourmet Growth may add a mark up to the invoice in the amount of .5% to the deposit invoice. The interest charged by Gourmet Growth on all outstanding invoices is 1% per month. The agreement automatically extends for one year annually and is guaranteed by a stockholder of the Company. The outstanding balance due to Gourmet Growth was \$1,150,159 and \$1,146,336 at June 30, 2022 and 2021, respectively. The agreement has no fixed repayment terms.

**YERBAÉ BRANDS CO.**  
NOTES TO FINANCIAL STATEMENTS (Continued)

**8. NOTES PAYABLE**

Notes payable consisted of the following at June 30, 2022 and 2021:

	June 30, 2022	June 30, 2021
Note payable to the SBA, secured by all assets of the Company, due July 2050, payable in monthly principal and interest payments of \$731. Interest on the note is at 3.75%. The first monthly installment is due in October 2022.	\$ 150,000	\$ 150,000
Notes payable in monthly installments ranging from \$543 to \$652, including interest ranging from 2.90% to 5.49%, due October 2026 to December 2026. The notes are secured by vehicles.	205,855	-
Note payable, secured certain General Business Security Agreement, payable in one balloon payment of principal and interest of \$520,336 on October 14, 2022. Interest on the note is at 8.00%.	500,000	-
Notes payables to an investor in the amount of \$3,000,000 in total. The loans accrue interest at 8.00%. The interest remains unpaid and is accrued on the balance sheet. The notes are secured by substantially all the assets of the Company and are due on the earlier of twelve months from date of the note. These notes also contain certain conversion rights as described in the agreement. There are three conversion options: (a) automatic conversion upon qualified financing; (b) upon change of control; and (c) upon maturity of the notes. As of June 30, 2022, no conversion of the notes has taken place.	3,000,000	-
Subtotal	3,855,855	150,000
Less current maturities	(3,555,102)	-
<b>TOTAL</b>	<b>\$ 300,753</b>	<b>\$ 150,000</b>

**YERBAÉ BRANDS CO.**  
NOTES TO FINANCIAL STATEMENTS (Continued)

**8. NOTES PAYABLE (Continued)**

Future principal maturities of long-term debt at June 30 were as follows:

2022	\$ 3,555,102
2023	61,681
2024	61,681
2025	55,900
2026	8,772
Thereafter	<u>112,719</u>
 TOTAL	 <u><u>\$ 3,855,855</u></u>

**9. INCOME TAXES**

As disclosed in Note 1, the Company was converted to a corporation on September 14, 2020. Prior to September 14, 2020, the Company elected to be taxed as a partnership and was not directly subject to federal or state income taxes under the provisions of the Internal Revenue Code and applicable state statutes.

Income tax expense attributable to income before income taxes differs from the amounts computed by applying the combined federal and state tax rate of 26.1% to pre-tax income as a result of the following:

	June 30, 2022	June 30, 2021
Net loss	\$ (3,323,374)	\$ (1,345,931)
Increase (decrease) in taxable income:		
Permanent differences	2,454	2,454
Temporary differences	<u>30,300</u>	<u>348</u>
Taxable net loss attributable to corporation	(3,290,620)	(1,343,129)
Federal and state blended tax rate	<u>26.1%</u>	<u>26.1%</u>
Computed expected income taxes	(858,851)	(350,557)
Increase (decrease) in taxes:		
Temporary difference for inventories	(338)	348
Stock appreciation rights	(27,252)	-
Depreciation	3,830	-
Change in unrecognized deferred tax assets	<u>882,611</u>	<u>350,209</u>
 INCOME TAX EXPENSE	 <u><u>\$ -</u></u>	 <u><u>\$ -</u></u>



**YERBAÉ BRANDS CO.**  
NOTES TO FINANCIAL STATEMENTS (Continued)

**9. INCOME TAXES (Continued)**

Deferred tax assets and liabilities are determined based on the difference between the financial statement and tax basis of assets and liabilities, using enacted tax rates in effect for the year in which the differences are expected to reverse. Current income taxes are based on the year's income taxable for federal and state income tax reporting purposes. Total tax provision differs from the statutory tax rates applied to income before provision for income taxes due principally to loan forgiveness amounts that are not taxable and expenses charged which are not tax deductible.

The net deferred tax assets in the accompanying statement of financial position as of June 30, 2022 and 2021 included the following components:

	June 30, 2022	June 30, 2021
Deferred tax asset	\$ 2,212,835	\$ 350,209
Valuation allowance	(2,212,835)	(350,209)
<b>DEFERRED TAX ASSET</b>	<b>\$ -</b>	<b>\$ -</b>

The deferred tax asset as of June 30, 2022 and 2021 was comprised of the tax effect of cumulative temporary differences as follows:

	June 30, 2022	June 30, 2021
Inventory	\$ 581	\$ 227
Stock appreciation rights	59,798	48,153
Depreciation	(3,830)	(63,137)
Charitable contribution	(5,445)	(5,444)
Net operating loss carryforward - state	600,513	106,090
Net operating loss carryforward - federal	1,561,218	264,220
Valuation allowance	(2,212,835)	(350,209)
<b>TOTAL</b>	<b>\$ -</b>	<b>\$ -</b>

The Company has available at June 30, 2022 and 2021 unused operating loss carryforwards of \$2,161,731 and \$370,410, respectively, which can be carried forward indefinitely and may provide future tax benefits.

The Company recorded a valuation allowance against loss carryforwards of \$2,212,835 and \$350,209 during the six months ended June 30, 2022 and 2021, respectively. The Company has provided the allowances because it is more-likely-than-not that a substantial portion of the assets will not be realized.

**10. OPERATING LEASE**

The Company subleases office space from an unrelated third party with monthly rental payments of \$8,293 expiring on November 30, 2022. The Company applies the short-term lease recognition exemption to its office lease. Lease payments on short-term leases are recognized as expense on a straight-line basis over the lease term. Total amounts paid for rent amounted to \$32,450 and \$59,566 for the six months ended June 30, 2022 and 2021, respectively.

**11. STOCK TRANSACTION**

On August 21, 2020, Yerbaé, LLC converted from a Delaware limited liability company into a Delaware corporation and changed its name to Yerbaé Brands, Co. Effective September 14, 2020, all of the then Yerbaé, LLC outstanding Class A, Class B, Class C, and Class D units were converted into Yerbaé Brands, Co. common stock on a 1 to 1 basis. There are no preferences with the stock. Class A and Class B have the same rights as Class D-1 and Class D-2, but in addition, have voting rights. All classes of stock have par value of \$0.0001. On April 11, 2022, the Company authorized a stock split in which all shares were split on a 1 to 1.595 basis.

The following is information pertinent to common stock as of June 30, 2022:

Class	Voting	Authorized	Issued and Outstanding
A	Voting	17,545,000	14,300,402
B	Voting	9,570,000	8,754,027
D-1	Nonvoting	3,190,000	1,909,605
D-2	Nonvoting	3,595,000	3,571,382
2020-1	Nonvoting	849,000	847,967
2022-1	Nonvoting	4,068,500	-
Unassigned	Nonvoting	1,057,500	-
<b>TOTAL</b>		<b>39,875,000</b>	<b>29,383,383</b>

The following is information pertinent to common stock as of June 30, 2021:

Class	Voting	Authorized	Issued and Outstanding
A	Voting	17,545,000	14,300,105
B	Voting	9,570,000	8,754,201
D-1	Nonvoting	3,190,000	1,909,642
D-2	Nonvoting	3,541,916	3,541,916
2020-1	Nonvoting	847,983	847,983
Unassigned	Nonvoting	5,180,101	-
<b>TOTAL</b>		<b>39,875,000</b>	<b>29,353,847</b>

**12. EQUITY APPRECIATION RIGHTS PLAN**

During the year ended December 31, 2018, the Company entered into an equity appreciation rights plan with certain employees. Under the plan, individuals earn compensation based on the excess of the current fair market values per share of the Company over the fair market values per share of the Company in the year the rights were awarded. These fair value estimates have been based on an agreed upon Company valuation model, as detailed in the Equity Appreciation Rights Plan. At June 30, 2022 and 2021, the equity appreciation rights carried a \$1.14 value. At June 30, 2022 and 2021, cumulative compensation expense was recorded in the amount of \$43,280 and \$0, respectively, which is included in operating expenses with a corresponding increase to accrued expenses. The rights vest over graded vesting schedules ranging three to five years and are settled in cash. During the six months ended June 30, 2022 and 2021, 119,623 and 0, respectively, of additional rights (shares) were granted to certain employees. As of June 30, 2022 and 2021, there was \$611,970 and \$731,190, respectively, of unrecognized compensation expense related to nonvested rights which will be recognized over the remaining vesting period. The weighted average remaining vesting period, in years, is 2.34 and 0 as of June 30, 2022 and 2021, respectively.

As of and for the six months ended June 30, 2022 and 2021, the number of rights outstanding and vested are as follows:

	Rights Outstanding		Rights Vested
BALANCE, DECEMBER 31, 2020	655,000	\$	110,580
Rights vested	-		-
Rights granted	-		-
Rights forfeited	-		-
BALANCE, JUNE 30, 2021 (Reviewed)	655,000		110,580
Rights vested	-		68,400
Rights granted	285,000		-
Rights forfeited	(8,000)		-
BALANCE, DECEMBER 31, 2021 (Audited)	932,000		178,980
Stock split 1 to 1.595	355,139		-
Rights vested	-		43,280
Rights granted	119,623		-
Rights forfeited	-		-
BALANCE, June 30, 2022 (Reviewed)	1,406,762	\$	222,260

**YERBAÉ BRANDS CO.**  
NOTES TO FINANCIAL STATEMENTS (Continued)

**13. EXPENSES BY NATURE**

Expenses by nature consist of the following as of June 30, 2022 and 2021:

	June 30, 2022	June 30, 2021
Advertising, marketing, and promotions	\$ 2,261,220	\$ 1,105,408
Materials	980,518	1,383,272
Employee benefits	1,233,025	885,508
Shipping	1,126,827	814,523
Rent	150,172	185,209
Travel expenses	161,857	86,487
Professional fees	197,683	76,521
Miscellaneous	133,139	100,575
Slotting fees	158,602	111,386
Insurance	90,575	46,779
Dues and subscriptions	37,439	16,753
Office expenses	14,941	23,138
Meals and entertainment	45,397	26,129
Bad debt	591	-
Depreciation	34,417	-
Taxes and licenses	12,215	7,178
<b>TOTAL</b>	<b>\$ 6,638,618</b>	<b>\$ 4,868,866</b>

**14. LOSS PER SHARE/UNIT**

Basic loss per share is calculated by dividing the net loss by the weighted average number of common shares in issue during the six months June 30, 2022 and 2021.

Diluted loss per share is calculated by adjusting the weighted average number of common shares outstanding to assume conversion of all dilutive potential common shares at June 30, 2022 and 2021.

The following table reflects the loss and share data used in the basic loss per share calculations:

	Three Months June 30, 2022	Three Months June 30, 2021	Six Months June 30, 2022	Six Months June 30, 2021
Net loss	\$ (1,817,510)	\$ (773,818)	\$ (3,323,374)	\$ (1,345,931)
Weighted average number of common shares in issue	29,369,199	26,702,964	29,369,199	26,702,964
<b>BASIC LOSS PER SHARE</b>	<b>\$ (0.06)</b>	<b>\$ (0.03)</b>	<b>\$ (0.11)</b>	<b>\$ (0.05)</b>

**YERBAÉ BRANDS CO.**  
NOTES TO FINANCIAL STATEMENTS (Continued)

**14. LOSS PER SHARE/UNIT (Continued)**

The following table reflects the loss and share data used in the diluted loss per share calculations:

	Three Months June 30, 2022	Three Months June 30, 2021	Six Months June 30, 2022	Six Months June 30, 2021
Net loss	\$ (1,817,510)	\$ (773,818)	\$ (3,323,374)	\$ (1,345,931)
Weighted average number of common shares for basic loss per share	29,383,383	26,702,964	29,383,383	26,702,964
<b>DILUTED LOSS PER SHARE</b>	<b>\$ (0.06)</b>	<b>\$ (0.03)</b>	<b>\$ (0.11)</b>	<b>\$ (0.05)</b>

**15. SUBSEQUENT EVENTS**

Subsequent events are events or transactions that occur after the reporting date but before financial statements are issued or are available to be issued. These events and transactions either provide additional evidence about conditions that existed at the date of the reporting date, including the estimates inherent in the process of preparing financial statements (that is, recognized subsequent events), or provide evidence about conditions that did not exist at the reporting date but arose after (that is, nonrecognized subsequent events).

Management has evaluated subsequent events through October 11, 2022, which was the date that these financial statements were available for issuance, and determined that there were no significant nonrecognized subsequent events through that date.

**16. MANAGEMENT PLANS**

For the six months ended June 30, 2022, the Company experienced net loss of \$(3,323,374). This loss coupled with stock sales increased the accumulated deficit at June 30, 2022 to \$(3,720,029). As of that date, the Company's current liabilities exceeded its current assets by \$3,681,186. In this amount includes \$3,500,000 of convertible debt which is expected to convert to stock within the next six months.

The management and board has approved 2022 business plan that projects negative cash flows and loss from operations. As the Company continues to aggressively pursuing new revenue sources and building brand awareness for 2022 and beyond, management expect to continue losses based on investments into the consumer awareness, new retail location expansion, and continued investment into E-commerce and infrastructure builds in 2022. There can be no assurance that the Company will be successful in accomplishing its objectives, however, management believes these efforts have already begun to impact the Company's financial condition and expect to continue the progression of the brand building for long-term success. To support this growth, the Company has approved at the board level additional fundraising up to \$3,000,000 in 2022.

**SCHEDULE "H"**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF YERBAÉ**

*[See attached]*

# Yerbae®



## Management's Discussion and Analysis of Financial Condition and Results of Operations

The following has been prepared for the purposes of providing management's discussion and analysis ("MD&A") of the consolidated financial position of Yerbaé Brands Co. ("Yerbaé" or "the Company") for 2020. This MD&A is dated October 10, 2022, and should be read in conjunction with the Company's audited consolidated financial statements for the fiscal years ended December 31, 2020 and 2019. The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board and the financial information herein was derived from those statements. Discrepancies in recalculated amounts or percentages may occur due to rounding. All amounts in this MD&A are expressed in US dollars unless otherwise indicated.

### Note Regarding Forward Looking Statements

This report contains forward-looking statements that reflect our current views about future events. We use the words "anticipate," "assume," "believe," "estimate," "expect," "will," "intend," "may," "plan," "project," "should," "could," "seek," "designed," "potential," "forecast," "target," "objective," "goal," or the negatives of such terms or other similar expressions. These statements relate to future events or our future financial performance and involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements.

### Business Overview

Yerbaé is an innovative and health-focused beverage company that creates clean functional plant-based products promoting a healthy lifestyle while leaving a cleaner footprint behind us. Yerbaé was the first to mix plant-based ingredients and sparkling water with zero sugar, calories, and carbohydrates to produce an energy seltzer that performs without compromise.

Yerbaé was founded by Todd and Karrie Gibson in 2016 to create plant-based energy drinks containing non-GMO white tea and Yerba Mate, a South American herb and a natural source of caffeine that is sustainably sourced from Brazil and other growing regions in South America. Yerbaé's first beverage was launched in the first quarter of 2017 and in stores by the fall of 2017. Yerbaé is engaged in the development, marketing, sale, and distribution of plant-based energy beverages.

Yerbaé beverages are created to provide products targeted at consumers seeking healthier beverages as an alternative to traditional energy drinks and focused on health, wellness, and fitness. The products are formulated to provide a more refreshing taste than coffee, with additional benefits to existing sodas and sparkling waters, along with healthier



ingredients than traditional energy drinks. Yerbaé’s products complement a variety of healthy lifestyles and diets, such as non-GMO, Keto, Vegan, Kosher, Paleo and gluten-free diets. As of December 31<sup>st</sup>, 2020, Yerbaé’s products are sold in over 6,400 retail locations, as well as on-line at Amazon.com and [www.yerbae.com](http://www.yerbae.com).

### Corporate Information

Yerbaé Brands Co. was incorporated under the Delaware General Corporation Law (“DGCL”) on August 21, 2020. Since 2016, Yerbaé’s wholly owned subsidiary, Yerbaé LLC, a Delaware limited liability company, has conducted the business of Yerbaé. At the time of Yerbaé’s incorporation, all of the equity owners of Yerbaé LLC contributed their interests of Yerbaé LLC for capital stock of Yerbaé. Yerbaé LLC continues as Yerbaé’s wholly owned operating subsidiary. Yerbaé’s head office is located at 18801 N. Thompson Peak Parkway, Suite D-380, Scottsdale, Arizona 85255. Its registered office is Corporation Trust Center, 1209 Orange Street, Wilmington, County of New Castle, Delaware 19801, and its website is [www.yerbae.com](http://www.yerbae.com). **Yerbaé** is a registered trademark of the Company in the United States.

### Intercorporate Relationships

The following table describes Yerbaé’s subsidiaries, their place of incorporation, continuance or formation, and the percentage of the outstanding voting securities beneficially owned, controlled, or directed by Yerbaé:

Name of Subsidiary	Percentage of Voting Securities Owned	Jurisdiction of Incorporation or Continuance
Yerbaé LLC	100%	Delaware

Yerbaé has one wholly owned subsidiary, Yerbaé LLC. Yerbaé LLC is organized under the State of Delaware Limited Liability Company Act.

### General Development of the Business

Yerbaé is a beverage manufacturer and marketing company that produces products for the consumer-packaged goods industry. Yerbaé was originally founded as Yerbaé LLC and owned by the current ownership group in 2016. In August 2020, Yerbaé Brands Co. was incorporated as a C-Corp in Delaware and became the parent company to Yerbaé LLC, the subsidiary business. Yerbaé owns all interests in Yerbaé LLC and has continued operations of the business.

Since 2020, Yerbaé has experienced growth as measured by multiple metrics. In 2020, Yerbaé was sold in roughly 6,400 retail locations with net sales of \$4,780,045. Yerbaé manufactures, markets, distributes and sells two product lines.

Yerbaé’s two primary product lines are the 12oz Energy Seltzer Water and 16oz Energy Drink.

## NATURALLY CAFFEINATED ENERGY SELTZER WATER

12OZ // 100G CAFFEINE // 0 SWEETENERS



Available in 8 Unsweetened refreshing flavors with 100mg caffeine

## NATURALLY CAFFEINATED ENERGY

16OZ - 160G CAFFEINE - NATURALLY SWEETENED



Available in 7 naturally sweetened bold flavors & 160mg of caffeine

### Operations

Yerbaé's operations team and headquarters are based in Scottsdale, Arizona. In 2020, Yerbaé had 15 employees. Yerbaé develops, markets, sells, and distributes plant-based energy drinks. Yerbaé does not directly manufacture its beverages, but instead outsources the manufacturing process to established third-party co-packers. Yerbaé sources and provides its co-packers and production partners with Yerbaé's recipes, ingredient blends, flavors, cans, and other raw materials to produce Yerbaé's beverages. All raw materials are sourced by Yerbaé at fair market pricing.

Yerbaé does not own any property, office space, storage space, bottling facilities, or retail spaces. Yerbaé leases current office space in Scottsdale, Arizona. Although Yerbaé's business is not cyclical, seasonality is typical in the beverage industry. Yerbaé produces and sells its products throughout the entire year with the highest sales volumes generally occurring in the second and third quarters (spring & fall) while the beginning and end of the calendar year tend to slow down.

Yerbaé products are only sold in the United States at this time.

## Market

The energy-drink industry is a \$15 billion industry, and it represents the fastest growing category within the nonalcoholic beverage space, rapidly gaining share from soft drinks and juices. Over the last year, the energy drink category has seen 8% sales growth compared to 2.8% for all beverages. The U.S. energy drink industry is estimated to reach US\$21 billion in sales by 2026, reflecting a 7% compound annual growth rate.<sup>1</sup>

<sup>1</sup>According to Research and Markets, the US energy drink market is expected to grow at a CAGR of 7% from 2022-2026, ultimately surpassing 21 billion. According to Fior Markets, the global functional beverage market is expected to grow at a 7.1% CAGR from 2021-2028, ultimately surpassing \$217 billion. Source: IFIC, UK's Food Standards Agency, FoodDive, Euromonitor International

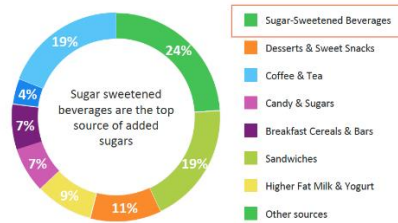
## The Market Opportunity

Many consumers are looking for zero sugar in their beverages. Yerbaé is uniquely positioned to be a significant player in the \$21 billion addressable market for zero and low sugar beverages.

### SUGAR SWEETENED BEVERAGES HAVE BECOME A REAL PROBLEM – AND CONSUMERS ARE LOOKING FOR ZERO SUGAR IN THEIR BEVERAGES.

Yerbaé is uniquely positioned to be a significant winner in a \$21 billion<sup>1</sup> addressable market.

The average person in the US consumes 17 teaspoons of added sugar per day, which far exceeds the recommended limits of 6 teaspoons for women and 9 teaspoons for men



We believe that Yerbaé is a solution to the sugar problem for many:



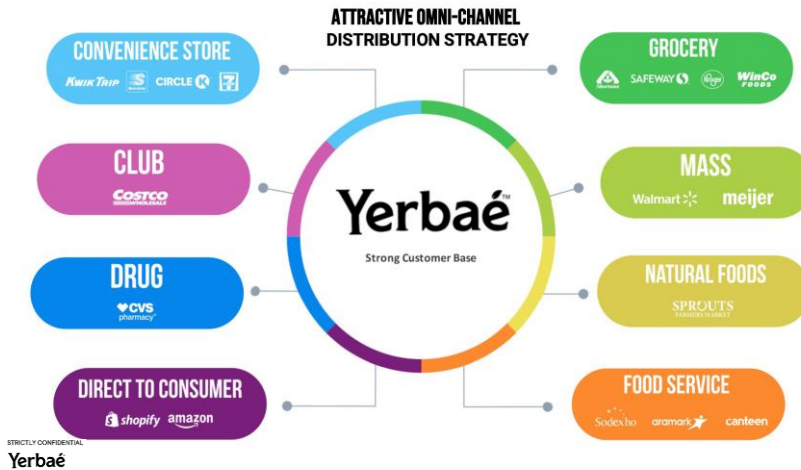
	Yerbaé	GUARANI	GUARU
Size	16oz	16oz	12oz
Sugar	0g	28g/7tsp	21g/5tsp
Calories	0	120	80
Carbs	0g	28g	21g
Caffeine	160mg	150mg	100mg

## Strategy

Yerbaé's products were created and formulated with five key pillars in mind:

1. Plant Power – Utilizes the power of plants as the source of energy;
2. Anti-Inflammation – Created without sugar, calories, and carbohydrates or other inflammatory ingredients to meet consumer demands;
3. Diet Friendly – Gluten-free and compliant with modern diets such as Keto, Paleo, Vegan and many more;
4. Sustainability – Deliver a product that is rooted in sustainability. Yerbaé believes in recyclability and the positive impacts that accompany sustainable packaging decisions; and
5. Taste – The most important attribute is that the product must taste delicious.

With a strong track record of proven success, the Company's sales and marketing team uses an omni-channel approach in order to bring its products to consumers based on where and how they shop for beverages in the US marketplace.



## Overall Performance

### 2020 Overview

During this challenging first year of the pandemic, Yerbaé was able to increase its distribution channels to over 6,400 retail locations before Covid-related retail restrictions took place. During 2020, Yerbaé increased net growth in sales by 20% over 2019 sales. During this same period, Yerbaé expanded its distribution relations in the broadline and direct sales segment as well as an increased focus on E-commerce sales. In 2020, Yerbaé maintained a strong presence in national corporate headquarters and offices such as Facebook, Google, Apple, and Intel.

### COVID-19

The COVID-19 pandemic has caused significant financial market and social dislocation, with cities and countries around the world responding in various ways to mitigate its impact and curb its spread, impacting businesses and consumers. The pandemic continues to impact the Company and its operations since its onset in the spring of 2020 and it remains difficult to predict how the ongoing pandemic will impact the Company's future business, operations, and financial performance. The Company continues to monitor the situation closely while assessing any potential impact on its operations and to avoid disruptions in customer supply.

### 2020 HIGHLIGHTS

- Net revenue increased by 20% to \$4.78 million in 2020 compared to \$3.97 million in 2019

- Gross profit totaled \$2.98 million compared to \$2.23 million for the same period a year ago
- Gross margin was 62% of net revenue, compared to 56% in 2019
- Yerbaé grew its direct to consumer business by 132% to \$1.251 million in 2020, compared to \$539,000 in 2019
- Yerbaé increased the amount of retailed locations it is sold in by 1,900, to a total of 6,400 locations
- Yerbaé launched its own e-commerce website

Yerbaé's net revenues increased 20% to \$4.78 million in 2020, compared to \$3.97 million in 2019, despite the challenges presented by Covid-19. The consumer food and beverage industry as a whole experienced labor shortages and closures or significant reduction in foot traffic in many retail locations.

## Incorporation

Yerbaé Brands Co. was incorporated under Delaware General Corporate Law on August 21, 2020, and all the equity owners of Yerbaé LLC contributed their interests of Yerbaé LLC for capital stock of Yerbaé. Yerbaé LLC continues as Yerbaé's wholly owned operating subsidiary.

## Fundraising

Yerbaé Brands Co. raised \$349,000 from 775 investors by the end of 2020, through a crowdfunding online platform, Start Engine. These shares will be issued as Non-Voting Common – Class 2020-1 Shares of Yerbaé in 2021, during the closing period of the crowdfunding round. See *Subsequent Events*.

## SELECTED ANNUAL FINANCIAL INFORMATION

The selected financial information below was derived from the Company's financial statements, prepared in accordance with IFRS, for the twelve-month period ending December 31<sup>st</sup>, 2020, 2019, and 2018.

### 2020 SELECTED FULL YEAR FINANCIAL INFORMATION

(In thousands of US dollars, except per share data)	12-month period ended					
	December 31st, 2020		December 31st, 2019		December 31st, 2018	
	\$	% of Revenue	\$	% of Revenue		
<b>Net Revenue</b>	<b>\$4,780</b>	<b>100%</b>	<b>\$3,973</b>	<b>100%</b>	<b>\$1,981</b>	<b>100%</b>
Cost of Goods Sold	\$1,805	38%	\$1,740	44%	\$1,142	58%
<b>Gross Profit</b>	<b>\$2,975</b>	<b>62%</b>	<b>\$2,233</b>	<b>56%</b>	<b>\$839</b>	<b>42%</b>
Selling, general and administrative expenses	\$4,770	100%	\$4,921	124%	\$2,416	122%
Net other (income)/expenses	(\$249)	-5%	\$5	0%	\$432	22%
<b>Loss before income taxes</b>	<b>(\$1,546)</b>	<b>-32%</b>	<b>(\$2,693)</b>	<b>-68%</b>	<b>(\$2,009)</b>	<b>-101%</b>
Income taxes	\$0	0%	\$0	0%	\$0	0%
<b>Net loss</b>	<b>(\$1,546)</b>	<b>-32%</b>	<b>(\$2,693)</b>	<b>-68%</b>	<b>(\$2,009)</b>	<b>-101%</b>
Basic and diluted loss per share	(\$0.10)		(\$0.18)		(\$0.13)	
total shares	15,079,308		15,079,308		15,079,308	



2020 Total Assets <i>(In thousands of US dollars)</i>	12-month period ended		
	December 31st, 2020	December 31st, 2019	December 31st, 2018
	\$	\$	\$
<b>Total Assets</b>	<b>\$1,043</b>	<b>\$1,288</b>	<b>\$727</b>

## RESULTS OF OPERATIONS

### Net Revenue

Yerbaé successfully grew its net revenue 20% in 2020, despite the challenges presented by Covid-19, including the uncertainty of new resets in retailers, the shutdown of food-service, significant reduction in small store channels for most of the calendar year. Net revenue increased by 20% to \$4.78 million in 2020 compared to \$3.97 million in 2019.

The total increase in revenue was largely attributable to increases in sales volume, as opposed to increases in product pricing.

### Gross Profit and Margin

Gross profit increased to \$2.98 million in 2020, from \$2.23 million for the prior year. Gross margin increased to 62% in 2020, compared to 56% in 2019. This increase in gross margin was due to the change in the Company's production facilities efficiencies, as well as increased volume in same store sales and distribution.

### Selling, general and administrative expenses

Selling, general and administrative expenses ("SG&A") include operational, sales, marketing, and administration costs. These expenses for 2020 were approximately \$4.77 million, compared to SG&A of \$4.92 million in 2019. Selling and marketing expenses accounted for \$2.51 of the \$4.77 million in SG&A in 2020, representing a 23% decrease in expenses compared to 2019 as the Company scaled back marketing, travel expenditures, and related expenses during the COVID-19 pandemic.

### Net income/(loss)

The Company generated a net financial loss of (\$1.55) million in 2020, compared to a (\$2.69) million loss for the same period a year ago. The Company was able to grow the business during the COVID-19 pandemic in 2020 while maintaining a similar level of spending, which led to a decrease in net loss compared to the prior year.

### Income taxes

Yerbaé Brands Co. was incorporated under DGCL on August 21, 2020, and prior to that date the Company was an LLC and taxed as a partnership and was not directly subject to federal or state income taxes under the provision of the IRS code and applicable state statutes. The Company had available on December 31<sup>st</sup>, 2020, unused operation loss carryforwards of \$230,914, which can be carried forward indefinitely and may provide future tax benefits. The Company recorded a valuation allowance against loss carryforwards of \$231,043 during the year ended December 31<sup>st</sup>, 2020. The Company has provided the allowances because it is more-likely-than-not that a substantial portion of the assets will not be realized.

## LIQUIDITY AND CAPITAL RESOURCES

### Capital Management

The Company's objective in managing its capital is to ensure sufficient liquidity to finance its operations, maximize the preservation of capital and deliver competitive returns on invested capital. To fund its activities, the Company has relied on private placement financings completed in prior years. The Company manages its excess cash to ensure that it has sufficient reserves to fund its operations and capital expenditures.

### Cash Flows

2020 Cash Flows	12-month period ended	
	December 31st, 2020	December 31st, 2019
	\$	\$
Cash flow used in operating activities	(\$1,022,685)	(\$3,324,052)
Cash flow (used in) from financing activities	\$719,319	\$3,647,542
Cash flow used in investing activities	\$0	\$0
(Decrease) Increase in cash and cash equivalents	(\$303,366)	\$323,490
Cash and cash equivalents, beginning of period	\$542,633	\$219,143
Cash and cash equivalents, end of period	\$239,267	\$542,633

#### Cash flow used in operating activities

In 2020, operating activities used cash of \$1.02 million compared to \$3.32 million for the same period for the prior year. The decrease in fiscal 2020 is due to an increase in revenues as well as the reduced marketing expenditures due to COVID-19.

#### Cash flow used in financing activities

Financing activities used cash flow of \$719,000 in the 12-month period ended December 31, 2020, compared to generating cash flow of \$3.65 million for the same period prior year. The decrease in 2020 was mainly due to the private placement financing that occurred in 2019.

#### Cash flow used in investing activities

No investing activities occurred in 2020.

#### Credit Facilities

On January 1st, 2020, the Company renewed a line of credit agreement with their line of credit provider, Gourmet Growth LLC. Under the line of credit agreement, Gourmet Growth LLC will advance funds to Yerbaé for inventory production runs of up to \$2 million, for an advance fee of 0.5% of the invoice. Gourmet Growth LLC charges interest of 1% per month on all outstanding invoices. As of December 31st, 2020, the total amount outstanding on the line of credit was \$369,319. This line of credit is unsecured and has no fixed repayment terms.

On October 19, 2020, the Company entered into a loan agreement with, and now have a note payable to, the USA Small Business Association, secured by all assets of the Company and due July 2050, payable in monthly principal and interest payments of \$731. The interest on this note is 3.75%, and the first monthly installment is due October 2022.

In response to the coronavirus (COVID-19) outbreak in 2020, the U.S. Federal Government enacted the CARES Act that, among other economic stimulus measures, established the PPP to provide loans to small businesses, as defined in the CARES Act. On April 9, 2020, the Company was granted a loan through the PPP under the CARES Act in the amount of \$302,126. On December 9, 2020, this loan was forgiven in full.

Also in October 2020, the Company issued certain stockholders convertible promissory notes in the aggregate principal amount of \$200,000. These notes bear interest at a fixed annual rate of 5%, and all principal and interest on the notes are due October 15, 2022. At the sole discretion of the note holders, on or before the maturity date, all principal and accrued interest on the notes can be converted into shares of the Company's Class A common stock. The notes are convertible at a conversion price equal to the lesser of 50% of the lowest price per share of equity paid by other investors and the average price per share outstanding immediately prior to the conversion. At December 31, 2020 and 2019, the principal balance of the notes were \$200,000 and \$0, respectively.

## FINANCIAL POSITION

The following table shows the main variances that have occurred in the Company's financial position as of December 31<sup>st</sup>, 2020.

2020/2019	12-month period ended			
	December 31st, 2020	December 31st, 2019	Variance	Significant Contributions
	\$	\$	\$	
Cash and cash equivalents	\$239,267	\$542,633	(\$303,366)	Investments in working capital
Short Term Liabilities	\$1,357,073	\$406,163	\$950,910	Added production LOC and increased shipping credit line
Long Term Liabilities	\$350,000	\$0	\$350,000	\$200k convertible note and \$150k SBA loan

## DIVIDEND POLICY

The Company has not paid dividends on its common shares since incorporation. The Company's current policy is to retain future earnings to finance its growth. Any future determination to pay dividends will be made at the discretion of the Company's Board of Directors and will depend on the Company's financial condition, results of operations, capital requirements and other such factors as the Board of Directors may deem relevant.

## SELECTED QUARTERLY INFORMATION

The table below presents selected quarterly financial information for 2020/2019 by quarter, based on financial statements prepared in accordance with IFRS and stated in US dollars:



## 2020 SELECTED QUARTERLY INFORMATION

YERBAÉ Quarterly P&L	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019
Net Revenue	\$967,080	\$1,187,376	\$1,356,680	\$1,270,007	\$874,475	\$965,782	\$1,322,107	\$811,283
Gross Profit	\$555,853	\$756,056	\$811,877	\$852,252	\$430,413	\$568,332	\$787,869	\$446,171
Net Loss	(\$305,572)	(\$658,277)	(\$270,802)	(\$306,148)	(\$937,520)	(\$762,435)	(\$507,763)	(\$485,888)
Basic & Diluted loss per share	(\$0.02)	(\$0.04)	(\$0.02)	(\$0.02)	(\$0.06)	(\$0.05)	(\$0.03)	(\$0.03)
shares	15,079,308	15,079,308	15,079,308	15,079,308	15,079,308	15,079,308	15,079,308	15,079,308

### Factors affecting the variability of quarterly results

There are quarter-over-quarter variations in net revenue that are caused by seasonality as well as sales and marketing campaigns.

### TRENDS AND SEASONALITY

Yerbaé experiences seasonality and the peak beverage consumption periods are typically in Q2 and Q3, therefore Yerbaé's sales are generally higher in these two quarters due to seasonality in the US. However, this will vary from time to time due to marketing campaigns, new product introductions, and/or other factors and company initiatives.

### FINANCIAL INSTRUMENTS

#### Liquidity Risk

Liquidity risk is the Company's ability to meet its financial obligations when they come due. The Company is exposed to liquidity risk with respect to its contractual obligations and financial liabilities. It manages liquidity risk by continuously monitoring forecast and actual cash flows and matching maturity profiles of financial assets and liabilities, with the objective of maintaining a balance between continuity of funding and flexibility through borrowing facilities available through its bank and other lenders.

The Company's policy is to ensure that it has adequate funding available from operations and other sources as required. The following are the contractual maturities of the Company's financial obligations, including principal and interest, as of December 31st, 2020:

#### Liquidity Risk

	Carrying Amount	Contractual Cash Flow	0 to 12 Months	13 to 24 Months	Thereafter
Accounts Payable	\$462,091	\$462,091	\$462,091	\$0	\$0
Accrued Expenses	\$525,663	\$525,663	\$525,663	\$0	\$0
Due to LOC	\$369,319	\$369,319	\$369,319	\$0	\$0
Due to Stockholders	\$200,000	\$210,000	\$0	\$210,000	\$0
Note Payable	\$150,000	\$258,213	\$8,772	\$8,772	\$240,669
<b>Total</b>	<b>\$1,707,073</b>	<b>\$1,825,286</b>	<b>\$1,365,845</b>	<b>\$218,772</b>	<b>\$240,669</b>

#### Credit Risk

Credit risk is the risk that counter party will not meet its obligations under the financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk from its operating activities (preliminary accounts receivable) and from its financing activities, including deposits with banks and financial institutions. The Company

places its cash with high credit quality financial institutions, which are federally insured up to prescribed limits. At certain times, the amount of cash equivalents at any one institution may exceed the federally insured prescribed limits; however, no losses have incurred to date.

### Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of financial instruments will fluctuate as market interest rates change. The Company is exposed to interest rate risks on its note payable and due to stockholders, for which the interest rates charged are fixed.

### OFF-BALANCE SHEET ARRANGEMENTS

The Company does not currently have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on its financial position, changes in net revenues or expenses, results of operations, liquidity or capital resources that are material, other than its office lease with SmartRent Technologies Inc., under which the Company paid a monthly rental fee of \$6,069 in the 2020 fiscal year. Total amounts paid for rent amounted to \$73,070 for the years ended December 31, 2020 and 2019. There are no known effects of terminating the lease nor no known events that may affect the availability or benefits of the arrangement.

### SEGMENT REPORTING

The Company's principal business is product sales; developing, marketing, selling, and distributing Yerbaé branded products. This is the Company's only reportable segment.

### RELATED PARTY TRANSACTIONS

#### Key Management Personnel

Key management personnel include the members of the Board, as well as the Chief Executive Officer and Chief Operating Officer. The following table presents the compensation of key management personnel recognized in net loss:

#### 2020 Key Management Personnel

	12-month period ended	
	December 31st, 2020	December 31st, 2019
	\$	\$
Key Management Personnel Salary Paid	\$325,000	\$325,000

#### Related-Party Transactions

Related parties of the Company include key management personnel, their family members, and companies over which they have significant influence or control. The following transactions are related-party transactions for the year ended December 31, 2020:

1. On January 1, 2020, Nick Cranny (Director of Finance) received 65,000 Yerbaé options,

convertible to Yerbaé shares at an exercise price of \$1.00 per share.

- On March 25, 2020, Seth Smith (VP of Sales) received 50,000 Yerbaé options, convertible to Yerbaé shares at an exercise price of \$1.00 per share.

Both above related-party transactions occurred as part of management compensation.

## SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, net revenues, and expenses. Actual results may differ from these estimates. Please refer to note 2 in the audited financial statement report for further details.

## STOCK-BASED COMPENSATION

Yerbaé has an Equity Appreciation Rights plan with certain employees. During the year ended December 31, 2018, the Company entered into an equity appreciation rights plan with certain employees. Under the plan, individuals earn compensation based on the excess of the current fair market values per share of the Company over the fair market values per share of the Company in the year the rights were awarded. These fair value estimates have been based on an agreed upon Company valuation model, as detailed in the Equity Appreciation Rights Plan. At December 31, 2020, the equity appreciation rights carried a \$1.14 value and the total accrued compensation was insignificant the year ended December 31, 2020. \$235,000 of additional rights were granted to certain employees.

## OUTSTANDING SHARE DATA

### Outstanding Share Data

	As of December 31st, 2020
Class A	8,771,110
Class B	4,538,967
Class D-1	961,538
Class D-2	807,693
Fully Diluted Shares	15,079,308

## OUTSTANDING OPTION DATA

Issuance/ Grant Date	Number of Options	Exercise Price
8/7/2017	2,000	\$1.000
10/31/2019	20,000	\$1.000
1/1/2019	20,000	\$1.000
1/1/2017	125,000	\$1.000
3/25/2020	50,000	\$1.000
7/10/2018	100,000	\$1.000
1/22/2018	25,000	\$1.000
6/20/2018	50,000	\$1.000

8/1/2019	50,000	\$1.000
1/1/2020	65,000	\$1.000
3/1/2020	40,000	\$1.000
1/1/2019	2,000	\$1.040
1/1/2019	1,000	\$1.040
1/1/2019	4,000	\$1.040

## RISK FACTORS

Please refer to the risk factors described in the “Risk Factors” section of management information circular of Kona Bay Technologies Inc., to which this Management’s Discussion and Analysis is attached to.

### Liquidities

Liquidities is a non-GAAP financial measure. Liquidities are defined as the sum of cash and cash equivalents, and short-term investments. We believe that liquidities are a useful measure of financial condition because they provide an indication of the Company’s available cash resources to support operating activities. Management believes this non-GAAP financial measure, in addition to conventional measures prepared in accordance with IFRS, enable investors to evaluate the Company’s underlying financial condition in a manner similar to management.

These non-GAAP financial measures are not earnings or cash flow measures, or measures of financial condition, recognized by IFRS and don’t have a standardized meaning prescribed by IFRS. Our method of calculating these financial measures may differ from the methods used by other issuers and, accordingly, our definition of these non-GAAP financial measures may not be comparable to similar measures presented by other issuers. Investors are cautioned that non-GAAP financial measures should not be construed as an alternative to net income determined in accordance with IFRS as indicators of our performance or financial condition, or to cash flows from operating activities as measures of liquidity and cash flows.

## SUBSEQUENT EVENTS

On April 30, 2021, the Company issued 531,640 Non-Voting Common Class 2020-1 Yerbaé shares to 1108 shareholders on closing of the crowdfunding round through the Start Engine platform. The shares were issued at an average of \$1.98 per share, for aggregate proceeds of \$1,023,287, which amount includes the \$349,000 raised in 2020 as set out under “Fundraising”.

# Yerbae®





## Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following has been prepared for the purposes of providing management’s discussion and analysis (“**MD&A**”) of the consolidated financial position of Yerbaé Brands Co. (“**Yerbaé**” or “**the Company**”) for 2021. This MD&A is dated October 10, 2022, and should be read in conjunction with the Company’s audited consolidated financial statements for the fiscal years ended December 31, 2021 and 2020. The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“**IFRS**”) as issued by the International Accounting Standards Board and the financial information herein was derived from those statements. Discrepancies in recalculated amounts or percentages may occur due to rounding. All amounts in this MD&A are expressed in US dollars unless otherwise indicated.

### Note Regarding Forward Looking Statements

This report contains forward-looking statements that reflect our current views about future events. We use the words “anticipate,” “assume,” “believe,” “estimate,” “expect,” “will,” “intend,” “may,” “plan,” “project,” “should,” “could,” “seek,” “designed,” “potential,” “forecast,” “target,” “objective,” “goal,” or the negatives of such terms or other similar expressions. These statements relate to future events or our future financial performance and involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements.

### Business Overview

Yerbaé is an innovative and health-focused beverage company that creates clean functional plant-based products promoting a healthy lifestyle while leaving a cleaner footprint behind us. Yerbaé was the first to mix plant-based ingredients and sparkling water with zero sugar, calories, and carbohydrates to produce an energy seltzer that performs without compromise.

Yerbaé was founded by Todd and Karrie Gibson in 2016 to create plant-based energy drinks containing non-GMO white tea and Yerba Mate, a South American herb and a natural source of caffeine that is sustainably sourced from Brazil and other growing regions in South America. Yerbaé’s first beverage was launched in the first quarter of 2017 and in stores by the fall of 2017. Yerbaé is engaged in the development, marketing, sale, and distribution of plant-based energy beverages.

Yerbaé beverages are created to provide products targeted at consumers seeking healthier beverages as an alternative to traditional energy drinks and focused on health, wellness, and fitness. The products are formulated to provide a more refreshing taste than coffee, with additional benefits to existing sodas and sparkling waters, along with healthier ingredients than traditional energy drinks. Yerbaé’s products complement a variety of healthy lifestyles and diets, such as non-GMO, Keto, Vegan, Kosher, Paleo and gluten-free diets. As of December 31<sup>st</sup>, 2021, Yerbaé’s products are sold and available on Amazon.com, [www.yerbae.com](http://www.yerbae.com) and sold in over 8,000 retail locations in the US marketplace.

## Corporate Information

Yerbaé Brands Co. was incorporated under Delaware General Corporate Law on August 21, 2020. Since 2016, Yerbaé's wholly owned subsidiary, Yerbaé LLC, a Delaware limited liability company, has conducted the business of Yerbaé. At the time of Yerbaé's incorporation, all of the equity owners of Yerbaé LLC contributed their interests of Yerbaé LLC for capital stock of Yerbaé. Yerbaé LLC continues as Yerbaé's wholly owned operating subsidiary. Yerbaé's head office is located at 18801 N. Thompson Peak Parkway, Suite D-380, Scottsdale, Arizona 85255. Its registered office is Corporation Trust Center, 1209 Orange Street, Wilmington, County of New Castle, Delaware 19801, and its website is [www.yerbae.com](http://www.yerbae.com). **Yerbaé** is a registered trademark of the Company in the United States.

## Intercorporate Relationships

The following table describes Yerbaé's subsidiaries, their place of incorporation, continuance or formation, and the percentage of the outstanding voting securities beneficially owned, controlled, or directed by Yerbaé:

Name of Subsidiary	Percentage of Voting Securities Owned	Jurisdiction of Incorporation or Continuance
Yerbaé LLC	100%	Delaware

Yerbaé has one wholly owned subsidiary, Yerbaé LLC. Yerbaé LLC is organized under the State of Delaware Limited Liability Company Act.

## General Development of the Business

Yerbaé is a beverage manufacturer and marketing company that produces products for the consumer-packaged goods industry. Yerbaé was originally founded as Yerbaé LLC owned by the current ownership group in 2016. In August 2020, Yerbaé Brands Co. was incorporated as a C-Corp in Delaware and became the parent company to Yerbaé LLC, the subsidiary business. Yerbaé owns all interests in Yerbaé LLC and has continued operations of the business.

In 2021, Yerbaé experienced growth measured by multiple metrics. In 2021, Yerbaé's net sales were \$6.05 million, with a gross margin of 60% and a 4-year compound annual growth rate of 58%.

## Operations

Yerbaé's operations team and headquarters are based in Scottsdale, Arizona. In 2021, Yerbaé had 21 employees. Yerbaé develops, markets, sells, and distributes plant-based energy beverages. Yerbaé does not directly manufacture its beverages, but instead outsources the manufacturing process to established third-party co-packers. Yerbaé sources and provides its co-packers and production partners with Yerbaé's recipes, ingredient blends, flavors, cans, and other raw

materials to produce Yerbaé's beverages. All raw materials are sourced by Yerbaé at fair market pricing.

Yerbaé does not own any property, office space, storage space, bottling facilities, or retail spaces. Yerbaé leases current office space in Scottsdale, Arizona. Although Yerbaé's business is not cyclical, seasonality is typical in the beverage industry. Yerbaé produces and sells its products throughout the entire year with the highest sales volumes generally occurring in the second and third quarters (spring & fall) while the beginning and end of the calendar year tend to slow down.

Yerbaé products are only sold in the United States at this time.

## Market

Yerbaé competes in a large and fast-growing market that is driven by an increased demand for energy drinks with a diverse nutritional profile and an increased adoption of healthy lifestyles after the pandemic. The energy-drink industry is a \$15 billion industry today, and it represents the fastest growing category within the nonalcoholic beverage space, rapidly gaining share from soft drinks and juices. Over the last year, the energy drink category has seen 8% sales growth compared to 2.8% for all beverages. The U.S. energy drink industry is estimated to reach US\$21 billion in sales by 2026, reflecting a 7% compound annual growth rate.<sup>1</sup>

<sup>1</sup>According to Research and Markets, the US energy drink market is expected to grow at a CAGR of 7% from 2022-2026, ultimately surpassing 21 billion. According to Fior Markets, the global functional beverage market is expected to grow at a 7.1% CAGR from 2021-2028, ultimately surpassing \$217 billion. Source: IFIC, UK's Food Standards Agency, FoodDive, Euromonitor International

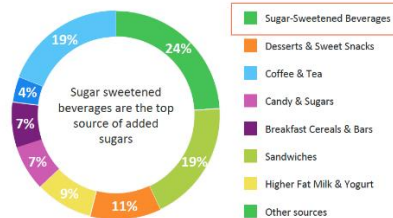
## The Market Opportunity

Many consumers are looking for zero sugar in their beverages. Yerbaé is uniquely positioned to be a significant player in the \$21 billion addressable market for zero and low sugar beverages.

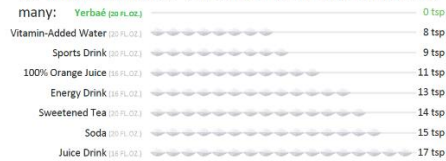
### SUGAR SWEETENED BEVERAGES HAVE BECOME A REAL PROBLEM – AND CONSUMERS ARE LOOKING FOR ZERO SUGAR IN THEIR BEVERAGES.

Yerbaé is uniquely positioned to be a significant winner in a \$21 billion<sup>1</sup> addressable market.

The average person in the US consumes 17 teaspoons of added sugar per day, which far exceeds the recommended limits of 6 teaspoons for women and 9 teaspoons for men



We believe that Yerbaé is a solution to the sugar problem for many:



	Yerbaé	GUAYAKI	OUAI
Size	16oz	16oz	12oz
Sugar	0g	28g/7tsp	21g/5tsp
Calories	0	120	80
Carbs	0g	28g	21g
Caffeine	160mg	150mg	100mg

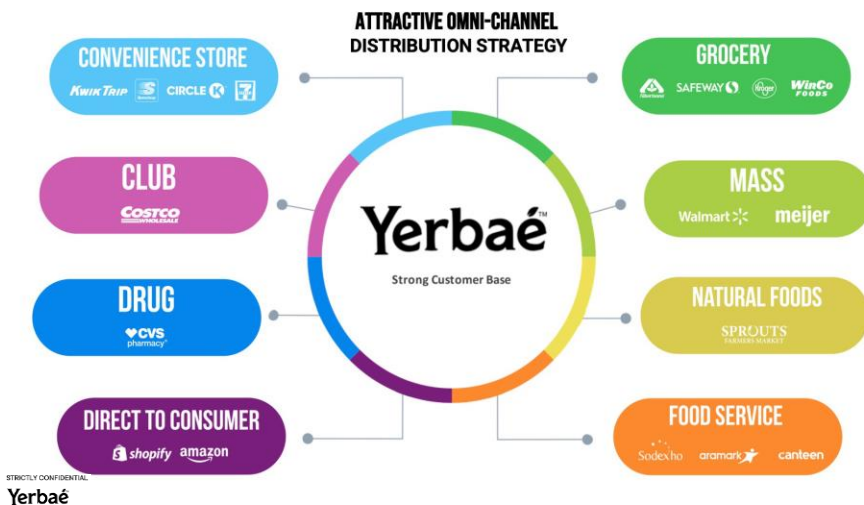
## Strategy



Yerbaé's products were created and formulated with five key pillars in mind:

1. Plant Power – Utilizes the power of plants as the source of energy.
2. Anti-Inflammation – Created without sugar, calories, and carbohydrates or other inflammatory ingredients to meet consumer demands.
3. Diet Friendly – Gluten-free and compliant with modern diets such as Keto, Paleo, Vegan and many more.
4. Sustainability – Deliver a product that is rooted in sustainability. Yerbaé believes in recyclability and the positive impacts that accompany sustainable packaging decisions; and
5. Taste – The most important attribute is that the product must taste delicious.

With a strong track record of proven success, the Company's sales and marketing team uses an omni-channel approach in order to bring its products to consumers based on where and how they shop for beverages in the US marketplace.



## Overall Performance

### 2021 Overview

During 2021, Yerbaé increased its distribution channels to over 8,000 retail locations from 6,400 in 2020. In 2021, Yerbaé increased net growth in sales by 26% over 2020. During 2021, Yerbaé experienced 46% growth in sales via its E-commerce channel, over 2020, and continued to maximize opportunities during this transition year for retailers and consumers. Despite the challenging market in 2021 due to Covid-19 restrictions, Yerbaé participated with retailer-driven initiatives to bring Yerbaé into retail locations for seasonal one-time buys during the retail channel transition to re-opening. This allowed the Company to connect with consumers and retailers to continue its growth trajectory and build brand awareness during the height of the supply chain disruptions of 2021. Yerbaé had a record Q1, ending March 31, 2021, of over \$2,000,000 in sales during a traditionally slower seasonal period.

## COVID-19

The COVID-19 pandemic has caused significant financial market and social dislocation, with cities and countries around the world responding in various ways to mitigate its impact and curb its spread, impacting businesses and consumers. The pandemic continues to impact the Company and its operations since its onset in the spring of 2020 and it remains difficult to predict how the ongoing pandemic will impact the Company's future business, operations, and financial performance. The Company continues to monitor the situation closely while assessing any potential impact on its operations and to avoid disruptions in customer supply.

## 2021 HIGHLIGHTS

- Yerbaé's net revenues increased 26% to \$6.05 million in 2021, compared to \$4.78 million in 2020, despite the challenges presented by Covid-19
- Gross profit totaled \$3.62 million, an increase of 21% compared to \$2.98 million in 2020
- Gross margin was 60% of net revenue, compared to 62% in 2020, due to an increase in raw material cost
- Yerbaé grew its direct-to-consumer business by 46% to \$1.817 million in 2021, compared to \$1.251 million in 2020
- As Covid restrictions were lifted, Yerbaé activated field marketing and sampling events
- Yerbaé expanded its marketing presence into the CrossFit community, a highly loyal and affluent audience aligned with Yerbae's approach to wellness first living
- Built a base of Star-Studded CrossFit Athlete Ambassadors in 2021



- Yerbaé's social strategy grew its followers by 530%, compared to 2020, with the support from athlete ambassadors and micro-influencers
- Yerbaé issued a convertible note to existing investors and raised \$3.2 million to assist in the Company's cash flows and growth initiatives

## SELECTED ANNUAL FINANCIAL INFORMATION

The selected financial information below was derived from the Company's financial statements, prepared in accordance with IFRS, for the twelve-month periods ended December 31st, 2021, 2020, and 2019.

### SELECTED FULL YEAR FINANCIAL INFORMATION

<i>(In thousands of US dollars, except per share data,</i>	12-month period ended					
	December 31st, 2021		December 31st, 2020		December 31st, 2019	
	\$	% of Revenue	\$	% of Revenue	\$	% of Revenue
<b>Net Revenue</b>	<b>\$6,045</b>	<b>100%</b>	<b>\$4,780</b>	<b>100%</b>	<b>\$3,973</b>	<b>100%</b>
Cost of Goods Sold	\$2,424	40%	\$1,805	38%	\$1,740	44%
<b>Gross Profit</b>	<b>\$3,621</b>	<b>60%</b>	<b>\$2,975</b>	<b>62%</b>	<b>\$2,233</b>	<b>56%</b>
Selling, general and administrative expenses	\$7,248	120%	\$4,770	100%	\$4,921	124%
Net other (income)/expenses	\$175	3%	(\$249)	-5%	\$5	0%
<b>Loss before income taxes</b>	<b>(\$3,802)</b>	<b>-63%</b>	<b>(\$1,546)</b>	<b>-32%</b>	<b>(\$2,693)</b>	<b>-68%</b>
Income taxes	\$0	0%	\$0	0%	\$0	0%
<b>Net loss</b>	<b>(\$3,802)</b>	<b>-63%</b>	<b>(\$1,546)</b>	<b>-32%</b>	<b>(\$2,693)</b>	<b>-68%</b>
Basic and diluted loss per share	(\$0.21)		(\$0.10)		(\$0.18)	
<b>total shares</b>	<b>18,404,032</b>		<b>15,079,308</b>		<b>15,079,308</b>	

<i>(In thousands of US dollars)</i>	12-month period ended		
	December 31st, 2021	December 31st, 2020	December 31st, 2019
	\$	\$	\$
<b>Total Assets</b>	<b>\$1,446</b>	<b>\$1,043</b>	<b>\$1,287</b>

## RESULTS OF OPERATIONS

### Net Revenue

Yerbaé successfully grew its net revenue 26% in 2021, despite the challenges with Covid-19. Net revenue increased by 26% to \$6.05 million in 2021, compared to \$4.78 million in 2020.

The total increase in revenue was largely attributable to increases in sales volume and E-commerce growth, as opposed to increases in product pricing. All sales were made in the US market.

### Gross Profit and Margin

Gross profit increased to \$3.62 million in 2021, compared to \$2.98 million in 2020. Gross margin decreased to 60% of net revenue compared to 62% of net revenue in 2020. This decrease in gross margin was due to price increase from raw material supplies and bottling partners.

### Selling, general and administrative expenses

Selling, general and administrative expenses ("SG&A") include operational, sales, marketing, and administration costs. These expenses for 2021 were approximately \$7.25 million, an increase of 52% compared to SG&A of \$4.77 million in 2020. Selling and marketing expenses accounted for \$2.51 million of the \$7.25 million in SG&A in 2021, representing a 73% increase in sales and marketing expenses as same period a year ago as the company increased headcount and marketing initiatives in 2021 to fuel growth.

### Net income/(loss)

The Company generated a net financial loss of (\$3.802) million in 2021, compared to (\$1.546) million in loss for the same period a year ago. The majority of the increase in net loss reflects the additional costs associated with field and trade marketing launch activities, other setup costs for the Company's expansion plans as well an increased brand awareness investment into the fitness community.

### Income taxes

Yerbaé Brands Co. was incorporated under the Delaware General Corporation Law on August 21, 2021, and prior to that date the Company elected to be taxed as a partnership and was not directly subject to federal or state income taxes under the provision of the IRS code and applicable state statutes. The Company had available on December 31<sup>st</sup>, 2021, unused operation loss carryforwards of \$1.01 million which can be carried forward indefinitely and may provide future tax benefits. The Company recorded a valuation allowance against loss carryforwards of \$1.01 million during the year ended December 31<sup>st</sup>, 2021. The Company has provided the allowances because it is more-likely-than-not that a substantial portion of the assets will not be realized.

### Capital transactions

In 2021, Yerbaé issued the following shares, to accredited investors and through crowdfunding, to raise an aggregate of \$4,048,517.

Date Issued	Type of Security	Price per Share	Number of Securities
March 6, 2021	Voting Common Stock – Class B Yerbaé Shares	\$1.08	949,541
April 30, 2021	Non-Voting Common – Class 2020-1 Yerbaé Shares (crowdfunding)	\$1.98	521,948
May 21, 2021	Non-Voting Common – Class D-2 Yerbaé Shares	\$1.08	472,833
May 27, 2021	Non-Voting Common – Class D-1 Yerbaé Shares	\$1.08	141,539
June 9, 2021	Non-Voting Common – Class D-1 Yerbaé Shares	\$1.08	94,191
June 25, 2021	Non-Voting Common – Class D-2 Yerbaé Shares	\$1.08	940,112
October 7, 2021	Voting Common Stock – Class A Yerbaé Shares	\$1.08	194,838

## LIQUIDITY AND CAPITAL RESOURCES

### Capital Management

The Company's objective in managing its capital is to ensure sufficient liquidity to finance its operations, maximize the preservation of capital and deliver competitive returns on invested capital. To fund its activities, the Company has relied on private placement financings completed in prior years. The Company manages its excess cash to ensure that it has sufficient reserves to fund its operations and capital expenditures.

## Cash Flows

Cash Flows	12-month period ended	
	December 31st, 2021	December 31st, 2020
	\$	\$
Cash flow used in operating activities	(\$3,663,851)	(\$1,022,685)
Cash flow (used in) from financing activities	\$4,025,844	\$719,319
Cash flow used in investing activities	(\$253,454)	\$0
(Decrease) Increase in cash and cash equivalents	\$108,539	(\$303,366)
Cash and cash equivalents, beginning of period	\$239,267	\$542,633
Cash and cash equivalents, end of period	\$347,806	\$239,267

### Cash flow used in operating activities

For the 2021 fiscal year, operating activities used cash of \$3.67 million compared to \$1.02 million for the same period in 2020. This increase in 2021 is mainly attributable to marketing and trade initiatives, and additional investments in working capital, namely in accounts receivable, inventories and accounts payable.

### Cash flow used in financing activities

Financing activities used cash flow of \$4.02 million in the 12-month period ended December 31, 2021, compared to generating cash flow of \$719,319 for the same period the prior year. The increase in 2021 was mainly due to the Company's private placement financing that occurred in 2021.

### Cash flow used in investing activities

Investing activities used cash flow of \$253,454 in the 2021 fiscal year. No investing activity occurred in the 2020 fiscal year. The variance is due to the Company's purchase of seven vehicles to be used by its field sales representatives to sell, deliver, and merchandise in their respective regions.

### Credit Facilities

On January 1<sup>st</sup>, 2021, the Company renewed a line of credit agreement with their line of credit provider, Gourmet Growth LLC. Under the line of credit agreement, Gourmet Growth LLC will advance funds to Yerbaé for inventory production runs of up to \$2 million, for an advance fee of 0.5% of the invoice. Gourmet Growth LLC charges interest of 1% per month on all outstanding invoices. As of December 31<sup>st</sup>, 2021, the outstanding balance on the line of credit was \$319,276, and \$369,319 as at December 31<sup>st</sup>, 2020. This line of credit is unsecured and has no fixed repayment terms.

As of October 10, 2020, the Company has a note payable to the USA Small Business Association, secured by all assets of the Company and due July 2050, payable in monthly principal and interest payments of \$731. The interest on this note is 3.75, and the first monthly installment is due October 2022.

In response to the coronavirus (COVID-19) outbreak in 2020, the U.S. Federal Government enacted the CARES Act that, among other economic stimulus measures, established the PPP to provide loans to small businesses, as defined in the CARES Act. On April 9, 2020, the Company was granted a loan through the PPP under the CARES Act in the amount of \$302,126. On December 9, 2020, this loan was forgiven in full.

## FINANCIAL POSITION

The following table shows the main variances that have occurred in the Company's financial position as of December 31<sup>st</sup>, 2021.

2021 FINANCIAL POSITION	12-month period ended			Significant Contributions
	December 31st, 2021	December 31st, 2020	Variance	
	\$	\$	\$	
Cash and cash equivalents	\$347,806	\$239,267	\$108,539	investments in working capital and marketing plans fueled by private round financing
Short Term Liabilities	\$1,547,962	\$1,357,073	\$190,889	non cash employee option expense accrual

## DIVIDEND POLICY

The Company has not paid dividends on its common shares since incorporation. The Company's current policy is to retain future earnings to finance its growth. Any future determination to pay dividends will be made at the discretion of the Company's Board of Directors and will depend on the Company's financial condition, results of operations, capital requirements and other such factors as the Board of Directors may deem relevant.

## SELECTED QUARTERLY INFORMATION

The table below presents selected quarterly financial information for 2021/2020 by quarter, based on financial statements prepared in accordance with IFRS and stated in US dollars:

### Quarterly P&L

	Q4 2021	Q3 2021	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020
Net Revenue	\$1,053,576	\$1,391,565	\$1,546,285	\$2,053,029	\$967,080	\$1,187,376	\$1,356,680	\$1,270,007
Gross Profit	\$587,803	\$942,530	\$922,444	\$1,167,955	\$555,853	\$756,056	\$811,877	\$852,252
Net Loss	(\$1,526,732)	(\$999,411)	(\$707,536)	(\$572,439)	(\$305,572)	(\$658,277)	(\$270,802)	(\$306,148)
Basic & Diluted loss per share	(\$0.08)	(\$0.05)	(\$0.04)	(\$0.04)	(\$0.02)	(\$0.04)	(\$0.02)	(\$0.02)
shares	18,404,032	18,209,132	18,209,132	15,079,308	15,079,308	15,079,308	15,079,308	15,079,308

### Factors affecting the variability of quarterly results

There are quarter-over-quarter variations in net revenue that are caused by seasonality, with beverage sales generally being higher in the spring and summer seasons, as well as sales and marketing campaigns. High revenues in Q1 of 2021 are largely attributable to a one-time buy campaign with multiple retailers.

## TRENDS AND SEASONALITY

Yerbaé experiences seasonality and the peak beverage consumption periods are typically in Q2 and Q3, therefore Yerbaé's sales are generally higher in these two quarters due to seasonality in the US. However, this will vary from time to time due to marketing campaigns, new product introductions, and/or other factors and company initiatives.

## FINANCIAL INSTRUMENTS



## Liquidity Risk

Liquidity risk is the Company's ability to meet its financial obligations when they come due. The Company is exposed to liquidity risk with respect to its contractual obligations and financial liabilities. It manages liquidity risk by continuously monitoring forecast and actual cash flows and matching maturity profiles of financial assets and liabilities, with the objective of maintaining a balance between continuity of funding and flexibility through borrowing facilities available through its bank and other lenders.

The Company's policy is to ensure that it has adequate funding available from operations and other sources as required. The following are the contractual maturities of the Company's financial obligations, including principal and interest, as of December 31, 2021:

Liquidity Risk					
2021	Carrying Amount	Contractual Cash Flow	0 to 12 Months	13 to 24 Months	Thereafter
Accounts Payable	\$799,184	\$799,184	\$799,184	\$0	\$0
Accrued Expenses	\$367,821	\$367,821	\$367,821	\$0	\$0
Due to LOC	\$319,276	\$319,276	\$319,276	\$0	\$0
Note Payable	\$376,711	\$522,109	\$61,806	\$61,806	\$398,497
<b>Total</b>	<b>\$1,862,992</b>	<b>\$2,008,390</b>	<b>\$1,548,087</b>	<b>\$61,806</b>	<b>\$398,497</b>

## Credit Risk

Credit risk is the risk that counter party will not meet its obligations under the financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk from its operating activities (preliminary accounts receivable) and from its financing activities, including deposits with banks and financial institutions. The Company places its cash in high credit quality financial institutions, which are federally insured up to prescribed limits, thus reducing the Company's credit risk. At certain times, the amount of cash equivalents at any one institution may exceed the federally insured prescribed limits; however, no losses have incurred to date.

## Market Risk

Market risk is the risk that changes in market prices, such as equity prices, foreign exchange rates and interest rates will affect the Company's income or the value of its financial instruments. Interest rate risk is the risk that the fair value or future cash flows of financial instruments will fluctuate as market interest rates change. The Company is exposed to interest rate risks on its note payable and due to stockholders.

## Capital Management

The Company's objective when managing capital is to use short-term funding sources to manage its working capital requirements and fund expenditures required to execute its operating and strategic plans. The Company is not subject to any capital requirements imposed by regulators or creditors.

## OFF-BALANCE SHEET ARRANGEMENTS

The Company does not currently have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on its financial position, changes in net revenues or expenses, results of operations, liquidity or capital resources that are material, other than the its office lease with SmartRent Technologies Inc., under which the Company paid a monthly rental fee of \$10,378 in the 2021 fiscal year. Total amounts paid for rent amounted to \$121,832 and \$73,070 for the years ended December 31, 2021 and 2020, respectively. There are no known effects of terminating the lease nor no known events that may affect the availability or benefits of the arrangement.

## SEGMENT REPORTING

The Company's principal business is product sales; developing, marketing, selling, and distributing Yerbaé branded products. This is the Company's only reportable segment.

## RELATED PARTY TRANSACTIONS

### Key Management Personnel

Key management personnel include the members of the Board, as well as the Chief Executive Officer and Chief Operating Officer. The following table presents the compensation of key management personnel recognized in net loss:

Key Management Personnel	12-month period ended	
	December 31st, 2021	December 31st, 2020
	\$	\$
Key Management Personnel Salary Paid	\$525,000	\$325,000

### Related-Party Transactions

Related parties of the Company include key management personnel, their family members, and companies over which they have significant influence or control. The following transactions are related-party transactions for the year ended December 31, 2021:

1. Karrie Gibson (COO) purchased 97,419 Voting Common Class A shares of the Company on October 7, 2021 at a share price of \$1.08 per share for proceeds of \$105,212.52 and
2. Todd Gibson (CEO) purchased 97,419 Voting Common Class A shares of the Company on October 7, 2021 at a share price of \$1.08 per share for proceeds of \$105,212.52.

Both related-party transactions in 2021 were one-time share purchases for fundraising reasons. There are no ongoing obligations associated with these transactions.

For the year ended December 31, 2021, the Company has not transacted with related parties, other than as detailed above.

## SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, net revenues, and expenses.



Actual results may differ from these estimates. Please refer to note 2 in the audited financial statement report for further details.

## STOCK-BASED COMPENSATION

Yerbaé has an Equity Appreciation Rights plan with certain employees. During the year ended December 31, 2018, the Company entered into an equity appreciation rights plan with certain employees. Under the plan, individuals earn compensation based on the excess of the current fair market values per share of the Company over the fair market values per share of the Company in the year the rights were awarded. These fair value estimates have been based on an agreed upon Company valuation model, as detailed in the Equity Appreciation Rights Plan. At December 31, 2021 and 2020, the equity appreciation rights carried a \$1.14 value. At December 31, 2021, cumulative compensation expense was recorded in the amount of \$178,980, which is included in operating expenses with a corresponding increase to accrued expenses. The rights vest over graded vesting schedules ranging three to five years and are settled in cash. During the years ended December 31, 2021 and 2020, \$285,000 and \$235,000, respectively, of additional rights were granted to certain employees. As of December 31, 2021 and 2020, there was \$731,190 and \$619,970, respectively, of unrecognized compensation expense related to nonvested rights which will be recognized over the remaining vesting period. The weighted average remaining vesting period, in years, is 2.54 and 2.79 as of December 31, 2021 and 2020, respectively.

In addition, on October 7, 2021, the principal balance of a convertible promissory note of \$200,000, and accrued interest of \$10,427 was converted into 194,828 shares of the Company's Class A common stock.

## OUTSTANDING SHARE DATA

### Outstanding Share Data

	As of December 31st, 2021
Class A	8,965,949
Class B	5,488,527
Class D-1	1,197,268
Class D-2	2,220,637
2020-1	531,651
Fully Diluted Shares	<u>18,404,032</u>

## OUTSTANDING OPTION DATA

Issuance/grant date	Number of Options	Maturity and Exercise Price
8/7/2017	2,000	\$1.000
10/31/2019	20,000	\$1.000
1/1/2019	20,000	\$1.000
1/1/2017	125,000	\$1.000
3/25/2020	50,000	\$1.000
7/10/2018	100,000	\$1.000
1/22/2018	25,000	\$1.000
6/20/2018	50,000	\$1.000
8/1/2019	50,000	\$1.000
1/1/2020	65,000	\$1.000

3/1/2020	40,000	\$1.000
1/1/2019	2,000	\$1.040
1/1/2019	1,000	\$1.040
1/1/2019	4,000	\$1.040
1/1/2019	3,000	\$1.040
8/16/2021	10,000	\$1.000
10/11/2021	10,000	\$1.520
10/11/2021	10,000	\$1.520
10/25/2021	10,000	\$1.520
10/18/2021	200,000	\$1.520
12/6/2021	10,000	\$1.520

## RISK FACTORS

Please refer to the risk factors described in the “*Risk Factors of the Resulting Issuer’s Business*” section of Schedule “A” to the information circular of Kona Bay Technologies Inc. to which this MD&A is attached.

### Liquidities

Liquidities is a non-GAAP financial measure. Liquidities are defined as the sum of cash and cash equivalents, and short-term investments. We believe that liquidities are a useful measure of financial condition because they provide an indication of the Company’s available cash resources to support operating activities. Management believes this non-GAAP financial measure, in addition to conventional measures prepared in accordance with IFRS, enable investors to evaluate the Company’s underlying financial condition in a manner similar to management.

These non-GAAP financial measures are not earnings or cash flow measures, or measures of financial condition, recognized by IFRS and don’t have a standardized meaning prescribed by IFRS. Our method of calculating these financial measures may differ from the methods used by other issuers and, accordingly, our definition of these non-GAAP financial measures may not be comparable to similar measures presented by other issuers. Investors are cautioned that non-GAAP financial measures should not be construed as an alternative to net income determined in accordance with IFRS as indicators of our performance or financial condition, or to cash flows from operating activities as measures of liquidity and cash flows.

## SUBSEQUENT EVENTS

### Stock Split

On April 11, 2022, Yerbaé authorized a stock split of its Yerbaé Shares whereby all Yerbaé Shares were split on a 1 to 1.595 basis (the “**Yerbaé Stock Split**”). Accordingly, Yerbaé’s certificate of incorporation was amended and restated on April 26, 2022, to effect a forward stock split whereby each Yerbaé Share became 1.595 Yerbaé Shares.

Following the Yerbaé Stock Split, Yerbaé is authorized to issue an aggregate of 39,875,000 voting Yerbaé Shares with a par value of \$0.0001 per voting Yerbaé Share, consisting of:

- 27,115,000 voting Yerbaé Shares with a par value of \$0.0001 per voting Yerbaé Share, of which
  - 17,545,000 shares are designated as “Voting Common Stock – Class A” and
  - 9,570,000 shares are designated as “Voting Common Stock – Class B”, and

2. 12,760,000 non-voting Yerbaé Shares with a par value of \$0.0001 per non-voting Yerbaé Share, of which (a) 3,190,000 shares are designated as “Non-Voting Common Stock – Class D-1”, (b) 3,595,000 shares are designated as “Non-Voting Common Stock – Class D-2”, (c) 1,000,000 shares are designated as “Non-Voting Common Stock – Class D-3”, (d) 849,000 shares are designated as “Non-Voting Common Stock – Class 2020-1”, (e) 4,068,500 shares are designated as “Non-Voting Common Stock – Class 2022-1”, and (f) 57,500 shares remain undesignated.

### **2022 Stock Option Plan**

On April 1, 2022, Yerbaé adopted its current 10% rolling stock option plan (the “**Yerbaé Brands Co. 2022 Stock Option Plan**”). The purpose of Yerbaé Brands Co. 2022 Stock Option Plan is to encourage successful long-term company growth by providing and incentive to key employees to continue in the employ of, and increase their efforts on behalf of, Yerbaé and to strengthen the ability of Yerbaé to attract and retain high-caliber personnel who can make substantial contributions to the long-term success of Yerbaé. Under the Yerbaé Brands Co. 2022 Stock Option Plan, Yerbaé can grant Yerbaé Options to acquire Yerbaé Shares to employees and consultants of Yerbaé and its subsidiary. Directors of Yerbaé are considered “Consultants” under the Yerbaé Brands Co. 2022 Stock Option Plan. For greater certainty, the payment by Yerbaé of a director’s fee shall not be sufficient to constitute “employment” of such director by Yerbaé or its subsidiary.

The Yerbaé Brands Co. 2022 Stock Option Plan is intended to replace and supersede the EAR Plan and all equity appreciation rights under the EAR Plan will be converted into stock option rights under the Yerbaé Brands Co. 2022 Stock Option Plan. As of the date of this MD&A, no such conversions have taken place and both plans exist concurrently.

### **Capital Asset Promissory Note**

On April 18, 2022, Yerbaé granted a promissory note to Capital Asset Investments LLC in the principal amount of \$500,000 (the “CA Promissory Note”). The note bears 8% interest, and the principal and accrued interest are due on October 18, 2022 in one payment of \$520,336.31. The CA Promissory Note is secured by all Yerbaé assets.

### **Arrangement Agreement**

On May 19, 2022, Yerbaé entered into a definitive arrangement agreement and plan of merger with Kona Bay, Kona Bay Technologies (Delaware) Inc., 1362283 B.C. Ltd., Todd Gibson, and Karrie Gibson, related to the proposed merger and business combination of the Company with Kona Bay (the “**Transaction**”). The Transaction is subject to the approval of the TSX Venture Exchange (“**TSX-V**”) and is intended to constitute a reverse takeover (a “**RTO**”) of Kona Bay by Yerbaé as defined in TSX-V Policy 5.2 – *Change of Business and Reverse Takeovers* (“**Policy 5.2**”). The combined company that will result from the completion of the Transaction (the “**Resulting Issuer**”) will be renamed “Yerbaé Brands Co.” or such other name as agreed to by Kona Bay and Yerbaé. Subject to TSX-V approval, the common shares of the Resulting Issuer will trade on the TSX-V under a new trading symbol to be determined by the parties and the Resulting Issuer will be listed on Tier 2 of the TSX-V as an industrial issuer. Further discussion of this Transaction is available in the information circular of Kona Bay, to which this MD&A is attached.

# Yerbae®



## Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following has been prepared for the purposes of providing management’s discussion and analysis (“**MD&A**”) of the consolidated interim financial results of Yerbaé Brands Co. (“**Yerbaé**” or “**the Company**”) for the three and six months ending June 30<sup>th</sup> 2022 and should be read in conjunction with the Company’s reviewed consolidated financial statements for the three and six months ended June 30<sup>th</sup> 2022 and June 30<sup>th</sup> 2021. This MD&A is dated October 12th, 2022. The consolidated interim financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“**IFRS**”) as issued by the International Accounting Standards Board (“**IASB**”). Discrepancies in recalculated amounts or percentages may occur due to rounding. All amounts in this MD&A are expressed in US dollars unless otherwise indicated.

### Note Regarding Forward Looking Statements

This report contains forward-looking statements that reflect our current views about future events. We use the words “anticipate,” “assume,” “believe,” “estimate,” “expect,” “will,” “intend,” “may,” “plan,” “project,” “should,” “could,” “seek,” “designed,” “potential,” “forecast,” “target,” “objective,” “goal,” or the negatives of such terms or other similar expressions. These statements relate to future events or our future financial performance and involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements.

### Business Overview

Yerbaé is an innovative and health-focused beverage company that creates clean functional plant-based products promoting a healthy lifestyle while leaving a cleaner footprint behind us. Yerbaé was the first to mix plant-based ingredients and sparkling water with zero sugar, calories, and carbohydrates to produce an energy seltzer that performs without compromise.

Yerbaé was founded by Todd and Karrie Gibson in 2016 to create plant-based energy drinks containing non-GMO white tea and Yerba Mate, a South American herb and a natural source of caffeine that is sustainably sourced from Brazil and other growing regions in South America. Yerbaé’s first beverage was launched in the first quarter of 2017 and in stores by the fall of 2017. Yerbaé is engaged in the development, marketing, sale, and distribution of plant-based energy beverages.

Yerbaé beverages are created to provide products targeted at consumers seeking healthier beverages as an alternative to traditional energy drinks and focused on health, wellness, and fitness. The products are formulated to provide a more refreshing taste than coffee, with additional benefits to existing sodas and sparkling waters, along with healthier ingredients than traditional energy drinks. Yerbaé’s products complement a variety of healthy lifestyles and diets, such as non-GMO, Keto, Vegan, Kosher, Paleo and gluten-free diets. As of June 30<sup>th</sup>, 2022, Yerbaé’s products are sold and available on Amazon.com, www.yerbae.com and sold in over 10,000 retail locations in the US marketplace.

## Corporate Information

Yerbaé Brands Co. was incorporated under Delaware General Corporate Law on August 21, 2020. Since 2016, Yerbaé's wholly owned subsidiary, Yerbaé LLC, a Delaware limited liability company, has conducted the business of Yerbaé. At the time of Yerbaé's incorporation, all of the equity owners of Yerbaé LLC contributed their interests of Yerbaé LLC for capital stock of Yerbaé. Yerbaé LLC continues as Yerbaé's wholly owned operating subsidiary. Yerbaé's head office is located at 18801 N. Thompson Peak Parkway, Suite D-380, Scottsdale, Arizona 85255. Its registered office is Corporation Trust Center, 1209 Orange Street, Wilmington, County of New Castle, Delaware 19801, and its website is [www.yerbae.com](http://www.yerbae.com). **Yerbaé** is a registered trademark of the Company in the United States.

## Intercorporate Relationships

The following table describes Yerbaé's subsidiaries, their place of incorporation, continuance or formation, and the percentage of the outstanding voting securities beneficially owned, controlled, or directed by Yerbaé:

Name of Subsidiary	Percentage of Voting Securities Owned	Jurisdiction of Incorporation or Continuance
Yerbaé LLC	100%	Delaware

Yerbaé has one wholly-owned subsidiary, Yerbaé LLC. Yerbaé LLC is organized under the State of Delaware Limited Liability Company Act.

## General Development of the Business

Yerbaé is a beverage manufacturer and marketing company that produces products for the consumer-packaged goods industry. Yerbaé was originally founded as Yerbaé LLC, owned by the current ownership group, in 2016. In August 2020, Yerbaé Brands Co. was incorporated as a C-Corp in Delaware and became the parent company to Yerbaé LLC, the subsidiary business. Yerbaé owns all interests in Yerbaé LLC and has continued operations of the business.

## Operations

Yerbaé's operations team and headquarters are based in Scottsdale, Arizona. As at the date of the MD&A, Yerbaé has 20 employees. Yerbaé develops, markets, sells, and distributes plant-based energy drinks. Yerbaé does not directly manufacture its beverages, but instead outsources the manufacturing process to established third-party co-packers. Yerbaé sources and provides its co-packers and production partners with Yerbaé's recipes, ingredient blends, flavors, cans, and other raw materials to produce Yerbaé's beverages. All raw materials are sourced by Yerbaé at fair market pricing.

Yerbaé does not own any property, office space, storage space, bottling facilities, or retail spaces. Yerbaé leases current office space in Scottsdale, Arizona. Although Yerbaé's business is not cyclical, seasonality is typical in the beverage industry. Yerbaé produces and sells its products throughout the entire year with the peak sales volumes generally occurring in the second and



third quarters, which may vary due to sales initiatives and marketing opportunities from quarter to quarter.

Yerbaé products are only sold in the United States at this time.

## Market

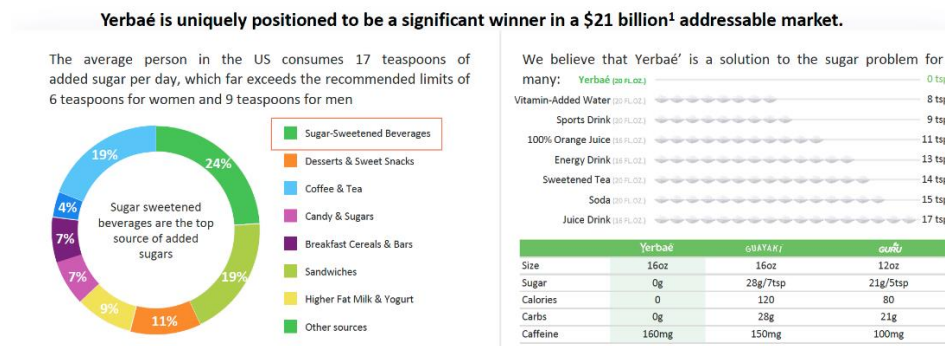
Yerbaé competes in a large and fast-growing market that is driven by an increased demand for energy drinks with a diverse nutritional profile and an increased adoption of healthy lifestyles after the pandemic. The energy-drink industry is a \$15 billion industry today, and it represents the fastest growing category within the nonalcoholic beverage space, rapidly gaining share from soft drinks and juices. Over the last year, the energy drink category has seen 8% sales growth compared to 2.8% for all beverages. The U.S. energy drink industry is estimated to reach US\$21 billion in sales by 2026, reflecting a 7% compound annual growth rate.<sup>1</sup>

<sup>1</sup>According to Research and Markets, the US energy drink market is expected to grow at a CAGR of 7% from 2022-2026, ultimately surpassing 21 billion. According to Fior Markets, the global functional beverage market is expected to grow at a 7.1% CAGR from 2021-2028, ultimately surpassing \$217 billion. Source: IFIC, UK's Food Standards Agency, FoodDive, Euromonitor International

## The Market Opportunity

Many consumers are looking for zero sugar in their beverages. Yerbaé is uniquely positioned to be a significant player in the \$21 billion addressable market for zero and low sugar beverages.

### SUGAR SWEETENED BEVERAGES HAVE BECOME A REAL PROBLEM – AND CONSUMERS ARE LOOKING FOR ZERO SUGAR IN THEIR BEVERAGES.



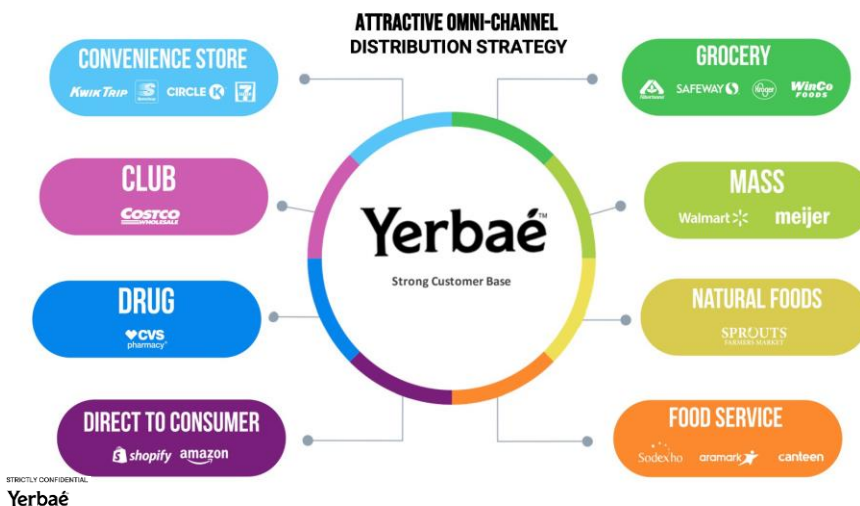
## Strategy

Yerbaé's products were created and formulated with five key pillars in mind:

1. Plant Power – Utilizes the power of plants as the source of energy.
2. Anti-Inflammation – Created without sugar, calories, and carbohydrates or other inflammatory ingredients to meet consumer demands.
3. Diet Friendly – Gluten-free and compliant with modern diets such as Keto, Paleo, Vegan and many more.

4. Sustainability – Deliver a product that is rooted in sustainability. Yerbaé believes in recyclability and the positive impacts that accompany sustainable packaging decisions; and
5. Taste – The most important attribute is that the product must taste delicious.

With a strong track record of proven success, the Company’s sales and marketing team uses an omni-channel approach in order to bring its products to consumers based on where and how they shop for beverages in the US marketplace.



## Overall Performance

### 2022 Overview

For the six months ending June 30th, 2022, Yerbaé increased its distribution channels to over 10,000 retail locations with the late second-quarter expansion in one of the US largest grocery chains. Yerbaé experienced 93% growth in sales the e-commerce channel, over the same period in 2021. Yerbaé’s net revenue was down 6% in 2022, mainly due to retail contract timing, and significant labor and logistic constraints experienced by retailers, distributors and others during this period. In June 2022, Yerbaé was approved to execute sampling programs in a major club chain in the US, which gave the Company an opportunity to educate and sample to over 80,000 new customers. The product was a success with the members of the clubs and earned Yerbaé expansion into additional club stores in the second half of 2022. As another notable event, Yerbaé was the title beverage of Wodapalooza, one of CrossFit’s largest events, where Yerbaé received a great deal of publicity both digitally and in person with over 50,000 attendees and live streamed on Youtube.

Yerbaé passed along a cost of goods increase to its distributors/retailers to encompass the 17% increase in raw materials as well as cost increased due to fuel and freight costs in Q2 of 2022.

In the six months ended June 30, 2022, Yerbaé paid \$197,683 in professional fees, and approximate 160% increase over professional fee expenditures in this period in 2021. This increase is due to one-time expenditures of legal and audit fees associated with Yerbaé’s pending business combination transaction with Kona Bay Technologies Inc. (“Kona Bay”).



## 2022 – First Two Quarters Highlights

### Arrangement Agreement

On May 19, 2022, Yerbaé entered into a definitive arrangement agreement and plan of merger with Kona Bay, Kona Bay Technologies (Delaware) Inc., 1362283 B.C. Ltd., Todd Gibson, and Karrie Gibson, related to the proposed merger and business combination of the Company with Kona Bay (the “**Transaction**”). The Transaction is subject to the approval of the TSX Venture Exchange (“**TSX-V**”) and is intended to constitute a reverse takeover (a “**RTO**”) of Kona Bay by Yerbaé as defined in TSX-V Policy 5.2 – *Change of Business and Reverse Takeovers* (“Policy 5.2”). The combined company that will result from the completion of the Transaction (the “**Resulting Issuer**”) will be renamed “Yerbaé Brands Co.” or such other name as agreed to by Kona Bay and Yerbaé. Subject to TSX-V approval, the common shares of the Resulting Issuer will trade on the TSX-V under a new trading symbol to be determined by the parties and the Resulting Issuer will be listed on Tier 2 of the TSX-V as an industrial issuer.

Further discussion of this Transaction is available in the information circular of Kona Bay, to which this MD&A is attached.

### Bridge Loan

Yerbaé issued convertible promissory notes (the “**Convertible Promissory Notes**”) in the aggregate principal amount of \$3,000,000 in connection with a bridge loan, comprising of a convertible promissory note in the principal amount of \$1,000,000 on February 10, 2022 and a second convertible promissory note in the principal amount of \$2,000,000 on May 29, 2022, both to Klutch Financial Corp.

The Convertible Promissory Notes have an interest rate of 8% per year, calculated annually, and will be payable on the earlier of (a) the date that is 12 months from the issue date or (b) the date of conversion in full of the outstanding and unpaid principal amount, together with all accrued but unpaid interest under the Convertible Promissory Notes. The Convertible Promissory Notes are convertible into Units of Yerbaé (the “**Yerbaé Units**”) at a conversion price of \$0.68 per Yerbaé Unit: (a) automatically upon the occurrence of a liquidity event (as such term is defined in the Convertible Promissory Notes); or (b) at the sole discretion of the holder, upon maturity. Each Yerbaé Unit consists of one Voting Common Stock – Class A Yerbaé Share and one Yerbaé Warrant, with each Yerbaé Warrant entitling the holder thereof to purchase one additional Yerbaé Share at a price of US\$0.85 per Yerbaé Share for a period of 3 years. It is intended that 4,411,764 Yerbaé Units will be issued Klutch upon the automatic conversion of the Convertible Promissory Notes concurrent to the closing of the Transaction.

Further discussion of the Convertible Promissory Notes is available in the information circular of Kona Bay Technologies Inc. to which this MD&A is attached.

### Settlement Agreement

On April 11, 2022, Yerbaé, Todd Gibson, as trustee for the Todd L. Gibson Trust, Karrie Gibson, as trustee for the Karrie L. Gibson Trust, Capital Asset Investments LLC, Canal Yerbaé LLC, Krey Investments LLC, Harbor Investments LLC, BEA Investments LLC, and certain shareholders holding Class B non-voting Yerbaé Shares and Class D non-voting Yerbaé Shares. The purposes of this agreement pertained to the termination of all outstanding shareholders' agreements, side letters and any and all claims or understanding regarding the foregoing parties. Under this agreement, on closing of the Transaction with Kona Bay, Todd and Karrie Gibson will each transfer 1,162,803 Voting Common – Class A Yerbaé Shares, to other shareholders in the following denominations of common shares of the resulting issuer:

Capital Assets Investments LLC	423,219
Canal Yerbaé LLC	841,467
Krey Investments LLC	849,924
Harbor Investments LLC	84,308
BEA Investments LLC	126,688

### Stock Split

On April 26, 2022, Yerbaé completed a forward stock split of Yerbaé Shares whereby each one Yerbaé Share became 1.595 Yerbaé Shares. Yerbaé's certificate of incorporation was amended and restated on April 26, 2022, to effect the Yerbaé Stock Split.

### Further Highlights – Q2

- Total net revenues increased 19.5% compared to the same quarter in 2021, from \$1.45 million to \$1.85 million.
- Gross profit increased from \$922,443 in the second quarter of 2021, to \$1.27 million in the second quarter of 2022.
- Net loss increased from \$717,208 in the second quarter of 2021, to \$1.78 million in the second quarter of 2022. This increase in net loss is mainly attributable to increases in marketing and payroll expenditures.

### Further Highlights- Year to Date

- Yerbaé had E-commerce growth of 93% as compared to the same period in 2021.
- Yerbaé had direct store delivery growth of 12% as compared to the same period in 2021.
- Gross profit increased to \$2.28 million compared to \$2.09 million in the six month period ended June 30, 2021.
- Gross margin was 68% compared to 58% in the six month period ended June 30, 2021.
- The Company launched a digital marketing campaign to increase customers and accomplished an increase of 18,000 new customers through Yerbaé's e-commerce site, in the first 6 months of 2022.
- Yerbaé made great inroads with the CrossFit community, a highly loyal and affluent audience aligned with Yerbaé's approach to wellness first living.
- The Company built a base of Star-Studded CrossFit Athlete Ambassadors in 2022



## COVID-19

The COVID-19 pandemic has caused significant financial market and social dislocation, with cities and countries around the world responding in various ways to mitigate its impact and curb its spread, impacting businesses and consumers. The pandemic continues to impact the Company and its operations since its onset in the spring of 2020 and it remains difficult to predict how the ongoing pandemic will impact the Company's future business, operations, and financial performance. The Company continues to monitor the situation closely while assessing any potential impact on its operations and to avoid disruptions in customer supply.

## INTERIM MD&A – QUARTERLY HIGHLIGHTS

The following table sets forth the three-month and six-month periods ended June 30<sup>th</sup>, 2022.

### 2022 SELECTED FINANCIAL INFORMATION

For the three-month and six-month periods ended June 30th, 2022 and 2021 <i>(In thousands of US dollars, except per share data)</i>	Three-month period ended				Six-month period ended			
	June 30th, 2022		June 30th, 2021		June 30th, 2022		June 30th, 2021	
	\$	% of Revenue	\$	% of Revenue	\$	% of Revenue	\$	% of Revenue
<b>Net Revenue</b>	<b>\$1,849</b>	<b>100%</b>	<b>\$1,546</b>	<b>100%</b>	<b>\$3,380</b>	<b>100%</b>	<b>\$3,599</b>	<b>100%</b>
Cost of Goods Sold	\$579	31%	\$624	40%	\$1,098	32%	\$1,509	42%
<b>Gross Profit</b>	<b>\$1,270</b>	<b>69%</b>	<b>\$922</b>	<b>60%</b>	<b>\$2,282</b>	<b>68%</b>	<b>\$2,090</b>	<b>58%</b>
Selling, general and administrative expenses	\$3,051	165%	\$1,639	106%	\$5,540	164%	\$3,360	93%
Net other (income)/expenses	\$37	2%	\$57	4%	\$64	2%	\$76	2%
<b>Loss before income taxes</b>	<b>(\$1,818)</b>	<b>-98%</b>	<b>(\$774)</b>	<b>-50%</b>	<b>(\$3,322)</b>	<b>-98%</b>	<b>(\$1,346)</b>	<b>-37%</b>
Income taxes	\$0	0%	\$0	0%	\$0	0%	\$0	0%
<b>Net loss</b>	<b>(\$1,818)</b>	<b>-98%</b>	<b>(\$774)</b>	<b>-50%</b>	<b>(\$3,322)</b>	<b>-98%</b>	<b>(\$1,346)</b>	<b>-37%</b>
Basic and diluted loss per share	(\$0.06)		(\$0.03)		(\$0.11)		(\$0.05)	
<b>total shares</b>	<b>29,383,383</b>		<b>29,043,566</b>		<b>29,383,383</b>		<b>29,043,566</b>	

\*Earnings per share calculation have been adjusted for comparison purposes for June 30th, 2021 to reflect stock split that occurred in 2022

### 2022 Total Assets

### Six-month period ended

<i>(In thousands of US dollars)</i>	June 30th, 2022	June 30th, 2021
	\$	\$
<b>Total Assets</b>	<b>\$3,001</b>	<b>\$4,226</b>

## RESULTS OF OPERATIONS

### Net Revenue

Yerbaé was down in net revenue 6% in 2022, mainly due to retail contract timing, and a significant labor and logistic constraints experienced by retailers, distributors and others during this period. Net revenue decreased by 6% to \$3.38 million in 2022, compared to \$3.60 million in 2021.

### **Gross Profit and Margin**

While sales decrease by 6%, gross profit increased to \$2.28 million in 2022, compared to \$2.09 million in 2021. Yerbaé's gross margin increased to 68% of net revenue compared to 58% in 2021. This increase in the Company's gross margin was due to the change in the Company's price to distribution and increased volume in same-store sales.

### **Selling, general and administrative expenses**

Selling, general and administrative expenses ("SG&A") include operational, sales, marketing, and administration costs. These expenses for 2022 were approximately \$5.5 million, compared to SG&A of \$3.3 million in 2021. Selling and marketing expenses accounted for \$3.3 million for the six months ended June 30, 2022 as compared \$1.8 million in SG&A in the same period in 2021, representing an 83% increase. This increase is mainly due to both general and fitness-sector targeted brand awareness campaigns.

### **Net income/(loss)**

The Company generated a net financial loss of (\$3.32) million in the 1<sup>st</sup> half of 2022, compared to (\$1.35) million in loss for the same period a year ago. The Company made several significant investments in marketing and hiring efforts during this period. For example, Total advertising expense was \$2,261,220 and \$1,105,408 for the six months ended June 30, 2022 and 2021, respectively.

### **Income taxes**

Yerbaé Brands Co. was incorporated under Delaware General Corporate Law on August 21, 2020, and prior to that date the Company elected to be taxed as a partnership and was not directly subject to federal or state income taxes under the provision of the IRS code and applicable state statutes. The Company had available on June 30<sup>th</sup>, 2022, unused operation loss carryforwards of (\$2.1 million), which can be carried forward indefinitely and may provide future tax benefits. The Company recorded a valuation allowance against loss carryforwards of (\$2.1 million) during the six months ended June 30<sup>th</sup>, 2022. The Company has provided the allowances because it is more-likely-then-not that a substantial portion of the assets will not be realized.

### **Capital transactions**

On February 2, 2022, Yerbaé issued 29,535 Non-Voting Common Stock – Class D-2 Yerbaé Shares, to an accredited investor to raise an aggregate of \$20,000.

## **LIQUIDITY AND CAPITAL RESOURCES**

### **Capital Management**

The Company's objective in managing its capital is to ensure sufficient liquidity to finance its operations, maximize the preservation of capital and deliver competitive returns on invested capital. To fund its activities, the Company has relied on private placement financings completed in prior years, its line of credit agreement, the Convertible Promissory Notes, and its short-term

promissory note with Capital Asset Investments LLC, which line of credit and promissory note are further described under “*Credit Facilities*” below. The Company manages its excess cash to ensure that it has sufficient reserves to fund its operations and capital expenditures.

During the first half of the year in 2022, the Company had received strong feedback from the retailers with an increase in the number of stores Yerbaé products are carried in at one of the largest grocery chains in North America, as well as an increased distribution commitment from the wholesale club channel for 2022.

## Cash Flows

2022 Cash Flows	Six-month period ended	
	June 30th, 2022	June 30th, 2021
	US\$	US\$
Cash flow used in operating activities	(\$3,688,980)	(\$2,835,084)
Cash flow (used in) from financing activities	\$4,330,027	\$4,625,866
Cash flow used in investing activities	(\$54,437)	\$0
(Decrease) Increase in cash and cash equivalents	\$586,610	\$1,790,782
Cash and cash equivalents, beginning of period	\$347,806	\$239,267
Cash and cash equivalents, end of period	\$934,416	\$2,030,049

### Cash flow used in operating activities

In the first six months of 2022, operating activities used cash of (\$3.69M) million compared to (\$2.84M) for the same period for the prior year. The increase in mid-year 2022 is due to an increase in marketing promotions, and increased cost of raw materials, and increased professional fees.

### Cash flow used in financing activities

Financing activities generated cash flow of \$4.3 million in the six-month period ended June 30th, 2022, compared to generating cash flow of \$3.5 million for the same period prior year. The increase in 2022 was mainly due to the Bridge Loan.

### Cash flow used in investing activities

Yerbaé incurred \$54,437 capital equipment expenditures in 2022 in the form of marketing vehicles.

### Credit Facilities

On January 1<sup>st</sup>, 2022, the Company renewed the line of credit agreement with their line of credit provider, Ampla, formerly known as Gourmet Growth LLC. Under the line of credit agreement, Ampla will advance funds to Yerbaé for inventory production runs of up to \$3.5 million, for an advance of 0.5% of the invoice. Ampla charges interest of 1% per month on all outstanding invoices. As of June 30<sup>th</sup>, 2022 the outstanding balance on the line of credit was \$1,150,159. This line of credit is unsecured and has no fixed repayment terms.

As of October 10, 2020, the Company has a note repayable to the USA Small Business Association, secured by all assets of the Company and due July 2050, payable in monthly principal and interest payments of \$731. The interest on this note is 3.75% and the first monthly installment is due October 2022.

On April 18, 2022, Yerbaé granted a promissory note to Capital Asset Investments LLC in the principal amount of \$500,000 (the “CA Promissory Note”). The note bears 8% interest, and the principal and accrued interest are due on October 18, 2022 in one payment of \$520,336.31. The CA Promissory Note is secured by all Yerbaé assets.

## FINANCIAL POSITION

The following table shows the main variances that have occurred in the Company’s financial position as of June 30<sup>th</sup> 2022.

### 2022 FINANCIAL POSITION

	Six-month period ended			Significant Contributions
	June 30th, 2022	June 30th, 2021	Variance	
	US\$	US\$	US\$	
Cash and cash equivalents	\$934,416	\$2,030,049	(\$1,095,633)	investments in working capital, people expansion and marketing initiatives
Accounts Receivable	\$795,720	\$1,538,414	(\$742,694)	1 time extended terms on large 2021 order
Inventories	\$860,051	\$640,522	\$219,529	building inventory for the Summer
Short Term Liabilities	\$6,420,342	\$2,037,626	\$4,382,716	\$3M convertible note, \$500k short term loan, increase on inventory LOC
Long Term Liabilities	\$300,753	\$150,000	\$150,753	Purchased company vehicles for operations

## DIVIDEND POLICY

The Company has not paid dividends on its common shares since incorporation. The Company’s current policy is to retain future earnings to finance its growth. Any future determination to pay dividends will be made at the discretion of the Company’s Board of Directors and will depend on the Company’s financial condition, results of operations, capital requirements and other such factors as the Board of Directors may deem relevant.

## SELECTED QUARTERLY INFORMATION

The table below presents selected quarterly financial information by quarter:

Quarterly P&L								
	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021	Q4 2020	Q3 2020
Net Revenue	\$1,849,418	\$1,530,433	\$1,053,576	\$1,391,565	\$1,546,285	\$2,053,029	\$967,080	\$1,187,376
Gross Profit	\$1,270,460	\$1,011,150	\$587,803	\$942,530	\$922,444	\$1,167,955	\$555,853	\$756,056
Net Loss	(\$1,817,689)	(\$1,505,863)	(\$1,526,732)	(\$999,411)	(\$707,536)	(\$572,439)	(\$305,572)	(\$658,277)
Basic & Diluted loss per share	(\$0.06)	(\$0.05)	(\$0.05)	(\$0.03)	(\$0.02)	(\$0.02)	(\$0.01)	(\$0.03)
shares	29,383,383	29,353,848	29,354,431	29,043,566	29,043,566	24,051,496	24,051,496	24,051,496
<i>*Earnings per share calculation in prior quarters have been adjusted for comparison purposes to reflect stock split that occurred in 2022</i>								
shares	29,383,383	29,353,848	29,354,431	29,043,566	29,043,566	24,051,496	24,051,496	24,051,496

## Factors affecting the variability of quarterly results

There are quarter-over-quarter variations in net revenue that are caused by seasonality as well as sales and marketing campaigns.

## TRENDS AND SEASONALITY

Yerbaé experiences seasonality and the peak beverage consumption periods are in Q2 and Q3, therefore Yerbaé’s sales are generally higher in these 2 quarters due to seasonality in the US. However, this will vary from time to time due to marketing campaigns, new product introductions, and/or other factors and company initiatives.

## FINANCIAL INSTRUMENTS

### Liquidity Risk

Liquidity risk is the Company's ability to meet its financial obligations when they come due. The Company is exposed to liquidity risk with respect to its contractual obligations and financial liabilities. It manages liquidity risk by continuously monitoring forecast and actual cash flows and matching maturity profiles of financial assets and liabilities, with the objective of maintaining a balance between continuity of funding and flexibility through borrowing facilities available through its bank and other lenders.

The Company's policy is to ensure that it has adequate funding available from operations and other sources as required. The following are the contractual maturities of the Company's financial obligations, including principal and interest, as of June 30<sup>th</sup> 2022:

Liquidity Risk					
	Carrying Amount	Contractual Cash Flow	0 to 12 Months	13 to 24 Months	Thereafter
Accounts Payable	\$1,128,551	\$1,128,551	\$1,128,551	\$0	\$0
Accrued Expenses	\$586,530	\$586,530	\$586,530	\$0	\$0
Due to LOC	\$1,150,159	\$1,150,159	\$1,150,159	\$0	\$0
Note Payable	\$3,855,855	\$3,855,855	\$3,555,102	\$61,806	\$238,947
<b>Total</b>	<b>\$6,721,095</b>	<b>\$6,721,095</b>	<b>\$6,420,342</b>	<b>\$61,806</b>	<b>\$238,947</b>

### Credit Risk

Credit risk is the risk that counter party will not meet its obligations under the financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk from its operating activities (preliminary accounts receivable) and from its financing activities, including deposits with banks and financial institutions. The Company places its cash with high credit quality financial institutions, which are federally insured up to prescribed limits. At certain times, the amount of cash equivalents at any one institution may exceed the federally insured prescribed limits; however, no losses have incurred to date.

### Market Risk

Market risk is the risk that changes in market prices, such as equity prices, foreign exchange rates and interest rates will affect the Company's income or the value of its financial instruments. Interest rate risk is the risk that the fair value or future cash flows of financial instruments will fluctuate as market interest rates change. The Company is exposed to interest rate risks on its CA Promissory Note, and Convertible Promissory Notes, which all carry a fixed annual interest rate of 8%.

### Capital Management

The Company's objective when managing capital is to use short-term funding sources to manage its working capital requirements and fund expenditures required to execute its operating and strategic plans. The Company is not subject to any capital requirements imposed by regulators or creditors.

## OFF-BALANCE SHEET ARRANGEMENTS

The Company does not currently have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on its financial position, changes in net



revenues or expenses, results of operations, liquidity or capital resources that are material, other than those outlined below.

- a) Yerbaé’s office lease with SmartRent Technologies Inc., under which the Company paid a monthly rental fee of \$8,293 during the six months period ended June 2022. Total amounts paid for rent amounted to \$32,450 and \$59,566 for the six months ended June 30, 2022 and 2021, respectively.
- b) The company has recognized slotting fees of \$158,000 for the first six months of 2022 with a total off-balance sheet remaining obligation of \$331,000. Yerbaé expects to pay this outstanding amount monthly, to be fully paid by April 2023. The slotting fees are payments to retailers to place Yerbaé products on retail shelves, in order to establish sales performance at those retail locations.

### SEGMENT REPORTING

The Company’s principal business is product sales, developing, marketing, selling, and distributing Yerbaé branded products. This is the Company’s only reportable segment.

### RELATED PARTY TRANSACTIONS

#### Key Management Personnel

Key management personnel include the members of the Board, as well as the Chief Executive Officer, Chief Operating Officer, and Chief Financial Officer. The following table presents the compensation of key management personnel recognized in net loss:

2022 Key Management Personnel	six-month period ended	
	June 30th, 2022	June 30th, 2021
	\$	\$
Key Management Personnel Salary Paid	\$335,000	\$262,500

#### Related-Party Transactions

Related parties of the Company include key management personnel, their family members, and companies over which they have significant influence or control. For the six-month period ended June 30<sup>th</sup>, 2022, the Transaction with Kona Bay and the Share Settlement both constitute related-party transactions.

Pursuant to the Transaction, both Todd Gibson (CEO) and Karrie Gibson (COO) will receive 2,500,000 performance shares in the resulting issuer, to be granted if the resulting issuer achieves certain performance criteria.

Pursuant to the Share Settlement, both Todd Gibson (CEO) and Karrie Gibson (COO) will enter into share transactions, on the closing of the Transaction with Kona Bay, where they each provide certain shareholders 1,162,803 of their Voting Common -Class A Yerbaé shares, to be transferred into resulting issuer common shares, in exchange for a release of all claims.

### SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS



The preparation of the consolidated interim financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, net revenues, and expenses. Actual results may differ from these estimates. Please refer to note 2 in the audited financial statement report for further details.

## STOCK-BASED COMPENSATION

Yerbaé has an Equity Appreciation Rights plan dated May 1, 2017 with certain employees. During the year ended December 31, 2018, the Company entered into an equity appreciation rights plan with certain employees. Under the plan, individuals earn compensation based on the excess of the current fair market values per share of the Company over the fair market values per share of the Company in the year the rights were awarded. These fair value estimates have been based on an agreed upon Company valuation model, as detailed in the Equity Appreciation Rights Plan. At June 30th, 2022 and 2019, the equity appreciation rights carried a \$1.14 value. At December 31, 2020, cumulative compensation expense was recorded in the amount of \$178,980, which is included in operating expenses with a corresponding increase to accrued expenses. The rights vest over graded vesting schedules ranging three to five years and are settled in cash. During the years ended December 31, 2021 and 2020, \$285,000 and \$235,000, respectively, of additional rights were granted to certain employees. As of December 31, 2020 and 2019, there was \$731,190 and \$619,970, respectively, of unrecognized compensation expense related to nonvested rights which will be recognized over the remaining vesting period. The weighted average remaining vesting period, in years, is 2.54 and 2.79 as of December 31, 2020 and 2019, respectively.

Yerbaé adopted its current 10% rolling stock option plan on April 1, 2022 (the “**Yerbaé Brands Co. 2022 Stock Option Plan**”). The purpose of Yerbaé Brands Co. 2022 Stock Option Plan is to encourage successful long-term company growth by providing and incentive to key employees to continue in the employ of, and increase their efforts on behalf of, Yerbaé and to strengthen the ability of Yerbaé to attract and retain high-caliber personnel who can make substantial contributions to the long-term success of Yerbaé. Under the Yerbaé Brands Co. 2022 Stock Option Plan, Yerbaé can grant Yerbaé Options to acquire Yerbaé Shares to employees and consultants of Yerbaé and its subsidiary. Directors of Yerbaé are considered “Consultants” under the Yerbaé Brands Co. 2022 Stock Option Plan. For greater certainty, the payment by Yerbaé of a director’s fee shall not be sufficient to constitute “employment” of such director by Yerbaé or its subsidiary.

The Yerbaé Brands Co. 2022 Stock Option Plan is intended to replace and supersede the EAR Plan and all equity appreciation rights under the EAR Plan will be converted into stock option rights under the Yerbaé Brands Co. 2022 Stock Option Plan. As of the date of this MD&A, no such conversions have taken place and both plans exist concurrently.

## OUTSTANDING SHARE DATA

## Outstanding Share Data

	As of June 30th, 2022
Class A	14,300,402
Class B	8,754,027
Class D-1	1,909,605
Class D-2	3,571,382
2020-1	847,967
<b>Fully Diluted Shares</b>	<b>29,383,383</b>

## Stock Split

On April 26, 2022, Yerbaé completed the forward stock split whereby each Yerbaé Share became 1.595 Yerbaé Shares. Please see “2022 - First Two Quarter Highlights”.

Following the Yerbaé Stock Split, Yerbaé is authorized to issue an aggregate of 39,875,000 voting Yerbaé Shares with a par value of \$0.0001 per voting Yerbaé Share, consisting of:

- 27,115,000 voting Yerbaé Shares with a par value of \$0.0001 per voting Yerbaé Share, of which (a) 17,545,000 shares are designated as “Voting Common Stock – Class A” and (b) 9,570,000 shares are designated as “Voting Common Stock – Class B”, and
- 12,760,000 non-voting Yerbaé Shares with a par value of \$0.0001 per non-voting Yerbaé Share, of which (a) 3,190,000 shares are designated as “Non-Voting Common Stock – Class D-1”, (b) 3,595,000 shares are designated as “Non-Voting Common Stock – Class D-2”, (c) 1,000,000 shares are designated as “Non-Voting Common Stock – Class D-3”, (d) 849,000 shares are designated as “Non-Voting Common Stock – Class 2020-1”, (e) 4,068,500 shares are designated as “Non-Voting Common Stock – Class 2022-1”, and (f) 57,500 shares remain undesignated.

## OUTSTANDING OPTION DATA

Issuance/grant date	Number of Options	Maturity and Exercise Price
2017-08-07	3,189	\$0.627
2019-10-31	31,899	\$0.627
2019-01-01	31,899	\$0.627
2017-01-01	199,371	\$0.627
2020-03-25	79,748	\$0.627
2018-07-10	159,496	\$0.627
2018-01-22	39,874	\$0.627
2018-06-20	79,748	\$0.627
2019-08-01	79,748	\$0.627
2020-01-01	103,672	\$0.627
2020-03-01	63,798	\$0.627
2019-01-01	3,189	\$0.652
2019-01-01	1,594	\$0.652
2019-01-01	6,379	\$0.652
2019-01-01	4,784	\$0.652
2021-08-16	15,949	\$0.627
2021-10-11	15,949	\$0.953
2021-10-11	15,949	\$0.953

2021-10-25	15,949	\$0.953
2021-10-18	318,993	\$0.953
2021-12-06	15,949	\$0.953
2022-02-28	15,949	\$0.953
2022-02-28	15,949	\$0.953
2022-04-11	15,949	\$0.953
2022-06-06	15,949	\$0.953
2022-06-20	39,874	\$0.953
2022-01-24	15,949	\$0.953

## RISK FACTORS

Please refer to the risk factors described in the “Risk Factors of the Resulting Issuer’s Business” section of Schedule “A” to the information circular of Kona Bay Technologies Inc. to which this MD&A is attached.

## Liquidities

Liquidities is a non-GAAP financial measure. Liquidities are defined as the sum of cash and cash equivalents, and short-term investments. We believe that liquidities are a useful measure of financial condition because they provide an indication of the Company’s available cash resources to support operating activities. Management believes this non-GAAP financial measure, in addition to conventional measures prepared in accordance with IFRS, enable investors to evaluate the Company’s underlying financial condition in a manner similar to management.

These non-GAAP financial measures are not earnings or cash flow measures, or measures of financial condition, recognized by IFRS and don’t have a standardized meaning prescribed by IFRS. Our method of calculating these financial measures may differ from the methods used by other issuers and, accordingly, our definition of these non-GAAP financial measures may not be comparable to similar measures presented by other issuers. Investors are cautioned that non-GAAP financial measures should not be construed as an alternative to net income determined in accordance with IFRS as indicators of our performance or financial condition, or to cash flows from operating activities as measures of liquidity and cash flows.

## SUBSEQUENT EVENTS

On May 20, 2022, Klutch assigned and transferred an aggregate principal amount of US\$1,900,000 of the second convertible promissory note to an arm’s length party to each of Klutch, Kona Bay and Yerbaé.

Following June 30, 2022, Yerbaé issued the following shares, to accredited investors and through crowdfunding, to raise an aggregate of \$929,439.31:

Date Issued	Type of Security	Price or Exercise Price	Number of Securities
September 1, 2022	Yerbaé Shares <sup>(1)</sup>	\$1.37	291,968
September 8, 2022	Yerbaé Shares <sup>(1)</sup>	\$1.37	200,728
September 13, 2022	Yerbaé Shares <sup>(1)</sup>	\$1.37	18,248
September 15, 2022	Yerbaé Shares <sup>(1)</sup>	\$1.37	13,535

Date Issued	Type of Security	Price or Exercise Price	Number of Securities
September 19, 2022	Yerbaé Shares <sup>(2)</sup>	\$1.23	20,325
September 23, 2022	Yerbaé Shares <sup>(2)</sup>	\$1.23	40,650
September 30, 2022	Yerbaé Shares <sup>(3)</sup>	\$1.14	11,028
September 30, 2022	Yerbaé Shares <sup>(3)</sup>	\$1.15	1,048
September 30, 2022	Yerbaé Shares <sup>(3)</sup>	\$1.25	50,286
September 30, 2022	Yerbaé Shares <sup>(3)</sup>	\$1.29	2,514
September 30, 2022	Yerbaé Shares <sup>(3)</sup>	\$1.37	40,895
September 30, 2022	Yerbaé Shares <sup>(4)</sup>	\$1.28	1,981

<sup>(1)</sup> In connection with a financing to accredited investors, Yerbaé issued an aggregate of 524,479 Non-Voting Common Stock – Class D-3 Yerbaé Shares at a price of US\$1.37 per Yerbaé Share for gross proceeds of US\$718,536.52.

<sup>(2)</sup> In connection with a financing to accredited investors, Yerbaé issued an aggregate of 60,975 Non-Voting Common Stock – Class D-1 Yerbaé Shares at a price of US\$1.23 per Yerbaé Share for gross proceeds of US\$75,000.

<sup>(3)</sup> In connection with a crowdfunding financing, Yerbaé issued an aggregate of 105,771 Non-Voting Common Stock - Class 2022-1 Yerbaé Shares for gross proceeds of US\$135,903.83, as to (i) 11,028 Non-Voting Common Stock – Class D-1 Yerbaé Shares at a price of US\$1.14 per Yerbaé Share for aggregate proceeds of US\$12,571.92, (ii) 1,048 Non-Voting Common Stock – Class D-1 Yerbaé Shares at a price of US\$1.15 per Yerbaé Share for aggregate proceeds of US\$1,205.20, (iii) 50,286 Non-Voting Common Stock – Class D-1 Yerbaé Shares at a price of US\$1.25 per Yerbaé Share for aggregate proceeds of US\$62,857.50, (iv) 2,514 Non-Voting Common Stock – Class D-1 Yerbaé Shares at a price of US\$1.29 per Yerbaé Share for aggregate proceeds of US\$3,243.06, and (v) 40,895 Non-Voting Common Stock – Class D-1 Yerbaé Shares at a price of US\$1.37 per Yerbaé Share for aggregate proceeds of US\$56,026.15.

<sup>(4)</sup> In connection with a crowdfunding financing, Yerbaé issued 1,981 Non-Voting Common Stock – Class 2022-1 Yerbaé Shares at a deemed price of US\$1.28 to the crowdfunding platform.

Pursuant to the Transaction all fractional shares previously issued by Yerbaé have been rounded down so as to avoid the issuance of fractional shares, resulting in a total loss of 517 shares from Yerbaé’s previous records.

On August 31, 2022, Kona Bay, Kona Bay Technologies (Delaware) Inc., 1362283 B.C. Ltd., Yerbaé, and Todd and Karrie Gibson entered into an amendment to the Arrangement Agreement, under which amendment the parties agree to exclude all funds raised by Yerbaé from the “Concurrent Financing”, as defined in that agreement, which reduces the number of shares issued under the subscription receipt financing through 1362283 B.C. Ltd.

On September 16, 2022, Yerbaé and Capital Asset Investments LLC amended the promissory note dated April 18, 2022, in the original principal amount of \$500,000, such that the promissory note due date is extended to the earlier of December 31, 2022, or ten days following the listing of Yerbaé on the TSXV.

**SCHEDULE "I"**

**PRO FORMA FINANCIAL STATEMENTS**

*[See attached]*

**KONA BAY TECHNOLOGIES INC.**

Pro Forma Consolidated Financial Statements

June 30, 2022

(Expressed in Canadian dollars)

(unaudited)

## KONA BAY TECHNOLOGIES INC.

Pro Forma Consolidated Statement of Financial Position

As at June 30, 2022

(Expressed in Canadian Dollars)

(unaudited)

	Kona Bay Technologies Inc. June 30, 2022 \$	Yerbaé Brands Co. June 30, 2022 \$	Note 3	Pro Forma Adjustments \$	Pro Forma Consolidated June 30, 2022 \$
<b>Current assets</b>					
Cash	8,089	1,204,088	(a)	100,000	8,930,510
			(b)	1,175,333	
			(d)	5,116,464	
			(e)	1,326,536	
GST receivable	3,096	–		–	3,096
Accounts receivable	–	1,025,365		–	1,025,365
Inventories	–	1,108,262		–	1,108,262
Prepaid expenses	488	191,961		–	192,449
<b>Total current assets</b>	<b>11,673</b>	<b>3,529,676</b>		<b>7,718,333</b>	<b>11,259,682</b>
Property and equipment	–	337,497		–	337,497
<b>Total assets</b>	<b>11,673</b>	<b>3,867,173</b>		<b>7,718,333</b>	<b>11,597,179</b>
<b>Current liabilities</b>					
Accounts payable and accrued liabilities	67,666	2,210,053		–	2,277,719
Current portion of notes payable	–	4,581,104	(f)	(3,865,800)	715,304
Due to Gourmet Growth	–	1,482,095		–	1,482,095
<b>Total current liabilities</b>	<b>67,666</b>	<b>8,273,252</b>		<b>(3,865,800)</b>	<b>4,475,118</b>
Notes payable	–	387,550		–	387,550
<b>Total liabilities</b>	<b>67,666</b>	<b>8,660,802</b>		<b>(3,865,800)</b>	<b>4,862,668</b>
<b>Shareholders' equity (deficit)</b>					
Share capital (Note 4)	3,092,495	6,245,252	(a)	100,000	38,320,522
			(b)	1,175,333	
			(c)	7,851,137	
			(d)	5,116,464	
			(e)	1,326,536	
			(f)	3,865,800	
			(g)	(3,092,495)	
			(h)	12,640,000	
Reserves	108,890	–	(g)	(108,890)	–
Accumulated other comprehensive income	–	82,491		–	82,491
Deficit	(3,257,378)	(11,121,372)	(c)	(7,851,137)	(31,668,502)
			(c)	(55,993)	
			(g)	3,257,378	
			(h)	(12,640,000)	
<b>Total shareholders' equity (deficit)</b>	<b>55,993</b>	<b>(4,793,629)</b>		<b>11,584,133</b>	<b>6,734,511</b>
<b>Total liabilities and shareholders' equity (deficit)</b>	<b>11,673</b>	<b>3,867,173</b>		<b>7,718,333</b>	<b>11,597,179</b>

# KONA BAY TECHNOLOGIES INC.

Notes to the Pro Forma Consolidated Financial Statements

June 30, 2022

(Expressed in Canadian Dollars)

(unaudited)

## 1. Basis of Presentation

The unaudited pro forma consolidated statement of financial position of Kona Bay Technologies Inc. (“Kona Bay”, the “Company”) as at June 30, 2022 has been prepared by management after giving effect to the proposed Transaction (as defined below) among the Company, Kona Bay Technologies (Delaware) Inc. (“Merger Sub”), 1362283 B.C. Ltd. (“FinCo”), Yerbaé Brands Co. (“Yerbaé”), Todd Gibson and Karrie Gibson (Note 2). These unaudited pro forma consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

The pro forma financial information is not intended to reflect the financial position that will exist following the Transaction. Actual amounts recorded when the Transaction closes will likely differ from those recorded in the pro forma financial information. Any potential synergies that may be realized and integration costs that may be incurred upon consummation of the Transaction have been excluded from the pro forma financial information.

The pro forma financial information is presented in Canadian dollars and has been compiled from and includes:

- an unaudited pro forma consolidated statement of financial position as at June 30, 2022, combining the unaudited statement of financial position of the Company as at June 30, 2022, with the unaudited statement of financial position of Yerbaé as at June 30, 2022, giving effect to the Transaction as if it occurred on June 30, 2022.

These pro forma consolidated financial statements do not contain all of the information required for annual financial statements. Accordingly, it should be read in conjunction with the most recent annual and interim financial statements of both the Company and Yerbaé. Based on the review of the accounting policies of Yerbaé, it is the Company’s management’s opinion that there are no material accounting differences between the accounting policies of the Company and Yerbaé.

The pro forma adjustments and allocations of the purchase price of Yerbaé by the Company are based on the fair value of the common shares and share purchase warrants of the Company. The unaudited pro forma financial information is not intended to reflect the financial position of the Company which would have actually resulted had the proposed transaction been effected on the date indicated. The actual pro forma adjustments will depend on a number of factors and could result in a change to the pro forma financial information.

## 2. Proposed Transaction

### *Arrangement Agreement*

On May 19, 2022, Kona Bay entered into an arrangement agreement (the “Arrangement Agreement”) with Yerbaé, a Delaware incorporated naturally caffeinated, zero calorie, plant-based energy beverage company operating out of Scottsdale, Arizona, pursuant to which Kona Bay proposed to acquire all of the issued and outstanding shares of Yerbaé (each, a “Yerbaé Share”) (including any restricted Yerbaé Shares, as applicable) in exchange for the right to receive common shares in the capital of Kona Bay (each, a “Kona Bay Share”) at a 1:1 exchange ratio (the “Exchange Ratio”). Accordingly, the Transaction is to be completed by way of a reverse triangular merger conducted pursuant to (i) the provisions of Delaware General Corporation Law (“DGCL”) in which Merger Sub, a newly incorporated wholly-owned Subsidiary of Kona Bay, will merge with and into Yerbaé (the “Merger”), and (ii) the arrangement (the “Arrangement”) to be conducted under Part 9, Division 5 of the *Business Corporations Act* (British Columbia) (“BCBCA”). The Merger, Arrangement, Concurrent Financing (as defined below) and all other transaction contemplated by the Arrangement Agreement are collectively referred to as the “Transaction”.



## **KONA BAY TECHNOLOGIES INC.**

Notes to the Pro Forma Consolidated Financial Statements

June 30, 2022

(Expressed in Canadian Dollars)

(unaudited)

### **2. Proposed Transaction** (continued)

#### *Concurrent Financing*

In connection with the Transaction, FinCo, a wholly-owned British Columbia subsidiary of the Company, is conducting a non-brokered private placement to raise minimum gross proceeds of US\$5,000,000 (less any amounts raised by Kona Bay, Yerbaé or any affiliates thereof concurrent to the Transaction, excluding the Bridge Loan (as defined below)) (the “Concurrent Financing”) by way of issuance of subscription receipts of FinCo (each, a “FinCo Subscription Receipt”) at a price of US\$1.23 per FinCo Subscription Receipt. Each FinCo Subscription Receipt sold by FinCo will, in accordance with the terms of the certificate representing the FinCo Subscription Receipt, entitle the holder thereof to receive, without payment of any additional consideration and without further action on the part of the holder thereof, one FinCo Share.

#### *The Amalgamation*

After the conversion of all the FinCo Subscription Receipts, in accordance with the terms and conditions of the Arrangement Agreement, and in accordance with the BCBCA, FinCo and Kona Bay or newly formed subsidiary thereof will amalgamate (the “Amalgamation”) and continue as one corporation. In connection with and as a result of the Amalgamation: (a) each FinCo Share (other than any FinCo Shares held by Kona Bay) will be exchanged into one Kona Bay Share and (b) each FinCo Share held by Kona Bay will be automatically cancelled without any payment of capital in respect thereof.

In connection with the closing of the Transaction, the parties expect to pay customary advisory fees to Roth Canada, an eligible arm’s length third party to both Kona Bay and Yerbaé, in accordance with the terms of the Roth Engagement Agreement. Under the terms of an engagement agreement dated September 27, 2021 between Yerbaé and Roth Canada, ULC (the “Roth Engagement Agreement”), Yerbaé shall pay Roth Canada a one-time advisory fee for Roth Canada’s services in facilitating the identification, negotiation and implementation of the Transaction between Kona Bay and Yerbaé equal to 1% of the total resulting public entity, the Resulting Issuer, payable by way of issuance of common shares of the issuer resulting from the Transaction (thereafter, the “Resulting Issuer”). The payment of any finder’s fees to Roth Canada, ULC are subject to the approval of the TSX Venture Exchange (“TSXV”). All Yerbaé Shares or securities exercisable into Yerbaé Shares payable as compensation to Roth Canada, shall be subject to a contractual lock-up which shall restrict all trading in the Yerbaé Shares or underlying Yerbaé Shares following a payable event for not less than 180 days, at which time 50% of the securities shall be free of the lock-up, with the remaining securities remaining subject to the lock-up for an additional 180 days thereafter.

#### *The Merger*

Following the completion of the Amalgamation, Merger Sub and Yerbaé will, in accordance with the DGCL, complete the Merger. Accordingly, the separate corporate existence of Merger Sub will cease and, as a result thereof, Yerbaé will continue its corporate existence under the DGCL as the sole surviving corporation of the Merger (the “Operating Subsidiary”), a subsidiary of Kona Bay. Immediately following the completion of the Merger, each Yerbaé Share outstanding held by a Yerbaé Shareholder will be deemed to have been transferred to, and acquired by Kona Bay in exchange for such number of Kona Bay Shares as is equal to the number of Yerbaé Shares multiplied by the Exchange Ratio. Following this, each issued Yerbaé Share that is owned by Kona Bay or Yerbaé will automatically be cancelled without any payment of capital in respect thereof and each common stock of Merger Sub will be converted into and become one newly issued, fully paid, and non-assessable share of common stock of the Operating Subsidiary.

## **KONA BAY TECHNOLOGIES INC.**

Notes to the Pro Forma Consolidated Financial Statements

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(Expressed in Canadian Dollars)

(unaudited)

### **2. Proposed Transaction** (continued)

In connection with the Merger, each stock option and stock purchase warrant of Yerbaé outstanding immediately prior to the Merger will be exchanged for an equivalent number stock options or share purchase warrants of Kona Bay (each, a “Kona Bay Warrant”), each on the same terms based on the Exchange Ratio.

#### *The Arrangement*

The Arrangement will be effected by way of a court-approved arrangement pursuant to Part 9, Division 5 of the BCBCA. The full terms of the of the Arrangement are contained as a schedule to the Arrangement Agreement.

#### *Share Consolidation*

In connection with closing of the Transaction, the Company intends to consolidate its outstanding Kona Bay Shares on the basis of 5.8 pre-consolidation Kona Bay Shares for every one post-consolidation Kona Bay Share prior to the completion of the Amalgamation (the “Consolidation”).

#### *Approval of the Transaction*

The Transaction is subject to the final approval of the TSXV, and is intended to constitute a reverse takeover (a “RTO”) of Kona Bay by Yerbaé as defined in TSXV Policy 5.2 – *Change of Business and Reverse Takeovers*. For accounting purposes, the Transaction is considered to be outside the scope of IFRS 3 – *Business Combinations* since the Transaction will constitute a RTO rather than a business combination. Accordingly, the acquisition of Kona Bay’s net assets and its TSXV listing by Yerbaé will be accounted for in accordance with IFRS 2 – *Share-based Payment*, due to the fact that Yerbaé will be deemed to have issued shares in exchange for acquiring the net assets of Kona Bay together with its listing status, at the fair value of the consideration deemed to be given up by Yerbaé. Kona Bay received conditional approval of the Transaction by the TSXV on October 31, 2022.

The combined company that will result from the completion of the Transaction will be renamed “Yerbaé Brands Corp.” or such other name as agreed to by Kona Bay and Yerbaé. Subject to TSXV approval, the common shares of the Resulting Issuer will trade on the TSXV under the trading symbol “YERB.U” and the Resulting Issuer will continue to be listed on Tier 2 of the TSXV as an industrial issuer.

The Transaction is an Arm’s Length Transaction and, in connection with the announcement of the Transaction, trading in the Kona Bay Shares were halted on May 20, 2022 and are expected to remain halted until the closing of the Transaction.

### **3. Pro Forma Assumptions and Adjustments**

These pro forma consolidated financial statements include the effects of the following pro forma assumptions:

- (a) The issued and outstanding Kona Bay Shares reflects the Consolidation, whereby Kona Bay will consolidate its common shares on a 5.8-for-1 basis. Yerbaé is deemed to have issued 4,969,074 Yerbaé Shares to acquire Kona Bay on the closing date of the Transaction (which is comprised of 4,637,178 post-Consolidation Kona Shares as at June 30, 2022 and 331,896 post-Consolidation Kona Shares issued subsequent to June 30, 2022 upon the due exercise of 1,925,000 pre-Consolidation Kona Bay Warrants for proceeds of \$100,000).
- (b) The exercise of the outstanding pre-Consolidation 19,008,330 Kona Bay Warrants prior to the closing of the Transaction for proceeds of up to \$1,175,333, which will result in the issuance of up to 3,277,294 post-Consolidation Kona Bay Shares.

## KONA BAY TECHNOLOGIES INC.

Notes to the Pro Forma Consolidated Financial Statements

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### 3. Pro Forma Assumptions and Adjustments (continued)

- (c) Since the share consideration to be allocated to the former shareholders of Kona Bay on closing the Transaction is considered within the scope of IFRS 2, and the Company cannot identify specifically some or all of the goods or service received in return for the allocation of the shares, the value in excess of the net identifiable assets or obligations of Kona Bay acquired on closing is to be expensed in the consolidated statement of operations as listing costs. The Concurrent Financing share price of US\$1.23 was used for the fair value of the shares.

The purchase price is allocated as follows:

	\$
Fair value of Kona Bay shares (4,969,074 common shares at \$1.58 (US\$1.23 per share)) (Note 3(a))	7,851,137
Consideration	7,851,137
Cash	8,089
GST receivable	3,096
Prepaid expenses	488
Accounts payable and accrued liabilities	(67,666)
Net liabilities	(55,993)
Listing costs	7,907,130

- (d) FinCo completes the balance of the Concurrent Financing for anticipated proceeds of \$5,116,464 (US\$3,970,561) for which 3,228,098 common shares of the Resulting Issuer are anticipated to be issued.
- (e) Subsequent to June 30, 2022, Yerbaé has, in connection with the Transaction, issued: (i) an aggregate of 291,968 Non-Voting Common Stock – Class D-3 Yerbaé Shares at a price of US\$1.37 per Yerbaé Share for gross aggregate proceeds of US\$399,996 on September 1, 2022, (ii) an aggregate of 200,728 Non-Voting Common Stock – Class D-3 Yerbaé Shares at a price of US\$1.37 per Yerbaé Share for gross aggregate proceeds of US\$274,998 on September 8, 2022, (iii) an aggregate of 18,248 Non-Voting Common Stock – Class D-3 Yerbaé Shares at a price of US\$1.37 per Yerbaé Share for gross aggregate proceeds of US\$25,000 on September 13, 2022, (iv) an aggregate of 13,535 Non-Voting Common Stock – Class D-3 Yerbaé Shares at a price of US\$1.37 per Yerbaé Share for gross aggregate proceeds of US\$18,543 on September 15, 2022, (v) an aggregate of 20,325 Non-Voting Common Stock – Class D-1 Yerbaé Shares at a price of US\$1.23 per Yerbaé Share for gross aggregate proceeds of US\$25,000 on September 23, 2022, (vi) an aggregate of 40,650 Non-Voting Common Stock – Class D-1 Yerbaé Shares at a price of US\$1.23 per Yerbaé Share for gross aggregate proceeds of US\$50,000 on September 23, 2022, (vii) 81,300 Non-Voting Common Stock – Class D-2 Yerbaé Shares at a price of US\$1.23 per Yerbaé Share for gross proceeds of US\$99,999 on October 19, 2022 and (viii) raised an aggregate of US\$135,904 through the issuance of an aggregate of 107,752 Non-Voting Common Stock – Class D-1 Yerbaé Shares through crowdfunding concurrent to the Transaction as to (A) 11,028 Non-Voting Common Stock – Class 2022-1 Yerbaé Shares at a price of US\$1.14 per Yerbaé Share for aggregate proceeds of US\$12,572, (B) 1,048 Non-Voting Common Stock – Class 2022-1 Yerbaé Shares at a price of US\$1.15 per Yerbaé Share for aggregate proceeds of US\$1,205, (C) 50,286 Non-Voting Common Stock – Class 2022-1 Yerbaé Shares at a price of US\$1.25 per Yerbaé Share for aggregate proceeds of US\$62,858, (D) 2,514 Non-Voting Common Stock – Class 2022-1 Yerbaé Shares at a price of US\$1.29 per Yerbaé Share for aggregate proceeds of US\$3,243, (E) 40,895 Non-Voting Common Stock – Class 2022-1 Yerbaé Shares at a price of US\$1.37 per Yerbaé Share for aggregate proceeds of US\$56,026, and (F) issued 1,981 Non-Voting Common

## KONA BAY TECHNOLOGIES INC.

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### 3. Pro Forma Assumptions and Adjustments (continued)

Stock – Class 2022-1 Yerbaé Shares to the crowdfunding platform for services in connection with Yerbaé’s crowdfunding financing.

- (f) Yerbaé has issued notes payable for proceeds of \$3,865,800 (US\$3,000,000) (together, the “Bridge Loan”). Immediately prior to closing of the Transaction, the principal amount will convert into Yerbaé Shares. These shares will be exchanged for 4,411,764 common shares of the Resulting Issuer.
- (g) Upon closing of the Transaction, the share capital, reserves, and deficit of Kona Bay are eliminated.
- (h) Upon closing of the Transaction, the Company issues 8,000,000 Kona Bay Shares (each, a “Performance Share”) to an arm’s length party and certain shareholders of Yerbaé, which Performance Shares are to be held in escrow and released upon the completion of certain performance-based incentives related to the listing of the Resulting Issuer Shares on the TSXV, future equity financings, and certain trailing gross revenue targets.
- (i) Upon closing of the Transaction, the Company issues 507,662 Kona Bay Shares to Roth Canada, ULC in accordance with the terms of the Roth Engagement Agreement.
- (j) Upon closing of the Transaction, there will be a reduction of 571 Yerbaé Shares due to the elimination of fractional shares associated with Yerbaé’s prior share split.
- (k) The accounts of Yerbaé are denominated in US dollars and were translated to Canadian dollars at the following foreign exchange rates: 1.2886 as at June 30, 2022 for assets and liabilities, the average exchange rate of 1.2715 for the operating results for the six months ended June 30, 2022, and historical average exchange rates for shareholders’ equity.

### 4. Pro Forma Share Capital

After giving effect to the pro forma assumptions and adjustments in Note 3, the issued and fully paid share capital of the Company is as follows:

	Note	Number	Amount \$
Post-Consolidation balance, Kona Bay, June 30, 2022	3(a)	4,637,178	3,092,495
Issued pursuant to exercise of Kona Bay Warrants	3(a)	331,896	100,000
Balance, Yerbaé, June 30, 2022		29,383,383	6,245,252
Elimination of Kona Bay share capital	3(g)	–	(3,092,495)
Issued pursuant to exercise of Kona Bay Warrants	3(b)	3,277,294	1,175,333
Transaction listing costs	3(c)	–	7,851,137
Issued pursuant to Concurrent Financing	3(d)	3,228,098	5,116,464
Issued by Yerbaé in connection with the Concurrent Financing	3(e)	774,506	1,326,536
Issued upon conversion of Yerbaé convertible notes	3(f)	4,411,764	3,865,800
Issued Performance Shares	3(h)	8,000,000	12,640,000
Finder’s fee	3(i)	507,662	–
Adjustment to Yerbaé Shares	3(j)	(571)	–
<b>Pro forma balance, June 30, 2022</b>		<b>54,551,210</b>	<b>38,320,522</b>

## **KONA BAY TECHNOLOGIES INC.**

Notes to the Pro Forma Consolidated Financial Statements

June 30, 2022

(Expressed in Canadian Dollars)

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### **5. Pro Forma Statutory Income Tax Rates**

Kona Bay was incorporated under the Business Corporations Act of British Columbia and has an effective tax rate of 27%. Yerbaé was incorporated in the United States and has an effective tax rate of 26.1%.

**SCHEDULE "J"**

**AUDIT COMMITTEE CHARTER**

*[See attached]*

## SCHEDULE “A”

### KONA BAY TECHNOLOGIES INC. (the “Company”)

#### AUDIT COMMITTEE CHARTER

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(Implemented pursuant to National Instrument 52-110 – *Audit Committees*)

National Instrument 52-110 – *Audit Committees* (the “**Instrument**”) relating to the composition and function of audit committees was implemented for reporting issuers and, accordingly, applies to every TSX Venture Exchange listed company, including the Company. The Instrument requires all affected issuers to have a written audit committee charter which must be disclosed, as stipulated by Form 52-110F2, in the management information circular of the Company wherein management solicits proxies from the security holders of the Company for the purpose of electing directors to the board of directors. The Company, as a TSX Venture Exchange-listed company is, however, exempt from certain requirements of the Instrument.

This Charter has been adopted by the board of directors in order to comply with the Instrument and to more properly define the role of the Committee in the oversight of the financial reporting process of the Company. Nothing in this Charter is intended to restrict the ability of the board of directors or Committee to alter or vary procedures in order to comply more fully with the Instrument, as amended from time to time.

#### **1. Purpose of the Committee**

- 1.1 The purpose of the Audit Committee is to assist the Board of Directors in its oversight of the integrity of the Company’s financial statements and other relevant public disclosures, the Company’s compliance with legal and regulatory requirements relating to financial reporting, the external auditors’ qualifications and independence and the performance of the internal audit function and the external auditors.

#### **2. Members of the Audit Committee**

- 2.1 At least one Member must be “financially literate” as defined under NI 52-110, having sufficient accounting or related financial management expertise to read and understand a set of financial statements, including the related notes, that present a breadth and level of complexity of the accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Company’s financial statements.
- 2.2 The Audit Committee shall consist of no less than three Directors.
- 2.3 At least one Member of the Audit Committee shall be “independent” as defined under NI 52-110, while the Company is in the developmental stage of its business.

#### **3. Relationship with External Auditors**

- 3.1 The external auditors are the independent representatives of the shareholders, but the external auditors are also accountable to the Board of Directors and the Audit Committee.

- 3.2 The external auditors must be able to complete their audit procedures and reviews with professional independence, free from any undue interference from the management or directors.
- 3.3 The Audit Committee must direct and ensure that the management fully co-operates with the external auditors in the course of carrying out their professional duties.
- 3.4 The Audit Committee will have direct communications access at all times with the external auditors.

#### **4. Non-Audit Services**

- 4.1 The external auditors are prohibited from providing any non-audit services to the Company, without the express written consent of the Audit Committee. In determining whether the external auditors will be granted permission to provide non-audit services to the Company, the Audit Committee must consider that the benefits to the Company from the provision of such services, outweighs the risk of any compromise to or loss of the independence of the external auditors in carrying out their auditing mandate.
- 4.2 Notwithstanding section 4.1, the external auditors are prohibited at all times from carrying out any of the following services, while they are appointed the external auditors of the Company:
  - (i) acting as an agent of the Company for the sale of all or substantially all of the undertaking of the Company; and
  - (ii) performing any non-audit consulting work for any director or senior officer of the Company in their personal capacity, but not as a director, officer or insider of any other entity not associated or related to the Company.

#### **5. Appointment of Auditors**

- 5.1 The external auditors will be appointed each year by the shareholders of the Company at the annual general meeting of the shareholders.
- 5.2 The Audit Committee will nominate the external auditors for appointment, such nomination to be approved by the Board of Directors.

#### **6. Evaluation of Auditors**

- 6.1 The Audit Committee will review the performance of the external auditors on at least an annual basis, and notify the Board and the external auditors in writing of any concerns in regards to the performance of the external auditors, or the accounting or auditing methods, procedures, standards, or principles applied by the external auditors, or any other accounting or auditing issues which come to the attention of the Audit Committee.

#### **7. Remuneration of the Auditors**

- 7.1 The remuneration of the external auditors will be determined by the Board of Directors, upon the annual authorization of the shareholders at each general meeting of the shareholders.
- 7.2 The remuneration of the external auditors will be determined based on the time required to complete the audit and preparation of the audited financial statements, and the difficulty of the audit and



performance of the standard auditing procedures under generally accepted auditing standards and generally accepted accounting principles of Canada.

## **8. Termination of the Auditors**

- 8.1 The Audit Committee has the power to terminate the services of the external auditors, with or without the approval of the Board of Directors, acting reasonably.

## **9. Funding of Auditing and Consulting Services**

- 9.1 Auditing expenses will be funded by the Company. The auditors must not perform any other consulting services for the Company, which could impair or interfere with their role as the independent auditors of the Company.

## **10. Role and Responsibilities of the Internal Auditor**

- 10.1 At this time, due to the Company's size and limited financial resources, the Chief Financial Officer of the Company shall be responsible for implementing internal controls and performing the role as the internal auditor to ensure that such controls are adequate.

## **11. Oversight of Internal Controls**

- 11.1 The Audit Committee will have the oversight responsibility for ensuring that the internal controls are implemented and monitored, and that such internal controls are effective.

## **12. Continuous Disclosure Requirements**

- 12.1 At this time, due to the Company's size and limited financial resources, the Chief Financial Officer of the Company is responsible for ensuring that the Company's continuous reporting requirements are met and in compliance with applicable regulatory requirements.

## **13. Other Auditing Matters**

- 13.1 The Audit Committee may meet with the external auditors independently of the management of the Company at any time, acting reasonably.
- 13.2 The Auditors are authorized and directed to respond to all enquiries from the Audit Committee in a thorough and timely fashion, without reporting these enquiries or actions to the Board of Directors or the management of the Company.

## **14. Annual Review**

- 14.1 The Audit Committee Charter will be reviewed annually by the Board of Directors and the Audit Committee to assess the adequacy of this Charter.

## **15. Independent Advisers**

- 15.1 The Audit Committee shall have the power to retain legal, accounting or other advisors to assist the Committee

**SCHEDULE "K"**

**NEW EQUITY INCENTIVE PLAN**

*[See attached]*

**KONA BAY TECHNOLOGIES INC.**  
(the “**Company**”)

**EQUITY INCENTIVE PLAN**

**SECTION 1**  
**ESTABLISHMENT AND PURPOSE OF THIS PLAN**

**1.1 Purpose**

The purpose of this equity incentive plan (the “**Plan**”) is to promote the long-term success of the Company and the creation of shareholder value by: (i) encouraging the attraction and retention of Eligible Persons; (ii) encouraging such Eligible Persons to focus on critical long-term objectives; and (iii) promoting greater alignment of the interests of such Eligible Persons with the interests of the Company.

**SECTION 2**  
**DEFINITIONS**

**2.1 Definitions**

As used in this Plan, the following terms shall have the meanings set forth below:

- (a) “**Award**” means any award of Options, RSUs, PSUs or DSUs granted under this Plan;
- (b) “**Award Agreement**” means any written agreement, contract, or other instrument or document, including an electronic communication, as may from time to time be designated by the Company as evidencing any Award granted under this Plan;
- (c) “**Blackout Period**” means a period of time during which the Company prohibits Participants from exercising, redeeming or settling an Award due to the existence of undisclosed material information and pursuant to a formal notice provided by the Company under a trading policy, which Blackout Period must expire promptly following general disclosure of the undisclosed material information;
- (d) “**Board**” means the board of directors of the Company or, if the context permits, any of its Subsidiaries, as applicable;
- (e) “**Cashless Exercise Right**” has the meaning ascribed thereto in section 5.1(m);
- (f) “**Change of Control**” means the acquisition by any person or by any person and a joint actor, whether directly or indirectly, of voting securities (as such terms are interpreted in the *Securities Act*) of the Company, which, when added to all other voting securities of the Company at the time held by such person or by such person and a person “acting jointly or in concert” with another person, as that phrase is interpreted in National Instrument 62-103, totals for the first time not less than fifty (50%) percent of the outstanding voting securities of the Company or the votes attached to those securities are sufficient, if exercised, to elect a majority of the Board;
- (g) “**Company**” means Kona Bay Technologies Inc., a company incorporated under the *Business Corporations Act* (British Columbia), and any of its successors or assigns;

- (h) **“Consultant”** means a Person (other than a Director, Officer or Employee) that:
- (i) is engaged to provide, on an ongoing *bona fide* basis, consulting, technical, management or other services to the Company or any Subsidiary of the Company, other than services provided in relation to a distribution (as defined in the *Securities Act*);
  - (ii) provides the services under a written contract between the Company or any of its Subsidiaries and the Person, as the case may be; and
  - (iii) in the reasonable opinion of the Company, spends or will spend a significant amount of time on the affairs and business of the Company or any of its Subsidiaries;

and includes:

- (iv) for a Person that is an individual, a corporation of which such individual is the sole shareholder;
- (i) **“Deferred Share Unit”** or **“DSU”** means a right granted to a Participant, as compensation for employment or consulting services or services as a Director or Officer, to receive, for no additional cash consideration, securities of the Company on a deferred basis upon specified vesting criteria being satisfied, all as provided in Section 5.4 hereof and subject to the terms and conditions of this Plan and the applicable Award Agreement, and which may be paid in cash and/or Shares;
- (j) **“Determination Date”** means a date determined by the Board in its sole discretion but not later than 90 days after the expiry of a Performance Cycle;
- (k) **“Director”** means a member of the Company’s Board or the Board of any of its Subsidiaries;
- (l) **“Discounted Market Price”** means the Market Price less the discount set forth below, subject to a minimum price of \$0.10:

<u>Closing Price</u>	<u>Discount</u>
up to \$0.50	25%
\$0.51 to \$2.00	20%
above \$2.00	15%

- (m) **“Disability”** means any medical condition which qualifies a Participant for benefits under a long-term disability plan of the Company or Subsidiary;
- (n) **“Effective Date”** has the meaning ascribed thereto in Section 8;
- (o) **“Election Form”** means the form to be completed by a Director specifying the amount of Fees he or she wishes to receive in DSUs under this Plan;

- (p) **“Eligible Person”**, when used in connection with Options, means Officers, Directors, Employees, Management Company Employees and Consultants of the Company or any of its Subsidiaries but, when used in connection with PSUs, RSUs or DSUs, means only Officers, Directors, Employees, Management Company Employees and Consultants of the Company or any of its Subsidiaries that do not perform Investor Relations Activities;
- (q) **“Employee”** means:
- (i) an individual who is considered an employee of the Company or any of its Subsidiaries under the *Income Tax Act* (Canada) and for whom income tax, employment insurance and Canada Pension Plan deductions must be made at source, or, with respect to U.S. Participants, an individual considered an employee of the Company or any of its Subsidiaries under title 26 of the *Code of Federal Regulations* (26 CFR §31.3401(c)-1), or equivalent legislation in the jurisdiction where the employee works, and for whom income tax, employment insurance, and similar deductions must be made at source;
  - (ii) an individual who works full-time for the Company or any of its Subsidiaries providing services normally provided by an employee and who is subject to the same control and direction by the Company or any of its Subsidiaries over the details and methods of work as an employee of the Company or any of its Subsidiaries, as the case may be, but for whom income tax deductions are not made at source; or
  - (iii) an individual who works for the Company or any of its Subsidiaries on a continuing and regular basis for a minimum amount of time per week acceptable to the Exchange, who provides services normally provided by an employee and is subject to the same control and direction by the Company or its Subsidiary over the details and methods of work as an employee of the Company or any of its Subsidiaries, as the case may be, but for whom income tax deductions are not made at source;
- (r) **“Exchange”** means the TSX Venture Exchange, or such other exchange upon which the Shares of the Company may become listed for trading;
- (s) **“Fees”** means the annual Board retainer, chair fees, meeting attendance fees or any other fees payable to a Director;
- (t) **“Grant Date”** means, for any Award, the date specified by the Board as the grant date at the time it grants the Award or, if no such date is specified, the date upon which the Award was actually granted;
- (u) **“Insider”** has the meaning attributed to it in the Securities Act;
- (v) **“Investor Relations Activities”** means any activities, by or on behalf of the Company or a shareholder of the Company, that promote or reasonably could be expected to promote the purchase or sale of securities of the Company, but does not include:
- (i) the dissemination of information provided, or records prepared, in the ordinary course of business of the Company;

- (A) to promote the sale of products or services of the Company; or
  - (B) to raise public awareness of the Company, that cannot reasonably be considered to promote the purchase or sale of securities of the Company;
- (ii) activities or communications necessary to comply with the requirements of:
  - (A) applicable securities laws; or
  - (B) Exchange requirements or the by-laws, rules or other regulatory instruments of any other self-regulatory body or exchange having jurisdiction over the Company;
- (iii) communications by a publisher of, or writer for, a newspaper, magazine or business or financial publication, that is of general and regular paid circulation, distributed only to subscribers to it for value or to purchasers of it, if:
  - (A) the communication is only through the newspaper, magazine or publication; and
  - (B) the publisher or writer receives no commission or other consideration other than for acting in the capacity of publisher or writer; or
- (iv) activities or communications that may be otherwise specified by the Exchange;
- (w) **“Investor Relations Service Provider”** includes any Consultant that performs Investor Relations Activities and any Director, Officer, Employee or Management Company Employee whose role and duties primarily consist of Investor Relations Activities
- (x) **“ISO”** means an Option that is granted to a U.S. Participant intended to constitute an incentive stock option within the meaning of Section 422 of the U.S. Tax Code, as described in Section 5.1(n);
- (y) **“Management Company Employee”** means an individual employed by a company providing management services to the Company, which services are required for the ongoing successful operation of the Company’s business enterprise;
- (z) **“Market Price”** means, subject to the exceptions prescribed by the Exchange from time to time, the last closing price of the Company’s shares before the issuance of the required news release disclosing the grant of Awards (but, if the policies of the Exchange provide an exception to such news release, then the last closing price of the Company’s shares before the Grant Date);
- (aa) **“Market Unit Price”** means the greater of the value of a Share determined by reference to the five-day volume-weighted average closing price of a Share for the five Trading Day period immediately preceding the relevant date and the Discount Market Price;

- (bb) **“Officer”** means an officer (as defined in the Securities Act or, where the Securities Act does not apply, by other applicable securities laws) of the Company or any of its Subsidiaries;
- (cc) **“Option”** means incentive share purchase options entitling the holder thereof to purchase Shares at a specified price for a specified period of time, and includes an ISO;
- (dd) **“Participant”** means any Eligible Person to whom Awards under this Plan are granted;
- (ee) **“Participant’s Account”** means a notional account maintained for each Participant’s participation in this Plan which will show any RSUs, PSUs and/or DSUs credited to a Participant from time to time;
- (ff) **“Performance-Based Award”** means, collectively or as applicable, Performance Share Units, Restricted Share Units and Deferred Share Units;
- (gg) **“Performance Criteria”** means criteria established by the Board which, without limitation, may include criteria based on the Participant’s personal performance and/or financial performance of the Company and its Subsidiaries, and that are to be used to determine the vesting of Performance Share Units;
- (hh) **“Performance Cycle”** means the applicable performance cycle of the Performance Share Units as may be specified by the Board in the applicable Award Agreement;
- (ii) **“Performance Share Unit”** or **“PSU”** means a right awarded to a Participant, as compensation for employment or consulting services or services as a Director or Officer, to receive, for no additional cash consideration, securities of the Company upon specified vesting criteria being satisfied, all as provided in Section 5.3 hereof and subject to the terms and conditions of this Plan and the applicable Award Agreement, and which may be paid in cash and/or Shares;
- (jj) **“Person”** means any individual, corporation, partnership, association, joint-stock company, trust, unincorporated organization, or governmental authority or body;
- (kk) **“PSU Deferral Notice”** has the meaning ascribed thereto in Section 5.3(d);
- (ll) **“PSU Deferral Period”** has the meaning ascribed thereto in Section 5.3(d);
- (mm) **“Restriction Period”** means the time period between the Grant Date and the Vesting Date of an Award of Restricted Share Units specified by the Board in the applicable Award Agreement, which period shall be no less than 12 months;
- (nn) **“Restricted Share Unit”** or **“RSU”** means a right awarded to a Participant, as compensation for employment or consulting services or services as a Director or Officer, to receive for no additional cash consideration, securities of the Company upon specified vesting criteria being satisfied, all as provided in Section 5.2 hereof and subject to the terms and conditions of this Plan and the applicable Award Agreement, and which may be paid in cash and/or Shares;

- (oo) “**Retirement**” means retirement from active employment with the Company or a Subsidiary with the consent of an officer of the Company or the Subsidiary, and more particularly, for U.S. Participants, means Separation from Service, other than due to death or by action of the Company for cause (including if the Company determines after the date of the Separation from Service that it could have terminated the U.S. Participant for cause), after the U.S. Participant has attained either age 65 or age 55 with at least 10 years of service with the Company;
- (pp) “**RSU Deferral Notice**” has the meaning ascribed thereto in Section 5.2(d);
- (qq) “**RSU Deferral Period**” has the meaning ascribed thereto in Section 5.2(d);
- (rr) “**Securities Act**” means the *Securities Act* (British Columbia), as amended, from time to time;
- (ss) “**Security-Based Compensation Arrangement**” shall have the meaning ascribed thereto in the rules and policies of the Exchange, or in the event that such term is not defined in the rules and policies of the Exchange, shall mean a stock option plan, including the Option Plan, employee stock purchase plan, long-term incentive plan or any other compensation or incentive mechanism involving the issuance or potential issuance of Shares to one or more full-time employees, officers, Insiders, service providers or Consultants of the Company or a Subsidiary, including a share purchase from treasury by a full-time employee, officer, Insider, service provider or Consultant which is financially assisted by the Company or a Subsidiary by way of loan, guarantee or otherwise;
- (tt) “**Separation from Service**” has, with respect to a U.S. Participant, the meaning set forth in Section 409A of the U.S. Tax Code.
- (uu) “**Shares**” means the common shares of the Company;
- (vv) “**Subsidiary**” means a corporation, company or partnership that is controlled, directly or indirectly, by the Company;
- (ww) “**Termination Date**” means, as applicable:
  - (i) in the event of a Participant’s Retirement, voluntary termination, voluntary resignation or termination of employment as a result of a Disability, the date on which such Participant ceases to be an employee of the Company or a Subsidiary; and
  - (ii) in the event of termination of the Participant’s employment by the Company or a Subsidiary, the date on which such Participant is advised by the Company or a Subsidiary, in writing or verbally, that his or her services are no longer required;
- (xx) “**Termination for Cause**” has the meaning ascribed thereto in Section Section 8;
- (yy) “**Trading Day**” means any day on which the Exchange is open for trading; and



- (zz) “**Vesting Date**” means in respect of any Award, the date when the Award is fully vested in accordance with the provisions of this Plan and the applicable Award Agreement.
- (aaa) “**U.S. Participant**” means any Participant who, at any time during the period from the date an Award is granted to the date such award is exercised, redeemed, or otherwise paid to the Participant, is subject to income taxation in the United States on the income received for services provided to the Company or a Subsidiary and who is not otherwise exempt from United States income taxation under the relevant provisions of the U.S. Tax Code, as amended, or the Canada-U.S. Income Tax Convention, as amended; and
- (bbb) “**U.S. Tax Code**” means the United States *Internal Revenue Code of 1986*, as amended.

### **SECTION 3 ADMINISTRATION**

#### **3.1 Board to Administer Plan**

Except as otherwise provided herein, this Plan shall be administered by the Board of the Company (and, for clarity, not by the Board of any subsidiary of the Company) and the Board of the Company shall have full authority to administer this Plan, including the authority to interpret and construe any provision of this Plan and to adopt, amend and rescind such rules and regulations for administering this Plan as the Board of the Company may deem necessary in order to comply with the requirements of this Plan.

#### **3.2 Delegation to Committee**

All of the powers exercisable hereunder by the Board may, to the extent permitted by applicable law and as determined by resolution of the Board, be delegated to and exercised by such committee as the Board may determine.

#### **3.3 Interpretation**

All actions taken and all interpretations and determinations made or approved by the Board in good faith shall be final and conclusive and shall be binding on the Participants and the Company.

#### **3.4 No Liability**

No Director shall be personally liable for any action taken or determination or interpretation made or approved in good faith in connection with this Plan and the Directors shall, in addition to their rights as Directors, be fully protected, indemnified and held harmless by the Company with respect to any such action taken or determination or interpretation made. The appropriate officers of the Company are hereby authorized and empowered to do all things and execute and deliver all instruments, undertakings and applications and writings as they, in their absolute discretion, consider necessary for the implementation of this Plan and of the rules and regulations established for administering this Plan. All costs incurred in connection with this Plan shall be for the account of the Company.

**SECTION 4**  
**SHARES AVAILABLE FOR AWARDS**

**4.1 Limitations on Shares Available for Issuance**

- (a) The aggregate number of Shares issuable under this Plan (and all of the Company's other Security-Based Compensation Arrangements) in respect of Options shall not exceed 10% of the Company's then total issued and outstanding Shares calculated as at the date of any grant and in accordance with the Policies of the Exchange.
- (b) The aggregate number of Shares issuable under this Plan (and all of the Company's other Security-Based Compensation Arrangements) in respect of Performance-Based Awards shall not exceed 5,455,121.
- (c) Notwithstanding anything to the contrary, the maximum number of Shares issuable pursuant to ISOs under this Plan shall be the lesser of the 10%, as set out in 4.1(a), subject to adjustment pursuant to Section 4.3.
- (d) So long as it may be required by the rules and policies of the Exchange:
  - (i) unless the Company has obtained disinterested shareholder approval, the maximum aggregate number of Shares issuable to any Participant under this Plan, within any 12 month period, together with Shares reserved for issuance to such Participant (and to Companies wholly-owned by that Participant) under all of the Company's other Security-Based Compensation Arrangements, shall not exceed five (5%) percent of the issued and outstanding Shares (calculated as at the date of any grant);
  - (ii) unless the Company has obtained disinterested shareholder approval, the maximum aggregate number of Shares issuable to Insiders under this Plan, within any 12 month period, together with Shares reserved for issuance to Insiders under all of the Company's other Security-Based Compensation Arrangements, shall not exceed ten (10%) percent of the issued and outstanding Shares (calculated as at the date of any grant);
  - (iii) unless the Company has obtained disinterested shareholder approval, the maximum aggregate number of Shares issuable to Insiders under this Plan, at any point in time, together with Shares reserved for issuance to Insiders under all of the Company's other Security-Based Compensation Arrangements, shall not exceed ten (10%) percent of the issued and outstanding Shares; and
  - (iv) the maximum aggregate number of Shares issuable to any one Consultant, within any 12 month period, together with all other Security-Based Compensation issuable to such Consultant under this Plan, shall not exceed two (2%) percent of the issued and outstanding Shares (calculated as at the date of any grant); and
  - (v) the maximum aggregate number of Shares issuable pursuant to grants of Options to all Investor Relation Service Providers performing Investor Relations Activities, within any 12 month period, shall not in aggregate exceed two (2%) percent of the issued and outstanding Shares (calculated as

at the date of any grant). For the avoidance of doubt, Persons performing Investor Relations Activities are only eligible to receive Options under this Plan; they are not eligible to receive any Performance-Based Award or other type of securities based compensation under this Plan.

## 4.2 Accounting for Awards

For purposes of this Section 4:

- (a) if an Award is denominated in Shares, the number of Shares covered by such Award, or to which such Award relates, shall be counted on the Grant Date of such Award against the aggregate number of Shares available for granting Awards under this Plan; and
- (b) notwithstanding anything herein to the contrary, any Shares related to Awards which terminate by expiration, forfeiture, cancellation, or otherwise without the issuance of such Shares, shall be available again for granting Awards under this Plan.

## 4.3 Anti-Dilution

If the number of outstanding Shares is increased or decreased as a result of a stock split, consolidation or recapitalization and not as a result of the issuance of Shares for additional consideration or by way of stock dividend, the Board may, subject to the prior acceptance of the Exchange in the case of a recapitalization, make appropriate adjustments to the number and price (or other basis upon which an Award is measured) of Options, RSUs, PSUs or DSUs credited to a Participant. Any determinations by the Board as to the required adjustments shall be made in its sole discretion and all such adjustments shall be conclusive and binding for all purposes under this Plan.

# SECTION 5 AWARDS

## 5.1 Options

- (a) Eligibility and Participation - Subject to the provisions of this Plan and such other terms and conditions as the Board may prescribe, the Board may, from time to time, grant Awards of Options to Eligible Persons. Options granted to an Eligible Person shall be credited, as of the Grant Date, to the Participant's Account. The number of Options to be credited to each Participant shall be determined by the Board in its sole discretion in accordance with this Plan. Each Option shall, contingent upon the lapse of any restrictions, represent one (1) Share. The number of Options granted pursuant to an Award shall be specified in the applicable Award Agreement.
- (b) Exercise Price - The exercise price of an Option granted under this Plan shall not be less than the Discounted Market Price, provided that if an Option is proposed to be granted by the Company which has just been recalled for trading following a suspension or halt, the Company must wait at least ten Trading Days since the day on which trading in the Company's securities resumes before setting the exercise price for and granting the Option.

- (c) Expiry Date - Each Option shall, unless sooner terminated, expire on a date to be determined by the Board which will not exceed 10 years from the Grant Date.
- (d) Different Exercise Periods, Prices and Number - The Board may, in its absolute discretion, upon granting Options under this Plan, specify different time periods following the dates of granting the Options during which the Participant may exercise their Options to purchase Shares and may designate different exercise prices and numbers of Shares in respect of which each Participant may exercise his option during each respective time period.
- (e) Vesting - Subject to the discretion of the Board, the Options granted to a Participant under this Plan shall vest as determined by the Board on the Grant Date of such Options. If the Board does not specify a vesting schedule at the Grant Date, then Options granted to persons other than those conducting Investor Relations Activities shall vest fully on the Grant Date, and in any event in accordance with the policies of the Exchange. Options issued to Persons conducting Investor Relations Activities must vest (and shall not otherwise be exercisable) in stages over a minimum of 12 months such that:
  - (i) no more than 1/4 of the Options vest no sooner than three months after the Grant Date;
  - (ii) no more than another 1/4 of the Options vest no sooner than six months after the Grant Date;
  - (iii) no more than another 1/4 of the Options vest no sooner than nine months after the Grant Date; and
  - (iv) the remainder of the Options vest no sooner than 12 months after the Grant Date.
- (f) Change of Control - If the Award Agreement so provides, in the event of a Change of Control, all Options granted to a Participant who ceases to be an Eligible Person shall become fully vested in such Participant and shall become exercisable by the Participant in accordance with the terms of the Award Agreement and Section 5.1(l) hereof. If the Participant provides Investor Relations Activities, no acceleration of the vesting of any Options shall be permitted without prior Exchange review and acceptance.
- (g) Death - Other than as may be set forth in the applicable Award Agreement, upon the death of a Participant, any Options granted to such Participant which, prior to the Participant's death, have not vested, will immediately terminate without payment, be forfeited and cancelled and shall be of no further force or effect; and the Participant or his or her estate, as the case may be, shall have no right, title or interest therein whatsoever. Any Options granted to such Participant which, prior to the Participant's death, had vested pursuant to the terms of the applicable Award Agreement will accrue to the Participant's estate in accordance with Section 5.1(l) hereof, provided the period in which they can make such claim must not exceed one year from the Participant's death.

(h) Termination of Participant's Relationship with the Company

- (i) Where a Participant's relationship with the Company is terminated by the Company or a Subsidiary for cause, all Options granted to the Participant under this Plan will immediately terminate without payment, be forfeited and cancelled and shall be of no further force or effect as of the Termination Date.
  - (ii) Where a Participant's relationship with the Company terminates by reason of termination by the Company or a Subsidiary without cause, by voluntary termination, voluntary resignation or due to Retirement by the Participant, such that the Participant no longer qualifies as an Eligible Person, all Options granted to the Participant under this Plan that have not vested will, unless the applicable Award Agreement provides otherwise and subject to the provisions below, immediately terminate without payment, be forfeited and cancelled and shall be of no further force or effect as of the Termination Date; *provided, however*, that any Options granted to such Participant which, prior to the Participant's termination without cause, voluntary termination, voluntary resignation or Retirement, had vested pursuant to the terms of the applicable Award Agreement will accrue to the Participant in accordance with Section 5.1(l) hereof and shall be exercisable by such Participant for a period of 90 days following the date the Participant ceased to be an Eligible Person, or such longer period as may be provided for in the Award Agreement or as may be determined by the Board provided such period does not exceed 12 months after the Termination Date.
  - (iii) Upon termination of a Participant's relationship with the Company or a Subsidiary such that the Participant no longer qualifies as an Eligible Person, the Participant's eligibility to receive further grants of Awards of Options under this Plan shall cease as of the Termination Date.
- (i) Disability - Where a Participant becomes afflicted by a Disability, all Options granted to the Participant under this Plan will continue to vest in accordance with the terms of such Options; *provided, however*, that no Options may be redeemed during a leave of absence. Where a Participant's relationship is terminated due to Disability such that the Participant ceases to be an Eligible Person, all Options granted to the Participant under this Plan that have not vested will, unless the applicable Award Agreement provides otherwise and subject to the provisions below, immediately terminate without payment, be forfeited and cancelled and shall be of no further force or effect as of the Termination Date; *provided, however*, that any Options granted to such Participant which, prior to the termination of the Participant's relationship with the Company due to Disability, had vested pursuant to terms of the applicable Award Agreement, will accrue to the Participant in accordance with Section 5.1(l) hereof and shall be exercisable by such Participant for a period of 90 days following the date the Termination Date, or such longer period as may be provided for in the Award Agreement or as may be determined by the Board, not exceeding 12 months.
- (j) Hold Period - In addition to any resale restrictions under applicable legislation or regulation, all Options granted hereunder and all Shares issued on the exercise of such Options will, if applicable under the policies of the Exchange, be subject to a four month TSX Venture Exchange hold period from the date the options are granted, and

the stock option agreements and the certificates representing such Shares will bear the following legend:

“Without prior written approval of the Exchange and compliance with all applicable securities legislation, the securities represented by this certificate may not be sold, transferred, hypothecated or otherwise traded on or through the facilities of the TSX Venture Exchange or otherwise in Canada or to or for the benefit of a Canadian resident until [insert date].”

- (k) Notice - Options shall be exercised only in accordance with the terms and conditions of the Award Agreements under which they are respectively granted and shall be exercisable only by notice in writing to the Company at its principal place of business.
- (l) Payment of Award - Subject to any vesting or other limitations described in each individual Award Agreement, Options may be exercised in whole or in part at any time prior to their lapse or termination, by the Participant, or if Section 5.1(g) applies, by the Participant’s estate within one year of the death of the Participant, into such number of Shares equal to the number of Options credited to the Participant’s Account that become exercisable on the Vesting Date. The exercise price of all Options must be paid in cash. Shares purchased by a Participant on exercise of an Option shall be paid for in full at the time of their purchase (i.e. concurrently with the giving of the requisite notice).
- (m) Cashless Exercise Right - Subject to the rules and policies of the Exchange, the Board may, in its discretion and at any time, determine to grant a Participant the alternative, when entitled to exercise an Option, to deal with such Option on a “cashless exercise” basis, on such terms as the Board may determine in its discretion (the “**Cashless Exercise Right**”). Without limitation, the Board may determine in its discretion that such Cashless Exercise Right, if any, grants a Participant the right to engage a broker to sell such number of Shares as is necessary to raise an amount equal to the aggregate exercise price for all Options being exercised by that Participant and any applicable tax withholdings. Pursuant to the Award Agreement, the Participant may authorize the broker to sell shares on the open market and forward the proceeds to the Company to satisfy the exercise price and any applicable tax withholdings, promptly following which the Company shall issue the Shares underlying the number of Options as provided for in the Award Agreement. In the event the Company permits a Participant to exercise a Cashless Exercise Right, the Company shall make an election pursuant to subsection 110(1.1) of the *Income Tax Act* (Canada).
- (n) ISOs. ISOs are available only for Participants who are employees of the Company, or a “parent corporation” or “subsidiary corporation” (as such terms are defined in Section 424(e) and (f) of the U.S. Tax Code), on the date the Option is granted, and, notwithstanding this Section 5.1(n), may only be granted in accordance with applicable Securities Laws and regulations and policies of the Exchange. In addition, a Participant who holds an ISO must continue as an employee, except that upon termination of employment the Option will continue to be treated as an ISO for up to three months, after which the Option will no longer qualify as an ISO, except as provided in this Section 5.1(n). A Participant’s employment will be deemed to continue during period of sick leave, military leave or other bona fide leave of absence, provided the leave of absence does not exceed three months, or the Participant’s return to employment is guaranteed by statute or contract. If a termination of employment is due to permanent disability, an Option may continue its ISO status for up to one year, and if

the termination is due to death, the ISO status may continue for the balance of the Option's term. Nothing in this Section 5.1(n) will be deemed to extend the original expiry date of an Option. A Participant who owns, or is deemed to own, pursuant to Section 424(e) of the U.S. Tax Code, Shares accounting for more than ten percent (10%) of the total combined voting power of all classes of stock of the Company may not be granted an ISO unless (i) the Option Price is at least one hundred and ten percent (110%) of the Market Value of the Shares, as of the date of the grant, and (ii) the Option is not exercisable after the expiration of five (5) years from the date of grant. To the extent the aggregate Market Value (determined as of the date of grant) of Shares with respect to which ISOs are exercisable for the first time by a Participant during any calendar year (under all plans of the Company and any affiliates) exceeds One Hundred Thousand United States Dollars (US\$100,000), the Options or portions thereof that exceed such limit (according to the order in which they were granted) shall be treated as Options other than ISOs, notwithstanding any contrary provision in the applicable Award Agreement.

## 5.2 Restricted Share Units

- (a) Eligibility and Participation - Subject to the provisions of this Plan and such other terms and conditions as the Board may prescribe, the Board may, from time to time, grant Awards of Restricted Share Units to Eligible Persons that do not perform Investor Relations Activities. Restricted Share Units granted to a Participant shall be credited, as of the Grant Date, to the Participant's Account. The number of Restricted Share Units to be credited to each Participant shall be determined by the Board in its sole discretion in accordance with this Plan. Each Restricted Share Unit shall, contingent upon the lapse of any restrictions, represent one (1) Share. The number of Restricted Share Units granted pursuant to an Award and the Restriction Period in respect of such Restricted Share Units shall be specified in the applicable Award Agreement.
- (b) Restrictions - Restricted Share Units shall be subject to such restrictions as the Board, in its sole discretion, may establish in the applicable Award Agreement, which restrictions may lapse separately or in combination at such time or times and on such terms, conditions and satisfaction of objectives as the Board may, in its discretion, determine at the time an Award is granted.
- (c) Vesting - All Restricted Share Units will vest and become payable by the issuance of Shares at the end of the Restriction Period if all applicable restrictions have lapsed, as such restrictions may be specified in the Award Agreement. No Restricted Share Units may vest before the date that is one year following the date of the Award.
- (d) Deferment - Subject to the terms and conditions of the applicable Award Agreement, if a Participant wishes to defer settling an Award of Restricted Share Units, the Participant must provide written notice ("**RSU Deferral Notice**") to the Company within three business days of the Vesting Date (the "**RSU Deferral Period**").
- (e) Change of Control - If the Award Agreement so provides, in the event of a Change of Control and the Participant ceases to be an Eligible Person, all restrictions upon any Restricted Share Units shall lapse immediately and all such Restricted Share Units shall become fully vested in the Participant and will accrue to the Participant in accordance with Section 5.2(i) hereof.

- (f) Death - Other than as may be set forth in the applicable Award Agreement, upon the death of a Participant, any Restricted Share Units granted to such Participant which, prior to the Participant's death, have not vested, will be immediately and automatically forfeited and cancelled without further action and without any cost or payment, and the Participant or his or her estate, as the case may be, shall have no right, title or interest therein whatsoever. Any Restricted Share Units granted to such Participant which, prior to the Participant's death, had vested pursuant to the terms of the applicable Award Agreement will accrue to the Participant's estate in accordance with Section 5.2(i) hereof, provided such period does not exceed 12 months from the date of the Participant's death.
- (g) Termination of a Participant's Relationship with the Company
- (i) Where a Participant's relationship with the Company is terminated by the Company or a Subsidiary for cause, all Restricted Share Units granted to the Participant under this Plan will immediately terminate without payment, be forfeited and cancelled and shall be of no further force or effect as of the Termination Date.
- (ii) Where a Participant's relationship with the Company terminates by reason of termination by the Company or a Subsidiary without cause, by voluntary termination, voluntary resignation or due to Retirement by the Participant, all Restricted Share Units granted to the Participant under this Plan that have not vested will, unless the applicable Award Agreement provides otherwise and subject to the provisions below, immediately terminate without payment, be forfeited and cancelled and shall be of no further force or effect as of the Termination Date and the Participant shall have no right, title or interest therein whatsoever; *provided, however*, that any Restricted Share Units granted to such Participant which, prior to the Participant's termination without cause, voluntary termination, voluntary resignation or Retirement, had vested pursuant to the terms of the applicable Award Agreement will accrue to the Participant in accordance with Section 5.2(i) hereof, provided such period does not exceed 12 months from the date the Participant ceases to be an Eligible Person.
- (iii) Upon termination of a Participant's relationship with the Company or a Subsidiary such that the Participant no longer qualifies as an Eligible Person, the Participant's eligibility to receive further grants of Awards of Restricted Share Units under this Plan shall cease as of the Termination Date.
- (h) Disability - Where a Participant becomes afflicted by a Disability, all Restricted Share Units granted to the Participant under this Plan will continue to vest in accordance with the terms of such Restricted Share Units; *provided, however*, that no Restricted Share Units may be redeemed during a leave of absence. Where a Participant's relationship is terminated due to Disability such that the Participant ceases to be an Eligible Person, all Restricted Share Units granted to the Participant under this Plan that have not vested will, unless the applicable Award Agreement provides otherwise and subject to the provisions below, immediately terminate without payment, be forfeited and cancelled and shall be of no further force or effect as of the Termination Date and the Participant shall have no right, title or interest therein whatsoever;



*provided, however, that any Restricted Share Units granted to such Participant which, prior to the Participant's termination due to Disability, had vested pursuant to terms of the applicable Award Agreement will accrue to the Participant in accordance with Section 5.2(i) hereof, provided such period does not exceed 12 months from the date the Participant ceases to be an Eligible Person.*

- (i) Payment of Award - Unless the Company has received an RSU Deferral Notice from the Participant, as soon as practicable after each RSU Deferral Period of an Award of Restricted Share Units, the Company shall, at the sole discretion of the Board, either:
  - (i) issue to the Participant, or if Section 5.2(f) applies, to the Participant's estate, from treasury the number of Shares equal to the number of Restricted Share Units credited to the Participant's Account that have vested and become payable on the next Trading Day after the RSU Deferral Period; or
  - (ii) make a cash payment in an amount equal to the Market Unit Price on the next Trading Day after the RSU Deferral Period of the Restricted Share Units credited to a Participant's Account that have vested and become payable, net of applicable withholdings.

As of the end of the RSU Deferral Period the Restricted Share Units in respect of which such Shares are issued or cash payment made shall be cancelled and no further payments shall be made to the Participant under this Plan in relation to such Restricted Share Units.

### **5.3 Performance Share Units**

- (a) Eligibility and Participation - Subject to the provisions of this Plan and such other terms and conditions as the Board may prescribe, the Board may, from time to time, grant Awards of Performance Share Units to Eligible Persons that do not perform Investor Relations Activities. Performance Share Units granted to a Participant shall be credited, as of the Grant Date, to the Participant's Account. The number of Performance Share Units to be credited to each Participant shall be determined by the Board, in its sole discretion, in accordance with this Plan. Each Performance Share Unit shall, contingent upon the attainment of the Performance Criteria within the Performance Cycle, represent one (1) Share. The number of Performance Share Units granted pursuant to an Award, the Performance Criteria which must be satisfied in order for the Performance Share Units to vest and the Performance Cycle in respect of such Performance Share Units shall be specified in the applicable Award Agreement. No Performance Share Units may vest before the date that is one year following the date of the Award.
- (b) Performance Criteria - The Board will select, settle and determine the Performance Criteria (including without limitation the attainment thereof), for purposes of the vesting of the Performance Share Units, in its sole discretion. An Award Agreement may provide the Board with the right, during a Performance Cycle or after it has ended, to revise the Performance Criteria and the Award amounts if unforeseen events (including, without limitation, changes in capitalization, an equity restructuring, an acquisition or a divestiture) occur which have a substantial effect on the financial results and which in the sole judgment of the Board make the application

of the Performance Criteria unfair unless a revision is made. Notices will be provided by the Company to applicable regulatory authorities or stock exchanges as may be required with respect to the foregoing.

- (c) Vesting - All Performance Share Units will vest and become payable to the extent that the Performance Criteria set forth in the Award Agreement are satisfied in the Performance Cycle, the determination of which satisfaction shall be made by the Board on the Determination Date. No Performance Share Units may vest before the date that is one year following the date of the Award.
- (d) Deferment - Subject to the terms and conditions of the applicable Award Agreement, if a Participant wishes to defer settling an Award of Restricted Share Units, the Participant must provide written notice ("**PSU Deferral Notice**") to the Company within three business days of the Determination Date (the "**PSU Deferral Period**").
- (e) Change of Control - If the Award Agreement so provides, in the event of a Change of Control and the Participant ceases to be an Eligible Person, all Performance Share Units granted to a Participant shall become fully vested in such Participant (without regard to the attainment of any Performance Criteria) and shall become payable to the Participant in accordance with Section 5.3(i) hereof.
- (f) Death - Other than as may be set forth in the applicable Award Agreement and below, upon the death of a Participant, all Performance Share Units granted to the Participant which, prior to the Participant's death, have not vested, will immediately and automatically be forfeited and cancelled without further action and without any cost or payment, and the Participant or his or her estate, as the case may be, shall have no right, title or interest therein whatsoever; *provided, however*, the Board may determine, in its sole discretion, the number of the Participant's Performance Share Units that will vest based on the extent to which the applicable Performance Criteria set forth in the Award Agreement have been satisfied in that portion of the Performance Cycle that has lapsed. The Performance Share Units that the Board determines to have vested shall become payable in accordance with Section 5.3(i) hereof.
- (g) Termination of a Participant's Relationship with the Company
  - (i) Where a Participant's relationship with the Company is terminated by the Company or a Subsidiary for cause, all Performance Share Units granted to the Participant under this Plan will immediately terminate without payment, be forfeited and cancelled and shall be of no further force or effect as of the Termination Date.
  - (ii) Where a Participant's relationship with the Company terminates by reason of termination by the Company or a Subsidiary without cause, by voluntary termination, voluntary resignation or due to Retirement by the Participant, all Performance Share Units granted to the Participant which have not vested will, unless the Award Agreement provides otherwise and subject to the provisions below, immediately terminate without payment, be forfeited and cancelled and shall be of no further force or effect as of the Termination Date, and the Participant shall have no right, title or interest therein whatsoever;

*provided, however*, the Board may determine, in its sole discretion, the number of the Participant's Performance Share Units that will vest based on the extent to which the applicable Performance Criteria set forth in the Award Agreement have been satisfied in that portion of the Performance Cycle that has lapsed. The Performance Share Units that the Board determines to have vested shall become payable in accordance with Section 5.3(i) hereof and, for greater certainty, must expire within a reasonable prior, not exceeding 12 months, following the date the Participant ceases to be an Eligible Person.

- (iii) Upon termination of a Participant's relationship with the Company or a Subsidiary such that the Participant no longer qualifies as an Eligible Person, the Participant's eligibility to receive further grants of Awards of Performance Share Units under this Plan shall cease as of the Termination Date.
  
- (h) Disability - Where a Participant becomes afflicted by a Disability, all Performance Share Units granted to the Participant under this Plan will continue to vest in accordance with the terms of such Performance Share Units; *provided, however*, that no Performance Share Units may be redeemed during a leave of absence. Where a Participant's relationship is terminated due to Disability such that the Participant ceases to be an Eligible Person, all Performance Share Units granted to the Participant under this Plan that have not vested will, unless the applicable Award Agreement provides otherwise and subject to the provisions below, immediately terminate without payment, be forfeited and cancelled and shall be of no further force or effect as of the Termination Date, and the Participant shall have no right, title or interest therein whatsoever; *provided, however*, that the Board may determine, in its sole discretion, the number of the Participant's Performance Share Units that will vest based on the extent to which the applicable Performance Criteria set forth in the Award Agreement have been satisfied in that portion of the Performance Cycle that has lapsed. The Performance Share Units that the Board determines to have vested shall become payable in accordance with Section 5.3(i) hereof.
  
- (i) Payment of Award - Unless the Company has received a PSU Deferral Notice from the Participant, payment to Participants in respect of vested Performance Share Units shall be made after the Determination Date and PSU Deferral Period for the applicable Award and in any case within ninety-five (95) days after the last day of the Performance Cycle to which such Award relates. The Company shall, at the sole discretion of the Board, either:
  - (i) issue to the Participant or if Section 5.3(f) applies, to the Participant's estate, the number of Shares equal to the number of Performance Share Units credited to the Participant's Account that have vested on the Determination Date; or
  - (ii) make a cash payment in an amount equal to the Market Unit Price on the next Trading Day after the PSU Deferral Period of the Performance Share Units credited to a Participant's Account that have vested, net of applicable withholdings.

As of the end of the PSU Deferral Period, the Performance Share Units in respect of which such Shares are issued or cash payment made shall be cancelled and no further

payments shall be made to the Participant under this Plan in relation to such Performance Share Units.

#### 5.4 Deferred Share Units

- (a) Eligibility and Participation - Subject to the provisions of this Plan and such other terms and conditions as the Board may prescribe, the Board may, from time to time, grant Awards of Deferred Share Units to Directors that do not perform Investor Relations Activities in lieu of Fees or to other Eligible Persons that do not perform Investor Relations Activities as compensation for employment or consulting services. Deferred Share Units granted to a Participant in accordance with Section 5.4 hereof shall be credited, as of the Grant Date, to the Participant's Account. The number of Deferred Share Units to be credited to each Participant shall be determined by the Board in its sole discretion in accordance with this Plan. The number of Deferred Share Units shall be specified in the applicable Award Agreement.
- (b) Election - Each Director may elect to receive any or all of his or her Fees in Deferred Share Units under this Plan. Elections by Directors regarding the amount of their Fees that they wish to receive in Deferred Share Units shall be made no later than 90 days after this Plan is adopted by the Board, and thereafter no later than December 31 of any given year with respect to Fees for the following year. Any Director who becomes a Director during a calendar year and wishes to receive an amount of his or her Fees for the remainder of that year in Deferred Share Units must make his or her election within 60 days of becoming a Director.
- (c) Calculation of Deferred Share Units Granted in Lieu of Fees - The number of Deferred Share Units to be credited to a Participant's Account where the Participant is a Director who has elected to receive Deferred Share Units in lieu of Fees shall be calculated by dividing the amount of Fees selected by a Director in the applicable Election Form by the Market Unit Price on the Grant Date (or such other price as required under Exchange policies) which shall be the 10th business day following each financial quarter end. If, as a result of the foregoing calculation, a Participant that is a Director shall become entitled to a fractional Deferred Share Unit, the Participant shall only be credited with a full number of Deferred Share Units (rounded down) and no payment or other adjustment will be made with respect to the fractional Deferred Share Unit.
- (d) Vesting - No Deferred Share Units may vest before the date that is one year following the date of the Award.
- (e) Payment of Award - Each Participant shall be entitled to receive, after the effective date that the Participant ceases to be an Eligible Person for any reason, other than for Termination for Cause, as defined herein, on a day designated by the Participant and communicated to the Company by the Participant in writing at least 15 days prior to the designated day (or such earlier date after the Participant ceases to be an Eligible Person as the Participant and the Company may agree, which date shall be no later than one year after the date upon which the Participant ceases to be an Eligible Person) and if no such notice is given, then on the first anniversary of the effective date that the Participant ceases to be an Eligible Person, at the sole discretion of the Board, either:

- (i) that number of Shares equal to the number of vested Deferred Share Units credited to the Participant's Account, such Shares to be issued from treasury of the Company (provided that such issuance will not result in the number specified in Section 4.1(b) being exceeded); or
  - (ii) a cash payment in an amount equal to the Market Unit Price on the next Trading Day after the Participant ceases to be an Eligible Person of the vested Deferred Share Units credited to a Participant's Account, net of applicable withholdings.
- (f) Exception - In the event that the value of a Deferred Share Unit would be determined with reference to a period commencing at a fiscal quarter-end of the Company and ending prior to the public disclosure of interim financial statements for the quarter (or annual financial statements in the case of the fourth quarter), the cash payment of the value of the Deferred Share Units will be made to the Participant with reference to the five (5) Trading Days immediately following the public disclosure of the interim financial statements for that quarter (or annual financial statements in the case of the fourth quarter).
- (g) Death - Upon death of a Participant holding Deferred Share Units that have vested, the Participant's estate shall be entitled to receive, within 120 days after the Participant's death and at the sole discretion of the Board, a cash payment or Shares that would have otherwise been payable in accordance with Section 5.4(e) hereof to the Participant upon such Participant ceasing to be an Eligible Person, provided the period in which the Participant's estate can make such claim must not exceed one year from the Participant's death.
- (h) Termination for Cause - Upon a Participant ceasing to be an Eligible Person by reason of Termination for Cause, the Participant's participation in this Plan shall be terminated immediately, all Deferred Share Units credited to such Participant's Account that have not vested shall be forfeited and cancelled, and the Participant's rights to Shares or cash equivalent or a combination thereof that relate to such Participant's unvested Deferred Share Units shall be forfeited and cancelled on the Termination Date. The Participant shall not receive any payment in lieu of cancelled Deferred Share Units that have not vested. "**Termination for Cause**" shall include, among other things, gross misconduct, theft, fraud, breach of confidentiality or breach of the Company's codes of conduct and any other reason determined by the Company to be cause for termination. For the purposes of this Plan, the determination by the Company that the Participant was Terminated for Cause shall be binding on the Participant.

## 5.5 General Terms Applicable to Awards

- (a) Forfeiture Events - The Board will specify in an Award Agreement at the time of the Award that the Participant's rights, payments and benefits with respect to an Award shall be subject to reduction, cancellation, forfeiture or recoupment upon the occurrence of certain specified events, in addition to any otherwise applicable vesting or performance conditions of an Award. Such events shall include, but shall not be limited to, termination of a relationship for cause, violation of material Company policies, fraud, breach of non-competition, confidentiality or other restrictive

covenants that may apply to the Participant or other conduct by the Participant that is detrimental to the business or reputation of the Company.

- (b) Awards May be Granted Separately or Together - Awards may, in the discretion of the Board, be granted either alone or in addition to, in tandem with, or in substitution for any other Award or any award granted under any other Security-Based Compensation Arrangement of the Company. Awards granted in addition to or in tandem with other Awards, or in addition to or in tandem with awards granted under any other Security-Based Compensation Arrangement of the Company, may be granted either at the same time as or at a different time from the grant of such other Awards or awards.
- (c) Non-Transferability of Awards - No Award and no right under any such Award shall be assignable, alienable, saleable, or transferable by a Participant otherwise than by will or by the laws of descent and distribution and only then if permitted by the Policies of the Exchange. No Award and no right under any such Award, may be pledged, alienated, attached, or otherwise encumbered, and any purported pledge, alienation, attachment, or encumbrance thereof shall be void and unenforceable against the Company.
- (d) Conditions and Restrictions Upon Securities Subject to Awards - The Board may provide that the Shares issued under an Award shall be subject to such further agreements, restrictions, conditions or limitations as the Board in its sole discretion may specify, including without limitation, conditions on vesting or transferability and forfeiture or repurchase provisions or provisions on payment of taxes arising in connection with an Award. Without limiting the foregoing, such restrictions may address the timing and manner of any resales by the Participant or other subsequent transfers by the Participant of any Shares issued under an Award, including without limitation:
  - (i) restrictions under an insider trading policy or pursuant to applicable law;
  - (ii) restrictions designed to delay and/or coordinate the timing and manner of sales by Participant and holders of other Security-Based Compensation Arrangements; and
  - (iii) restrictions as to the use of a specified brokerage firm for such resales or other transfers.
- (e) Blackout Periods - In the event that the date provided for expiration, redemption or settlement of an Award falls within a Blackout Period imposed by the Company pursuant to a trading policy as the result of the bona fide existence of undisclosed Material Information, the expiry date, redemption date or settlement date, as applicable, of the Award shall automatically be extended to the date that is ten (10) business days following the date of expiry of the Blackout Period. Notwithstanding the foregoing, there will be no extension of any Award if the Company (or the Participant) is subject to a cease trade order (or similar order under applicable law). Notwithstanding anything to the contrary herein contained, in no event, including as a result of the any Blackout Period, shall the expiration of any Option issued to a U.S.

Participant be extended beyond the original Expiry Date if the Option has an exercise price that is less than the Market Price on the date of the proposed extension.

- (f) Share Certificates - All Shares delivered under this Plan pursuant to any Award shall be subject to such stop transfer orders and other restrictions as the Board may deem advisable under this Plan or the rules, regulations, and other requirements of any securities commission, the Exchange, and any applicable securities legislation, regulations, rules, policies or orders, and the Board may cause a legend or legends to be put on any such certificates to make appropriate reference to such restrictions.
- (g) Conformity to Plan - In the event that an Award is granted which does not conform in all particulars with the provisions of this Plan, or purports to grant an Award on terms different from those set out in this Plan, the Award shall not be in any way void or invalidated, but the Award shall be adjusted to become, in all respects, in conformity with this Plan.
- (h) Deductions - Whenever cash is to be paid in respect of Deferred Share Units, Restricted Share Units or Performance Share Units, the Company shall have the right to deduct from all cash payments made to a Participant any taxes required by law to be withheld with respect to such payments. Whenever Shares are to be delivered in respect of Deferred Share Units, Restricted Share Units or Performance Share Units, the Company shall have the right to deduct from any other amounts payable to the Participant any taxes required by law to be withheld with respect to such delivery of Shares, or if any payment due to the Participant is not sufficient to satisfy the withholding obligation, to require the Participant to remit to the Company in cash an amount sufficient to satisfy any taxes required by law to be withheld. At the sole discretion of the Board, a Participant may be permitted to satisfy the foregoing requirement by, all in accordance with the Policies of the Exchange, delivering (on a form prescribed by the Company) an irrevocable direction to a securities broker approved by the Company to sell all or a portion of the Shares and deliver to the Company from the sales proceeds an amount sufficient to pay the required withholding taxes.
- (i) Cancellation, Termination, Surrender or Forfeiture - Shares that were the subject of any Awards made under this Plan that has been settled in cash, or that have been cancelled, terminated, surrendered, forfeited or have expired without being exercised, and pursuant to which no securities have been issued, may continue to be issuable under this Plan.

## 5.6 General Terms Applicable to Performance-Based Awards

- (a) Performance Evaluation; Adjustment of Goals - At the time that a Performance-Based Award is first issued, the Board, in the Award Agreement or in another written document, shall specify whether performance will be evaluated including or excluding the effect of any of the following events that occur during the Performance Cycle or Restriction Period, as the case may be:
  - (i) judgments entered or settlements reached in litigation;
  - (ii) the write-down of assets;

- (iii) the impact of any reorganization or restructuring;
  - (iv) the impact of changes in tax laws, accounting principles, regulatory actions or other laws affecting reported results;
  - (v) extraordinary non-recurring items as may be described in the Company's management's discussion and analysis of financial condition and results of operations for the applicable financial year;
  - (vi) the impact of any mergers, acquisitions, spin-offs or other divestitures; and
  - (vii) foreign exchange gains and losses.
- (b) Adjustment of Performance-Based Awards - The Board shall have the sole discretion to adjust the determinations of the degree of attainment of the pre-established Performance Criteria or restrictions, as the case may be, as may be set out in the applicable Award Agreement governing the relevant Performance-Based Award. Notwithstanding any provision herein to the contrary, the Board may not make any adjustment or take any other action with respect to any Performance-Based Award that will increase the amount payable under any such Award. The Board shall retain the sole discretion to adjust Performance-Based Awards downward or to otherwise reduce the amount payable with respect to any Performance-Based Award.

## SECTION 6 AMENDMENT AND TERMINATION

### 6.1 Amendments and Termination of this Plan

The Board may at any time or from time to time, in its sole and absolute discretion and without the approval of shareholders of the Company, amend, suspend, terminate or discontinue this Plan and may amend the terms and conditions of any Awards granted hereunder, subject to:

- (a) any required disinterested shareholder approval to (i) reduce the exercise price of an Award issued to an Insider or (ii) to extend the term of an Option granted to an Insider, in either event in accordance with the policies of the Exchange while the Shares are listed on the Exchange;
- (b) any required approval of any applicable regulatory authority or the Exchange; and
- (c) any approval of shareholders of the Company as required by the rules of the Exchange or applicable law, provided that shareholder approval shall not be required for the following amendments and the Board may make any changes which may include but are not limited to (except that the Exchange may require approval of the shareholders of the Company for amendments pursuant to Sections 6.1(c)(iii) to (vii)):
  - (i) amendments of a "housekeeping nature";
  - (ii) amendments for the purpose of curing any ambiguity, error or omission in this Plan or to correct or supplement any provision of this Plan that is inconsistent with any other provision of this Plan; and



- (iii) amendments which are necessary to comply with applicable law or the requirements of the Exchange.

If this Plan is terminated, prior Awards shall remain outstanding and in effect in accordance with their applicable terms and conditions.

Notwithstanding the foregoing, any amendment of this Plan shall be such that the Plan continuously meets the requirements of paragraph 6801(d) of the regulations under the *Income Tax Act* (Canada) or any successor to such provision, and any amendment having bearing on the terms of any ISO shall meet the requirements of Section 7.4422 of the U.S. Tax Code.

## **6.2 Amendments to Awards**

The Board may waive any conditions or rights under, amend any terms of, or amend, alter, suspend, discontinue, or terminate, any Awards theretofore granted, prospectively or retroactively. No such amendment or alteration shall be made which would impair the rights of any Participant, without such Participant's consent, under any Award theretofore granted, provided that no such consent shall be required with respect to any amendment or alteration if the Board determines in its sole discretion that such amendment or alteration either:

- (a) is required or advisable in order for the Company, this Plan or the Award to satisfy or conform to any law or regulation or to meet the requirements of Policy of the Exchange or any accounting standard; or
- (b) is not reasonably likely to significantly diminish the benefits provided under such Award.

## **SECTION 7 GENERAL PROVISIONS**

### **7.1 No Rights to Awards**

No Person shall have any claim to be granted any Award under this Plan, or, having been selected to receive an Award under this Plan, to be selected to receive a future Award. There is no obligation for uniformity of treatment of Eligible Persons or Participants or beneficiaries of Awards under this Plan. The terms and conditions of Awards need not be the same with respect to each Participant. The Company and each Eligible Person qualifying for an Award are and shall be responsible for ensuring and confirming that each recipient of an Award is a bona fide Eligible Person that qualifies to receive the applicable Award.

### **7.2 Withholding**

The Company shall be authorized to withhold any payment due under any Award or under this Plan until the Participant has paid or made arrangements for the payment of the amount of any withholding taxes due in respect of an Award, its exercise, or any payment under such Award or under this Plan.

### **7.3 No Limit on Other Security-Based Compensation Arrangements**

Nothing contained in this Plan shall prevent the Company or a Subsidiary from adopting or continuing in effect other Security-Based Compensation Arrangements, and such arrangements may be either generally applicable or applicable only in specific cases.

### **7.4 No Right to Employment**

The grant of an Award shall neither constitute an employment contract nor be construed as giving a Participant the right to be retained in the employ of the Company, or to any other relationship with the Company. Further, the Company may at any time dismiss a Participant, free from any liability, or any claim under this Plan, unless otherwise expressly provided in this Plan or in an applicable Award Agreement.

### **7.5 No Right as Shareholder**

Neither the Participant nor any representatives of a Participant's estate shall have any rights whatsoever as shareholders in respect of any Shares covered by such Participant's Options, RSUs, PSUs and/or DSUs until the date of issuance of a share certificate to such Participant or representatives of a Participant's estate for such Shares.

### **7.6 Governing Law**

This Plan and all of the rights and obligations arising hereunder shall be interpreted and applied in accordance with the laws of the Province of British Columbia and the federal laws of Canada applicable therein.

### **7.7 Severability**

If any provision of this Plan or any Award is or becomes or is deemed to be invalid, illegal, or unenforceable in any jurisdiction, or as to any Person or Award, or would disqualify this Plan or any Award under any law deemed applicable by the Board, such provision shall be construed or deemed amended to conform to applicable laws, or if it cannot be so construed or deemed amended without, in the determination of the Board, materially altering the intent of this Plan or the Award, such provision shall be stricken as to such jurisdiction, Person or Award, and the remainder of this Plan and any such Award shall remain in full force and effect.

### **7.8 No Trust or Fund Created**

Neither this Plan nor any Award shall create or be construed to create a trust or separate fund of any kind or a fiduciary relationship between the Company and a Participant or any other Person. To the extent that any Person acquires a right to receive payments from the Company pursuant to an Award, such right shall be no greater than the right of any unsecured creditor of the Company.

### **7.9 No Fractional Shares**

No fractional Shares shall be issued or delivered pursuant to this Plan or any Award, and the Board shall determine whether cash, or other securities shall be paid or transferred in lieu of

any fractional Shares, or whether such fractional Shares or any rights thereto shall be cancelled, terminated, or otherwise eliminated.

#### **7.10 Headings**

Headings are given to the Sections and subsections of this Plan solely as a convenience to facilitate reference. Such headings shall not be deemed in any way material or relevant to the construction or interpretation of this Plan or any provision thereof.

#### **7.11 No Representation or Warranty**

The Company makes no representation or warranty as to the value of any Award granted pursuant to this Plan or as to the future value of any Shares issued pursuant to any Award.

#### **7.12 No Representations or Covenant with Respect to Tax Qualification**

Although the Company may, in its discretion, endeavor to (i) qualify an Award for favourable Canadian tax treatment or (ii) avoid adverse tax treatment, the Company makes no representation to that effect and expressly disavows any covenant to maintain favorable or avoid unfavorable tax treatment. The Company shall be unconstrained in its corporate activities without regard to the potential negative tax impact on holders of Awards under this Plan.

#### **7.13 Conflict with Award Agreement**

In the event of any inconsistency or conflict between the Policies of the Exchange, this Plan and an Award Agreement, the Policies of the Exchange shall govern for all purposes. In the event of any inconsistency or conflict between the provisions of this Plan and an Award Agreement, the provisions of this Plan shall govern for all purposes.

#### **7.14 Compliance with Laws**

The granting of Awards and the issuance of Shares under this Plan shall be subject to all applicable laws, rules, and regulations, as well as the Policies of the Exchange as in effect from time-to-time, and to such approvals by any governmental agencies or stock exchanges on which the Company is listed as may be required. The Company shall have no obligation to issue or deliver evidence of title for Shares issued under this Plan prior to:

- (a) obtaining any approvals from governmental agencies that the Company determines are necessary or advisable; and
- (b) completion of any registration or other qualification of the Shares under any applicable national or foreign law or ruling of any governmental body that the Company determines to be necessary or advisable or at a time when any such registration or qualification is not current, has been suspended or otherwise has ceased to be effective.

In addition to any resale restrictions under securities laws, and any other circumstance for which the Exchange hold period may apply, where Awards are granted to insiders or promoters of the Company or where the exercise price includes a discount as permitted by

the Exchange, the Award and any Shares issued on the exercise of such Award must be legended with a four (4) month Exchange hold period commencing on the date of grant.

No Awards shall be granted in the United States and no Shares shall be issued in the United States pursuant to any such Awards unless such Shares are registered under applicable U.S. securities laws and any applicable state securities laws or an exemption from such registration is available. Any Awards granted in the United States, and any Shares issued pursuant thereto, will be "restricted securities" (as such term is defined in Rule 144(a)(3) under the U.S. Securities Act).

Any certificate or instrument representing Awards granted in the United States or Shares issued in the United States pursuant to such Awards pursuant to an exemption from registration under the U.S. Securities Act and applicable state securities laws shall bear substantially the following legend restricting transfer under applicable United States federal and state securities laws:

**THE SECURITIES REPRESENTED HEREBY [and for Awards, the following will be added: AND THE SECURITIES ISSUABLE PURSUANT HERETO] HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "U.S. SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (A) TO THE COMPANY, (B) OUTSIDE THE UNITED STATES IN COMPLIANCE WITH REGULATIONS UNDER THE U.S. SECURITIES ACT AND IN COMPLIANCE WITH APPLICABLE LOCAL LAWS AND REGULATIONS, (C) PURSUANT TO THE EXEMPTION FROM REGISTRATION UNDER THE U.S. SECURITIES ACT PROVIDED BY (1) RULE 144 THEREUNDER, IF AVAILABLE, OR (2) RULE 144A THEREUNDER, IF AVAILABLE, AND IN EACH CASE IN COMPLIANCE WITH APPLICABLE STATE SECURITIES LAWS OR (D) IN A TRANSACTION THAT DOES NOT REQUIRE REGISTRATION UNDER THE U.S. SECURITIES ACT OR ANY APPLICABLE STATE SECURITIES LAWS, AND, IN CONNECTION WITH ANY TRANSFERS PURSUANT TO (C)(1) OR (D) ABOVE, THE SELLER HAS FURNISHED TO THE COMPANY AN OPINION OF COUNSEL OF RECOGNIZED STANDING OR OTHER EVIDENCE, IN FORM AND SUBSTANCE REASONABLY SATISFACTORY TO THE COMPANY, TO THAT EFFECT. DELIVERY OF THIS CERTIFICATE MAY NOT CONSTITUTE "GOOD DELIVERY" IN SETTLEMENT OF TRANSACTIONS ON STOCK EXCHANGES IN CANADA.**

No Awards shall be granted, and no Shares shall be issued, sold or delivered hereunder, where such grant, issue, sale or delivery would require registration of this Plan or of the Shares under the securities laws of any jurisdiction or the filing of any prospectus for the qualification of same thereunder, and any purported grant of any Award or purported issue or sale of Shares hereunder in violation of this provision shall be void. The inability or impracticability of the Company to obtain or maintain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder shall relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority shall not have been obtained.

## 7.15 U.S. Tax Compliance

(a) DSU Awards granted to U.S. Participants are intended to comply with, and Option, PSU, and RSU Awards granted to U.S. Participants are intended to be exempt from, all aspects of Section 409A of the U.S. Tax Code and related regulations (“**Section 409A**”). Notwithstanding any provision to the contrary, all taxes associated with participation in the Plan, including any liability imposed by Section 409A, shall be borne by the U.S. Participant.

(b) For purposes of interpreting and applying the provisions of any DSU or other Award to subject to Section 409A, the term “termination of employment” or similar phrase will be interpreted to mean a Separation from Service as defined under Section 409A, provided, however, that with respect to an Award subject to the Tax Act, if the Tax Act requires a complete termination of the employment relationship to receive the intended tax treatment, then “termination of employment” will be interpreted to only include a complete termination of the employment relationship.

(c) If payment under any DSU or other Award subject to Section 409A is in connection with the U.S. Participant’s Separation from Service, and at the time of the Separation from Service the Participant is subject to the U.S. Tax Code and is considered a “specified employee” (within the meaning of Section 409A), then any payment that would otherwise be payable during the six-month period following the separation from service will be delayed until after the expiration of the six-month period, to the extent necessary to avoid taxes and penalties under Section 409A, provided that any amounts that would have been paid during the six-month period may be paid in a single lump sum on the first day of the seventh month following the separation from service.

(d) Notwithstanding any provision of the Plan to the contrary, all provisions of the Plan shall be construed and interpreted in a manner consistent with the requirements for avoiding taxes or penalties under Section 409A of the U.S. Tax Code. If any provision of the Plan contravenes Section 409A or could cause the U.S. Participant to incur any tax, interest or penalties under Section 409A, the Board may, in its sole discretion and without the U.S. Participant’s consent, modify such provision to: (i) comply with, or avoid being subject to, Section 409A, or to avoid incurring taxes, interest and penalties under Section 409A; and/or (ii) maintain, to the maximum extent practicable, the original intent and economic benefit to the U.S. Participant of the applicable provision without materially increasing the cost to the Company or contravening Section 409A. However, the Company shall have no obligation to modify the Plan or any PSU, RSU or DSU and does not guarantee that they will not be subject to taxes, interest and penalties under Section 409A. Each U.S. Participant is solely responsible and liable for the satisfaction of all taxes and penalties that may be imposed on or for the account of such U.S. Participant in connection with the Plan or any other plan maintained by the Company (including any taxes and penalties under Section 409A), and neither the Company nor any Subsidiary of the Company shall have any obligation to indemnify or otherwise hold such U.S. Participant (or any beneficiary) harmless from any or all of such taxes or penalties.

## SECTION 8 EFFECTIVE DATE OF THIS PLAN

### 8.1 Effective Date

This Plan shall become effective upon the date (the “**Effective Date**”) of approval by the Board.

**SECTION 9  
TERM OF THIS PLAN**

**9.1 Term**

This Plan shall terminate automatically 10 years after the Effective Date and may be terminated on any earlier date as provided in Section 6 hereof.

## SCHEDULE "L"

### ARRANGEMENT RESOLUTION

**BE IT HEREBY RESOLVED THAT, as a special resolution:**

1. The arrangement (the "**Arrangement**") under Part 9, Division 5 of the *Business Corporations Act* (British Columbia) involving Kona Bay Technologies Inc. ("**Kona Bay**"), as more particularly described and set forth in the information circular of Kona Bay dated November 13, 2022 accompanying the notice of this meeting, as the Arrangement may be modified or amended in accordance with its terms, is hereby authorized, approved and adopted.
2. The plan of arrangement (the "**Plan of Arrangement**") involving Kona Bay, the full text of which is set out as Schedule A to the arrangement agreement and plan of merger dated May 19, 2022 among Yerbaé Brands Co., Kona Bay, Kona Bay Technologies (Delaware) Inc., 1362283 B.C. Ltd., Todd Gibson and Karrie Gibson (the "**Arrangement Agreement**"), as the Plan of Arrangement may be modified or amended in accordance with its terms, is hereby authorized, approved, ratified and adopted.
3. The Arrangement Agreement, all of the transactions contemplated by the Arrangement Agreement, including the Merger (as defined in the Arrangement Agreement) and the Arrangement, the actions of the directors of Kona Bay in approving the Arrangement Agreement and the actions of the directors and officers of Kona Bay in executing and delivering the Arrangement Agreement and any amendments thereto in accordance with its terms are hereby, authorized, approved and ratified.
4. Notwithstanding that this resolution has been passed (and the Plan of Arrangement adopted) by the shareholders of Kona Bay or that the Arrangement has been approved by the Supreme Court of British Columbia (the "**Court**"), the directors of Kona Bay are hereby authorized and empowered without further notice to or approval of the shareholders of Kona Bay (i) to amend the Arrangement Agreement or the Plan of Arrangement, to the extent permitted by the Arrangement Agreement or the Plan of Arrangement, and (ii) subject to the terms of the Arrangement Agreement, not to proceed with the Arrangement.
5. Any one director or officer of Kona Bay be and is hereby authorized and directed for and on behalf of Kona Bay to make an application to the Court for an order approving the Arrangement, to execute, under the corporate seal of Kona Bay or otherwise, and to deliver or file such other documents as are necessary or desirable to give effect to the Arrangement and the Plan of Arrangement in accordance with the Arrangement Agreement.
6. Any one director or officer of Kona Bay be and is hereby authorized and directed for and on behalf of Kona Bay to execute or cause to be executed, under the corporate seal of Kona Bay or otherwise, and to deliver or cause to be delivered, all such other documents and instruments and to perform or cause to be performed all such other acts and things as in such person's opinion may be necessary or desirable to give full effect to the foregoing resolutions and the matters authorized thereby, such determination to be conclusively evidenced by the execution and delivery of such document, agreement or instrument or the doing of any such act or thing.

M-1

**SCHEDULE "M"**

**PLAN OF ARRANGEMENT**

*[See attached]*



## PLAN OF ARRANGEMENT

IN THE MATTER OF AN ARRANGEMENT among Kona Bay Technologies Inc. (the “**Parent**”), 1362283 B.C. Ltd. (“**Finco**”), Kona Bay Technologies (Delaware) Inc. (the “**Merger Sub**”), Yerbae Brands Co. (the “**Company**”) and the holders from time to time of the issued and outstanding Company Shares (as defined herein) and the holders of the Company Options (as defined herein), pursuant to Part 9, Division 5 of the *Business Corporations Act* (British Columbia), as amended.

### ARTICLE 1 INTERPRETATION

1.1 In this Plan of Arrangement, any capitalized term used herein and not defined in this Section 1.1 will have the meaning ascribed thereto in the Arrangement Agreement. Unless the context otherwise requires, the following words and phrases used in this Plan of Arrangement will have the meanings hereinafter set out:

“**Amalco**” means the entity formed on the amalgamation of Finco and the Parent or, at the option of the Parent, a Subsidiary of the Parent, pursuant to Section 3.1 hereto.

“**Arrangement**” means the arrangement under Part 9, Division 5 of the BCBCA as described herein, subject to any amendments or supplements thereto made in accordance with the Arrangement Agreement and the provisions hereof or made at the direction of the Court in the Final Order.

“**Arrangement Agreement**” means the agreement made as of May 19, 2022 between the Parent, Finco, the Company, the Merger Sub, Todd Gibson and Karrie Gibson, including all schedules annexed thereto, together with the Parent Disclosure Letter and the Company Disclosure Letter, as each may be amended, supplemented or otherwise modified from time to time in accordance with the terms thereof.

“**Arrangement Resolution**” means the special resolution of the Parent Shareholders approving the Arrangement which is to be considered at the Parent Shareholder Meeting and will be in the form as agreed to by the Parent and the Company.

“**BCBCA**” means the *Business Corporations Act* (British Columbia) and the regulations made thereunder, as now in effect and as they may be promulgated or amended from time to time.

“**Business Day**” means any day, other than Saturday, Sunday, or any day on which banking institutions located in Vancouver, British Columbia or Scottsdale, Arizona are authorized or required by law or other governmental action to close.

“**Closing Certificate**” means a certificate in the form attached hereto as Appendix A which, when signed by an authorized representative of each of the Parties, will constitute acknowledgement by the Parties that this Plan of Arrangement has been implemented to their respective satisfaction.

“**Code**” means the Internal Revenue Code of 1986, as amended.

**“Company Circular”** means the management information circular, including all schedules, appendices and exhibits to, and information incorporated by reference in, such management information circular (and including a Transmittal Letter for subsequent submission to the Depositary), to be submitted to and approved by the Court in the Interim Order and, if and to the extent required, to be sent to the Company Securityholders in connection with the Company Shareholder Meeting, as amended, supplemented or otherwise modified from time to time in accordance with the terms of this Agreement.

**“Company Option Plan”** means the Yerbae Brands Co. 2022 Stock Option Plan.

**“Company Options”** means the outstanding options to purchase Company Shares issued pursuant to the Company Option Plan.

**“Company Restricted Shares”** means the outstanding Company Shares subject to vesting, repurchase or other restrictions.

**“Company Shareholder Meeting”** means the meeting of the Company Shareholders and the Company Optionholders, including any adjournment or postponement thereof, to be called and held in accordance with the Interim Order to consider the Company Shareholder Resolution, in the form to be agreed to by the Parent and the Company, and for any other purpose as may be set out in the Company Circular, or the written consent in lieu of a meeting (subject to the requirements of DGCL).

**“Company Shareholder Resolution”** means the resolution of the shareholders of the Company approving the Merger and the Arrangement, and for any other purpose as may be set out in the Company Circular.

**“Company Shareholders”** means the holders of the Company Shares, as the context requires, and **“Company Shareholder”** means any one of them.

**“Company Shares”** means, collectively, the shares of Voting Common Stock - Class A, the shares of Voting Common Stock - Class B, the shares of Non-Voting Common Stock Class D-1, the shares of Non-Voting Common Stock Class D-2, the shares of Non-Voting Common Stock Class 2020-1 and the shares of Non-Voting Common Stock Class 2022-1 of the Company.

**“Company Warrants”** means, collectively, any outstanding share purchase warrants issued by the Company providing the holder thereof with the right to purchase any Company Shares.

**“Court”** means the Supreme Court of British Columbia.

**“Depositary”** means Odyssey Trust Company, or any other depositary or trust company, bank or financial institution agreed to between the Company and the Parent for the purpose of, among other things, exchanging certificates or DRS Advices representing the Company Shares for the Parent Shares in connection with the Arrangement.

“**DGCL**” means the Delaware General Corporations Law (Title 8, Chapter 1 of the Delaware Code).

“**Dissent Rights**” means the rights of dissent exercisable by the Company Shareholders in respect of the Arrangement described in Article 5 hereof.

“**Dissenter**” means a registered Company Shareholder who has duly exercised a Dissent Right and has not withdrawn or been deemed to have withdrawn such exercise of Dissent Rights and who is ultimately entitled to be paid the fair value of the Company Shares held by such registered Company Shareholder.

“**Dissenting Shares**” has the meaning ascribed thereto in Section 5.2.

“**DRS Advice**” means a statement that evidences a direct registration system book-entry position on the share registers of the Parent or the Company, as applicable.

“**Effective Date**” means the effective date of the Arrangement, being the third Business Day after the date upon which all conditions precedent (excluding conditions that, by their terms, cannot be satisfied until the Effective Date) to the completion of the Arrangement as set out in Article 7 of the Arrangement Agreement have been satisfied or waived in accordance with the Arrangement Agreement, or such other date as may be agreed to by the Company and the Parent, and the Company and the Parent will execute the Closing Certificate confirming the Effective Date.

“**Effective Time**” means the time on the Effective Date specified as the “**Effective Time**” on the Closing Certificate.

“**Exchange Ratio**” means one (1) Parent Share for each one (1) Company Share.

“**Final Order**” means the final order of the Court, after a hearing on the fairness of the terms and conditions of the Arrangement, in a form acceptable to both the Company and the Parent, each acting reasonably, approving the Arrangement, as such order may be amended by the Court (with the consent of both the Company and the Parent, each acting reasonably) at any time prior to the Effective Date or, if appealed, then, unless such appeal is withdrawn or denied, as affirmed or as amended (provided that such amendment is acceptable to both the Company and the Parent, each acting reasonably) on appeal.

“**Finco**” means 1362283 B.C. Ltd., a corporation existing under the BCBCA.

“**Finco Shares**” means the common shares of Finco, as constituted from time to time.

“**Finco Subscription Agreement**” means the subscription agreements of Finco for the purchase of the Subscription Receipts.

“**Finco Subscription Receipt Agreement**” means the subscription receipt agreement between Finco and the Subscription Receipt Agent providing for the terms and conditions of the Subscription Receipts.

**“Interim Order”** means the interim order of the Court pursuant to Section 291 of the BCBCA to be issued following application therefor contemplated by Article 2 of the Arrangement Agreement, after being informed of the intention to rely upon the exemption from registration under Section 3(a)(10) of the U.S. Securities Act with respect to the Parent Shares and the Parent Options to be issued pursuant to the Arrangement, in a form acceptable to both the Parent and the Company each acting reasonably, providing for, among other things, the calling and holding of the Parent Shareholder Meeting and the Company Shareholder Meeting, as such order may be amended, supplemented or varied by the Court with the consent of both the Parent and the Company, each acting reasonably.

**“Liens”** means any hypothecs, mortgages, pledges, assignments, liens, charges, security interests, encumbrances and adverse rights or claims, other third party interest or encumbrance of any kind, whether contingent or absolute, and any agreement, option, right or privilege (whether by law, contract or otherwise) capable of becoming any of the foregoing.

**“Merger”** means the merger whereby Merger Sub will merge with and into the Company, the separate corporate existence of the Merger Sub will cease, and the Company will continue its corporate existence under the DGCL as the surviving corporation in the Merger and a Subsidiary of the Parent.

**“Parent Circular”** means the notice of the Parent Shareholder Meeting and accompanying management information circular, including all schedules, appendices and exhibits to, and information incorporated by reference in, such management information circular, to be submitted to the Court in the Interim Order and to be sent to the Parent Shareholders in connection with the Parent Shareholder Meeting, as amended, supplemented or otherwise modified from time to time in accordance with the terms of this Agreement.

**“Parent Options”** means options to purchase Parent Shares issued in exchange for Company Options pursuant to this Arrangement.

**“Parent Shares”** means the common shares without par value in the authorized share capital of Parent.

**“Parent Shareholder Meeting”** means the special meeting of Parent Shareholders, including any adjournment or postponement thereof, to be called and held in accordance with the Interim Order to consider the Arrangement Resolution and for any other purpose as may be set out in the Parent Circular.

**“Parties”** means the Parent, Finco, the Merger Sub and the Company and **“Party”** means any one of them.

**“Person”** means any individual, corporation, limited or general partnership, limited liability company, limited liability partnership, trust, association, joint venture, governmental entity, or other entity.

**“Plan of Arrangement”** means this Plan of Arrangement and any amendments or variations thereto made in accordance with this Plan of Arrangement or upon the

direction of the Court in the Final Order with the consent of the Company and the Parent, each acting reasonably.

**“Registrar”** means the Registrar of Companies appointed pursuant to Section 400 of the BCBCA.

**“Subscription Receipt Agent”** means an agent to be agreed to by the Parent and the Company.

**“Subscription Receipts”** means the subscription receipts of Finco that have been issued pursuant to the Finco Subscription Receipt Agreement.

**“Subsidiary”** has the meaning given such term in the Arrangement Agreement.

**“Surviving Corporation”** means the Company after the Merger has been consummated.

**“Tax Act”** means the *Income Tax Act* (Canada).

**“Transmittal Letter”** means the letter of transmittal to be sent by the Parent and/or the Company to the Company Shareholders for use in connection with the Arrangement.

1.2 In this Plan of Arrangement, unless otherwise expressly stated or the context otherwise requires:

- (a) the division of this Plan of Arrangement into Articles and Sections and the further division thereof into subsections and the insertion of headings are for convenience of reference only and will not affect the construction or interpretation of this Plan of Arrangement. Unless otherwise indicated, any reference in this Plan of Arrangement to an Article, Section or subsection refers to the specified Article, Section or subsection to this Plan of Arrangement;
- (b) the terms **“hereof”**, **“herein”**, **“hereunder”** and similar expressions refer to this Plan of Arrangement and not to any particular section or other portion hereof and include any agreement or instrument supplementary or ancillary hereto and, unless otherwise indicated, a reference herein to a Section is to the appropriate Section of this Plan of Arrangement;
- (c) words importing the singular number only will include the plural and vice versa, words importing the use of any gender will include all genders and words importing persons will include firms and corporations and vice versa;
- (d) if any date on which any action is required to be taken hereunder by any of the Parties is not a Business Day, such action will be required to be taken on the next succeeding day which is a Business Day;
- (e) time shall be of the essence in every matter or action contemplated hereunder;
- (f) the word **“including”** means **“including, without limiting the generality of the foregoing”**;

- (g) a reference to a statute is to that statute as now enacted or as the statute may from time to time be amended, re-enacted or replaced and includes any regulation, rule or policy made thereunder; and
- (h) all references to cash or currency in this Plan of Arrangement are to U.S. dollars unless otherwise indicated.

## **ARTICLE 2 ARRANGEMENT AGREEMENT**

- 2.1 This Plan of Arrangement is made pursuant to and subject to the provisions of the Arrangement Agreement, except in respect of the sequence of the steps comprising the Arrangement, which shall occur in the order set forth herein.
- 2.2 This Plan of Arrangement will become effective as at the Effective Time and will be binding without any further authorization, act or formality on the part of the Court, the Registrar, the Parent, Finco, the Company, the Company Shareholders or the holders of the Company Options, from and after the Effective Time.
- 2.3 Other than as expressly provided for herein, no portion of this Plan of Arrangement shall take effect with any Party or Person until the Effective Time.

## **ARTICLE 3 ARRANGEMENT**

- 3.1 On the Effective Date, subject to the provisions of this Plan of Arrangement, the following will occur and will be deemed to occur in the following sequence without any further authorization, act or formality:
  - (a) with respect to the Subscription Receipts:
    - (i) each Subscription Receipt will, without payment of any additional consideration and without further action on the part of the holder thereof, be deemed to be converted into one Finco Share in accordance with the Finco Subscription Receipt Agreement; and
    - (ii) the holder of a Subscription Receipt will cease to be the holder thereof or to have any rights as a holder in respect of such Subscription Receipt or under the Finco Subscription Receipt Agreement in accordance with the Finco Subscription Receipt Agreement;
  - (b) Finco and the Parent, or at the Parent's option, a Subsidiary of the Parent, shall be amalgamated and continued as one corporation under the BCBCA in accordance with the following:
    - (i) Finco and the Parent, or at the Parent's option, a Subsidiary of the Parent, shall amalgamate and continue as one corporation, in accordance with the following:

- A. the property of each amalgamating corporation shall continue to be the property of Amalco;
  - B. Amalco shall continue to be liable for the obligations of each amalgamating corporation;
  - C. any existing cause of action, claim or liability to prosecution of an amalgamating corporation shall be unaffected;
  - D. any civil, criminal or administrative action or proceeding pending by or against an amalgamating corporation may be continued to be prosecuted by or against Amalco;
  - E. a conviction against, or ruling, order or judgment in favour of or against, an amalgamating corporation may be enforced by or against Amalco; and
  - F. the Notice of Articles and Articles of the Parent shall remain the Notice of Articles and Articles of Amalco;
- (ii) to the extent any of the provision of this Plan of Arrangement is deemed to be inconsistent with applicable laws, this Plan of Arrangement shall be automatically adjusted to remove such inconsistency;
- (iii) on the amalgamation:
- A. each Finco Share (other than Finco Shares held by the Parent) will be converted, without any act or formality on the part of the holder thereof, into one Parent Share, and the name of each such holder will be removed from the register of holders of Finco Shares and added to the register of holders of Parent Shares;
  - B. each Finco Share held by the Parent will be cancelled without any payment of capital in respect thereof; and
  - C. each Parent Share, or common share of the Subsidiary of the Parent, if applicable, will be converted, without any act or formality on the part of the holder thereof, into one (1) fully paid and non-assessable Amalco Share, and the name of each such holder will be removed from the register of holders of Parent Shares, or register of holders of common shares of the Subsidiary of the Parent, if applicable, and added to the register of holders of Amalco Shares;
- (c) on the terms and subject to the conditions set forth in the Arrangement Agreement, and in accordance with the DGCL, at the Effective Time:
- (i) the Merger Sub will merge with and into the Company;
  - (ii) the separate corporate existence of the Merger Sub will cease;

- (iii) the Company will continue its corporate existence under the DGCL as the Surviving Corporation in the Merger and a Subsidiary of the Parent;
  - (iv) all property, rights, privileges, immunities, powers, franchises, licenses, and authority of the Company and the Merger Sub shall vest in the Surviving Corporation, and all debts, liabilities, obligations, restrictions, and duties of each of the Company and the Merger Sub shall become the debts, liabilities, obligations, restrictions, and duties of the Surviving Corporation;
  - (v) the certificate of incorporation of the Surviving Corporation shall be amended and restated so as to read in its entirety as set forth in to the Arrangement Agreement and the name of the Surviving Corporation may be amended to be "Yerbae U.S." or some other name acceptable to the Company, and, as so amended and restated, shall be the certificate of incorporation of the Surviving Corporation until thereafter amended in accordance with the terms thereof and applicable law; and
  - (vi) the by-laws of the Merger Sub as in effect immediately prior to the Effective Time shall be the by-laws of the Surviving Corporation, except that references to the Merger Sub's name shall be replaced with references to the Surviving Corporation's name until thereafter amended in accordance with the terms thereof, the certificate of incorporation of the Surviving Corporation, and applicable law;
- (d) immediately thereafter and pursuant to the Merger, each issued Company Share outstanding immediately prior to the Effective Time held by a Company Shareholder in respect of which Dissent Rights have been validly exercised will be deemed to have been transferred without any further act or formality, to the Parent, free and clear of any liens, claims and encumbrances in consideration for the right to receive the consideration in the amount and payable in accordance with Article 5, and:
- (i) such Company Shareholder will cease to be the registered holder of such Dissenting Shares and will cease to have any rights as registered holders of such Company Shares other than the right to be paid fair value for such Dissenting Shares as set out in Section 5.2(a);
  - (ii) such Company Shareholder's name will be removed as the registered holder of such Dissenting Shares from the registers of the Company Shares maintained by or on behalf of the Company; and
  - (iii) the Parent will be deemed to be the transferee of such Dissenting Shares, free and clear of any liens, claims and encumbrances;
- (e) immediately thereafter and pursuant to the Merger, each issued and outstanding Company Share (other than (i) any Company Share in respect of which a registered Company Shareholder has validly exercised his, her or its Dissent Right and (ii)



any Company Shares held by the Parent or the Company) will be deemed to have been transferred to, and acquired by the Parent, without any act or formality on the part of the holder of such Company Share or the Parent, free and clear of all liens, claims and encumbrances, in exchange for such number of Parent Shares equal to the product of: (A) the number of Company Shares multiplied by (B) the Exchange Ratio, provided that the aggregate number of Parent Shares payable to any Company Shareholder, if calculated to include a fraction of a Parent Share, will be rounded down to the nearest whole Parent Share, with no consideration being paid for the fractional share, and the name of each such Company Shareholder will be removed from the register of holders of Company Shares and added to the register of holders of Parent Shares, and the Parent will be recorded as the registered holder of such Company Shares so exchanged and will be deemed to be the legal and beneficial owner thereof;

- (f) immediately thereafter and pursuant to the Merger, each issued Company Share that is owned by the Parent or the Company (as treasury stock or otherwise) or any of their respective direct or indirect wholly-owned Subsidiaries as of immediately prior to the Effective Time will automatically be cancelled and retired and will cease to exist, and no consideration will be delivered in exchange therefor;
- (g) immediately thereafter and pursuant to the Merger, each share of common stock of the Merger Sub issued and outstanding immediately prior to the Effective Time shall be converted into and become one newly issued, fully paid, and non-assessable share of common stock of the Surviving Corporation with the same rights, powers, and privileges as the shares so converted and shall constitute the only outstanding shares of capital stock of the Surviving Corporation;
- (h) immediately thereafter and pursuant to the Merger, each holder of Company Options shall be deemed to have exchanged such Company Options for Parent Options to acquire from the Parent the number of Parent Shares equal to the product of: (A) the number of Company Shares subject to such Company Options immediately prior to the Effective Time multiplied by (B) the Exchange Ratio, provided that, if the foregoing would result in the issuance of a fraction of a Parent Share on any particular exercise of Parent Options, then the number of Parent Shares otherwise issued shall be rounded down to the nearest whole number of Parent Shares. The exercise price per Parent Share subject to a replacement Parent Option shall be an amount equal to the quotient of: (A) the exercise price per Company Share subject to each such Company Option immediately before the Effective Time divided by (B) the Exchange Ratio, provided that the aggregate exercise price payable on any particular exercise of replacement Parent Options shall be rounded up to the nearest whole cent. provided, that the exercise price and the number of Parent Shares subject to the Parent Option shall be determined in a manner consistent with the requirements of Section 409A of the Code, and, in the case of Company Options that are intended to qualify as incentive stock options within the meaning of Section 422 of the Code, consistent with the requirements of Section 424(a) of the Code;

- (i) immediately thereafter and pursuant to the Merger, each holder of Company Restricted Shares shall be deemed to have exchanged such Company Restricted Shares for the number of Parent Shares equal to the product of: (A) the number of Company Restricted Shares immediately prior to the Effective Time; multiplied by (B) the Exchange Ratio, provided that, if the foregoing would result in the issuance of a fraction of a Parent Share, then the number of Parent Shares otherwise issued shall be rounded down to the nearest whole number of Parent Shares; and
- (j) immediately thereafter and pursuant to the Merger, each holder of Company Warrants shall be deemed to have exchanged such Company Warrants for share purchase warrants of the Parent permitting the holder thereof to acquire from the Parent the number of Parent Shares equal to the product of: (A) the number of Company Shares subject to such Company Warrants immediately prior to the Effective Time multiplied by (B) the Exchange Ratio, provided that, if the foregoing would result in the issuance of a fraction of a Parent Share on any particular exercise of Parent Warrants, then the number of Parent Shares otherwise issued shall be rounded down to the nearest whole number of Parent Shares. The exercise price per share purchase warrant of the Parent shall be an amount equal to the quotient of: (A) the exercise price per Company Share subject to each such Company Warrant immediately before the Effective Time divided by (B) the Exchange Ratio.

#### **ARTICLE 4 CERTIFICATES AND PAYMENTS**

- 4.1 The Parent will deposit the Parent Shares with the Depositary to satisfy the consideration issuable and/or payable to the Company Shareholders pursuant to this Plan of Arrangement (other than registered Company Shareholders validly exercising Dissent Rights and who have not withdrawn their notice of objection).
- 4.2 After the Effective Date, certificates formerly representing the Company Shares which are held by a Company Shareholder will, except for the Company Shares held by Dissenters, represent only the right to receive the consideration issuable and/or payable therefor pursuant to Section 3.1 in accordance with the terms of this Plan of Arrangement.
- 4.3 No dividends or other distributions declared or made after the Effective Date with respect to the Parent Shares with a record date after the Effective Date will be payable or paid to the holder of any unsurrendered certificate or certificates for the Company Shares which, immediately prior to the Effective Date, represented outstanding Company Shares and will not be payable or paid until the surrender of certificates for Company Shares for exchange for the consideration issuable and/or payable therefor pursuant to Section 3.1 in accordance with the terms of this Plan of Arrangement.
- 4.4 As soon as reasonably practicable after the Effective Date (subject to Section 6.2), the Depositary will forward to each Company Shareholder that submitted a duly completed Transmittal Letter to the Depositary, together with the certificate (if any) representing the Company Shares held by such Company Shareholder, the certificates or DRS Advices representing the Parent Shares issued to such Company Shareholder pursuant to Section

3.1(e), which shares will be registered in such name or names and either (i) delivered to the address or addresses as such Company Shareholder directed in their Transmittal Letter or (ii) made available for pick up at the offices of the Depository in accordance with the instructions of the Company Shareholder in the Transmittal Letter.

- 4.5 The Company Shareholders that did not submit an effective Transmittal Letter prior to the Effective Date may take delivery of the consideration issuable or payable to them by delivering the certificates representing the Company Shares formerly held by them to the Depository at the offices indicated in the Transmittal Letter. Such certificates must be accompanied by a duly completed Transmittal Letter, together with such other documents as the Depository may require. Certificates or DRS Advices representing the Parent Shares issued to such Company Shareholder pursuant to Section 3.1 will be registered in such name or names and delivered to the address or addresses as such Company Shareholder directed in their Transmittal Letter or made available for pick up at the offices of the Depository in accordance with the instructions of the Company Shareholder in the Transmittal Letter, as soon as reasonably practicable after receipt by the Depository of the required certificates and documents.
- 4.6 Any certificate which immediately prior to the Effective Date represented outstanding Company Shares and which has not been surrendered, with all other instruments required by this Article 4, on or prior to the sixth anniversary of the Effective Date, will cease to represent any claim against or interest of any kind or nature in the Parent, Amalco, the Company or the Depository.
- 4.7 In the event any certificate, which immediately before the Effective Time represented one or more outstanding Company Shares that was exchanged pursuant to Section 3.1, is lost, stolen or destroyed, upon the making of an affidavit of that fact by the Person claiming such certificate to be lost, stolen or destroyed, the Depository will issue in exchange for such lost, stolen or destroyed certificate, the consideration to which such Person is entitled in respect of the Company Shares represented by such lost, stolen, or destroyed certificate pursuant to Section 3.1 deliverable in accordance with such Person's Transmittal Letter. When authorizing such issuances or payment in exchange for any lost, stolen or destroyed certificate, the Person to whom consideration is to be issued and/or paid will, as a condition precedent to the issuance and/or payment thereof, give a bond satisfactory to the Parent and its transfer agent in such sum as the Parent may direct or otherwise indemnify the Parent in a manner satisfactory to it, against any claim that may be made against one or both of them with respect to the certificate alleged to have been lost, stolen or destroyed.

## ARTICLE 5 RIGHTS OF DISSENT

- 5.1 Notwithstanding Section 3.1, holders of Company Shares may exercise rights of dissent (the "**Dissent Rights**") in connection with the Arrangement pursuant to the Interim Order and in the manner set forth in Section 262 of the DGCL, as modified by this Article 5, the Interim Order and the Final Order (collectively, the "**Dissent Procedures**").

5.2 The Company Shareholders who duly and validly exercise Dissent Rights (the “**Dissenting Shareholders**”) with respect to their Company Shares (the “**Dissenting Shares**”) and who:

- (a) are ultimately entitled to be paid fair value for their Dissenting Shares will be deemed to have transferred their Dissenting Shares to the Parent as of the Effective Time, without any further act or formality and free and clear of all liens, and shall be paid an amount equal to such fair value; or
- (b) for any reason are ultimately not entitled to be paid fair value for their Dissenting Shares, will be deemed to have participated in the Arrangement on the same basis as a non-dissenting Company Shareholder and will receive the Parent Shares on the same basis as every other non-dissenting Company Shareholder;

but in no case will the Company, the Parent or Amalco be required to recognize such persons as holding Company Shares on or after the Effective Date, and the names of such Dissenting Shareholders will be deleted from the register of Company as of the Effective Time. Further, in no circumstance will the Company, the Parent, Amalco or any other Person be required to recognize a person exercising Dissent Rights unless such person has not voted in favor of the Arrangement or consented thereto in writing and has properly demanded the appraisal or dissent of such shares in accordance with, and has complied in all respects with, the Dissent Procedures (and shall have not properly revoked such demand) prior to the Effective Time. For greater certainty, none of the following shall be entitled to exercise Dissent Rights (i) holders of Company Options, or (ii) Company Shareholders who vote, or who have instructed a proxyholder to vote, in favour of the Company Shareholder Resolution.

## **ARTICLE 6**

### **EFFECT OF THE ARRANGEMENT**

6.1 As at and from the Effective Time:

- (a) the Parent or, at the option of the Parent, a Subsidiary of the Parent, and Finco will be amalgamated to form Amalco;
- (b) the Company will be a wholly-owned Subsidiary of the Parent;
- (c) the rights of creditors against the property and interests of Amalco and the Company will be unimpaired by the Arrangement;
- (d) the Company Shareholders, other than the Dissenting Shareholders, will hold Parent Shares in exchange for their Company Shares, as provided by the Plan of Arrangement; and
- (e) the holders of the Company Options will hold Parent Options in exchange for their Company Options, as provided by the Plan of Arrangement.

- 6.2 The Parent, Amalco, the Company and the Depositary will be entitled to deduct and withhold from any consideration payable, or amount, property or certificate deliverable, to any Person in accordance with this Plan of Arrangement or the Arrangement, such amounts as the Parent, Amalco, the Company or the Depositary is required or permitted to deduct and withhold with respect to such payment under the *Tax Act*, the Code or any provision of provincial, state, local or foreign tax laws, in each case, as amended. To the extent that amounts are so withheld, such withheld amounts will be treated for all purposes hereof as having been paid to the holder of the shares in respect of which such deduction and withholding was made, provided that such withheld amounts are actually remitted to the appropriate taxing authority. Each of the Parent, Amalco, the Company and the Depositary is hereby authorized to sell or otherwise dispose of such portion of the Parent Shares payable as consideration as is necessary to provide sufficient funds to the Parent, Amalco, the Company or the Depositary, as the case may be, to enable it to implement such deduction or withholding or related remittance of taxes, and the Parent, Amalco, the Company or the Depositary will notify the holder thereof and remit to the holder any unapplied balance of the net proceeds of such sale.
- 6.3 Any exchange or transfer of securities pursuant to this Plan of Arrangement shall be free and clear of any liens, charges, security interests, encumbrances, mortgages, hypothecs, restrictions, adverse claims or other claims of third parties of any kind.
- 6.4 From and after the Effective Time: (i) this Plan of Arrangement shall take precedence and priority over any and all of the Company Shares, the Company Options and the Company Restricted Shares issued prior to the Effective Time, (ii) the rights and obligations of the registered holders of the Company Shares, the Company Options, the Company Restricted Shares, the Parent, Amalco, the Depositary and any transfer agent or other depositary therefor in relation thereto, shall be solely as provided for in this Plan of Arrangement and (iii) all actions, causes of action, claims or proceedings (actual or contingent and whether or not previously asserted) based on or in any way relating to any of the Company Shares, the Company Options or the Company Restricted Shares shall be deemed to have been settled, compromised, released and determined without liability except as set forth herein.

## **ARTICLE 7 AMENDMENTS**

- 7.1 The Parent and the Company reserve the right to amend, modify and/or supplement this Plan of Arrangement from time to time at any time prior to the Effective Date, provided that any such amendment, modification or supplement must be contained in a written document that is approved by each of the Parent and the Company and is filed with the Court. Subject to Section 7.3, if such amendment, modification or supplement is made following the Company Shareholder Meeting, it will be approved by the Court and, if required by the Court, communicated to the Company Shareholders, and will become part of the Arrangement upon completion of all the conditions required in the Court approval.
- 7.2 Save and except as may be otherwise provided in the Interim Order, any amendment, modification or supplement to this Plan of Arrangement may be proposed by the Parent

or the Company (provided that the other will have consented thereto) at any time prior to the Company Shareholder Meeting with or without any other prior notice or communication to Company Shareholders, and if so proposed and accepted by the Company Shareholders voting at the Company Shareholder Meeting, will become part of this Plan of Arrangement for all purposes.

- 7.3 Any amendment, modification or supplement to this Plan of Arrangement may be made by the Parent and the Company without approval of the Company Shareholders provided that it concerns a matter which, in the reasonable opinion of the Parent and the Company, is of an administrative nature required to better give effect to the implementation of this Plan of Arrangement and is not materially adverse to the financial or economic interests of any of the Company Shareholders.

## **ARTICLE 8 FURTHER ASSURANCES**

- 8.1 Notwithstanding that the transactions and events set out herein will occur and be deemed to occur in the order set out in this Plan of Arrangement without any further act or formality, each of the parties to the Arrangement Agreement will make, do and execute, or cause to be made, done and executed, all such further acts, deeds, agreements, transfers, assurances, instruments or documents as may reasonably be required by any of them in order further to document or evidence any of the transactions or events set out therein.

Appendix A  
**To the Plan of Arrangement - Closing Certificate**

Re: Arrangement Agreement dated May 19, 2022 between Kona Bay Technologies Inc., 1362283 B.C. Ltd., Kona Bay Technologies (Delaware) Inc., Yerbae Brands Co., Todd Gibson and Karrie Gibson (the "**Arrangement Agreement**")

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Defined terms used but not defined in this certificate shall have the meaning ascribed thereto in the Arrangement Agreement.

Each of the undersigned hereby confirms that the undersigned is satisfied that the conditions precedent to its respective obligations to complete the Arrangement Agreement have been satisfied and that the Arrangement is completed as of \_\_\_\_\_ (am/pm Vancouver local time) (the "**Effective Time**") on \_\_\_\_\_, 2022 (the "**Effective Date**").

**KONA BAY TECHNOLOGIES INC.**

Per: \_\_\_\_\_  
Authorized Signatory  
Name:  
Title:

**KONA BAY TECHNOLOGIES (DELAWARE) INC.**

Per: \_\_\_\_\_  
Authorized Signatory  
Name:  
Title:

**1362283 B.C. LTD.**

Per: \_\_\_\_\_  
Authorized Signatory  
Name:  
Title:

**YERBAE BRANDS CO.**

Per: \_\_\_\_\_  
Authorized Signatory  
Name:  
Title:

**PRINCIPAL SHAREHOLDERS**

\_\_\_\_\_  
**TODD GIBSON**

\_\_\_\_\_  
**KARRIE GIBSON**



N-1

**SCHEDULE "N"**

**FAIRNESS OPINION**

*[See attached]*

# EVANS & EVANS, INC.

SUITE 130, 3<sup>RD</sup> FLOOR, BENTALL II, 555 BURRARD STREET  
VANCOUVER, BRITISH COLUMBIA  
CANADA V7X 1M8

19<sup>TH</sup> FLOOR, 700 2<sup>ND</sup> STREET SW  
CALGARY, ALBERTA  
CANADA T2P 2W2

6<sup>TH</sup> FLOOR, 176 YONGE STREET  
TORONTO, ONTARIO  
CANADA M5C 2L7

September 29, 2022

## KONA BAY TECHNOLOGIES INC.

Suite 250 – 750 West Pender Street  
Vancouver, British Columbia V6C 2T7

### **Attention: Board of Directors**

Dear Sirs/Mesdames:

### **Subject: Fairness Opinion**

#### **1.0 Introduction**

1.01 Evans & Evans, Inc. (“Evans & Evans” or the “authors of the Opinion”) was engaged by the Board of Directors (the “Board”) of Kona Bay Technologies Inc. (“Kona Bay” or the “Issuer”) of Vancouver, British Columbia to prepare a Fairness Opinion (the “Opinion”) with respect to a proposed merger and business combination (the “Transaction”) with Yerbaé Brands Co. (“Yerbaé” or the “Company” and together with Kona Bay the “Companies”). The Transaction is summarized in section 1.05 of the Opinion.

Kona Bay is a reporting issuer whose shares are listed on the NEX Board of the TSX Venture Exchange (“TSXV”) under the symbol “KBY.H”. As at the date of the Opinion, Kona Bay had no ongoing business operations. Yerbaé is a private U.S.-based company which develops and sells zero sugar, zero calorie energy beverages.

Given the planned completion of the Transaction, the Board has requested Evans & Evans prepare the Opinion to provide an independent opinion as to the fairness of the Transaction, from a financial point of view, to the Kona Bay shareholders (collectively, the “Kona Bay Shareholders”).

The effective date of the Opinion is September 29, 2022.

1.02 *Unless otherwise noted, all monetary amounts referenced herein are Canadian dollars.*

1.03 Kona Bay is incorporated under the provisions of the *Business Corporations Act* (British Columbia). The Issuer was previously in the business of providing internet-based training applications and services through its wholly owned subsidiary ACT360 Media Ltd. (“Act360”). On September 3, 2021, the Issuer completed the sale of Act360 and began seeking new business opportunities.

### **Financial Results & Financial Position**

As of the date of the Opinion, the issuer had nominal assets and liabilities. Kona Bay is not generating any revenues.

### **Capital Structure**

As of the date of the Opinion, Kona Bay had 28,820,663 pre-Consolidation (as defined below) common shares issued and outstanding. Trading of Kona Bay common shares has been halted since May 20, 2022.

- 1.04 The Company was incorporated under the laws of the State of Delaware on August 21, 2020. Yerbaé has one wholly owned subsidiary Yerbaé, LLC, a Delaware limited liability company formed in 2016. On August 21, 2020, all members with an interest in Yerbaé, LLC had such units converted to shares in the Company.

The Company has developed a plant-based energy drink with zero sugar. Yerbaé is attempting to fill a void between natural sparkling waters and sugar-filled energy and functional beverages. The Company's mission is to "*Empower healthier lives through clean functional products that harness the power of nature and foster a community of wellness that is good for people and the planet*".

Management of the Company describes Yerbaé as follows: "*We deliver an enhanced experience that stimulates the body and focuses the mind without the jitters and crash typically associated with energy drinks. Consumers have a desire for something that provides the functional benefit they get from energy drinks, without all the suspicious ingredients that many of the current market leaders contain. By combining Yerba Mate, a naturally caffeinated South American herb with our premium ingredients and flavors, Yerbaé provides consumers with a no compromise energy solution. All Yerbaé energy beverages are zero calorie, zero sugar, non-GMO, and gluten free.*"

Yerbaé products are sold online, direct to consumer and through a network of over 8,000 retail stores – including convenience stores, natural product stores and grocery chains. The Company uses a contract manufacturer for production.

### **Financial Results**

The Company's fiscal year ("FY") ends on December 31. Gross revenues have increased from approximately US\$4.7 million in 2019 to US\$6.8 million in 2021. For the first six months of 2022, Yerbaé's gross revenues were approximately US\$3.7 million as can be seen from the chart below. Gross margins have improved from 49% in FY 2019 to over 60% in the first six months of FY 2022 as the Company takes advantages of scale in its operations.

Revenues are fairly balanced across the U.S., in the Midwest, East and West regions, however the Company is strongest in the Midwest. The COVID-19 pandemic did not have

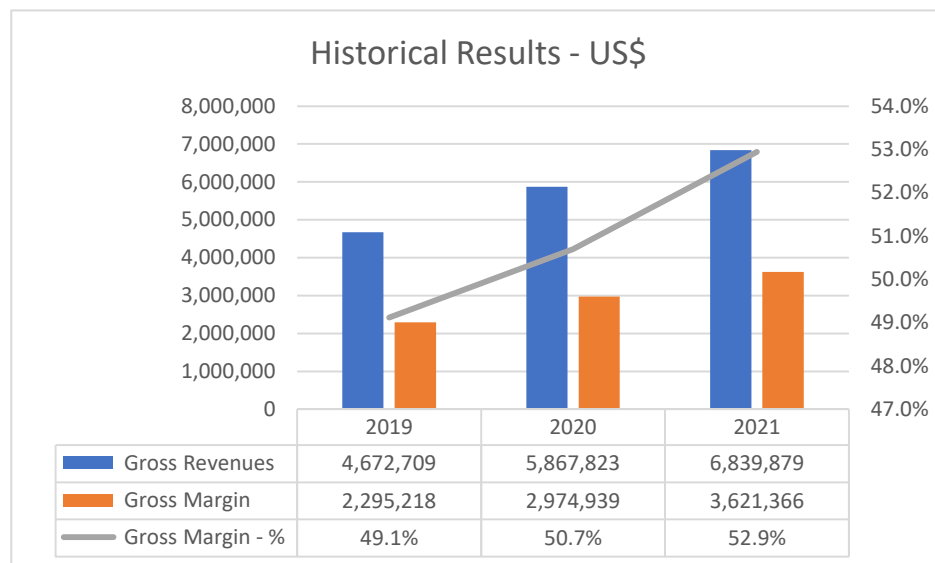
## KONA BAY TECHNOLOGIES INC.

September 29, 2022

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a material impact on the Company's operations. The Company's largest operating expense category is advertising, marketing and promotion. The majority of Yerbaé's sales are made through distributors.

The Company has not yet reached a stage where it is profitable and accumulated a loss of approximately US\$11.2 million between January 1, 2019 and June 30, 2022.



### **Financial Position**

As of June 30, 2022, Yerbaé had approximately US\$5.0 million in debt, , approximately US\$3.0 million of which was advanced in connection with the Transaction as outlined in section 1.05 below. The Company's debt consists of promissory notes, vehicle loans and convertible securities which are also expected to convert to equity. The debt associated with the Transaction of US\$3.0 million will automatically convert to equity at the closing and a further US\$1.0 million will be repaid with funds from the concurrent financing as described below.

### **Capital Structure**

As of the date of the Opinion, the Company is authorized to issue up to 39,817,500 shares of common stock (each, a "Common Stock"). The Company has 29,875,508 shares of issued and outstanding Common Stock, or 31,282,253 on a fully diluted basis, including shares reserved for issuance upon the exercise of warrants and the Company Stock Plans, but excluding the Bridge Loan (as defined in section 1.05 below).

- 1.05 On May 19, 2022, Yerbaé, Kona Bay, Kona Bay Technologies (Delaware) Inc. ("Merger Sub"), 1362283 B.C. Ltd. ("Finco"), Todd Gibson and Karrie Gibson (together the "Gibsons") entered into an Arrangement Agreement and Plan of Merger (the "Agreement") setting out the terms by which Kona Bay would acquire all of the issued

**KONA BAY TECHNOLOGIES INC.**

September 29, 2022

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and outstanding shares of Common Stock of Yerbaé (collectively, the “Yerbaé Shares”). The key terms of the Transaction are summarized below.

1. The Transaction will include the merger of the Company with the Merger Sub, with the Company surviving and the amalgamation of Finco with Kona Bay.
2. Prior to the completion of the Transaction there will be 28,820,663 Kona Bay common shares issued and outstanding. In connection with closing of the Transaction, Kona Bay intends to consolidate its outstanding common shares on the basis of 5.8 pre-consolidation Shares for every one post-consolidation Share prior to the completion of the Transaction (the “Consolidation”).
3. Kona Bay will issue Consideration Shares<sup>1</sup> to acquire all of the issued and outstanding shares of Yerbaé Shares on the basis of one Consideration Share for each existing Yerbaé Share (the “Exchange Ratio”).
4. Certain of the Consideration Shares issued to Yerbaé shareholders will be subject to voluntary and regulatory escrow conditions as outlined in the Agreement.
5. Prior to or concurrently with the closing, Finco will complete a private placement of securities (the “Concurrent Financing”) to raise minimum gross proceeds of \$5.0 million with a minimum value of US\$1.23 per Parent Share. Under the Concurrent Financing, Finco will issue subscription receipts which will be exchanged for a common share in Amalco<sup>2</sup> at closing.
6. Klutch Financial Corp. (“Klutch”) has provided a US\$3.0 million bridge loan (the “Bridge Loan”) to the Company. At closing the Bridge Loan will be converted into Parent Units<sup>3</sup> at a price of \$0.68 per Parent Unit.
7. Following completion of the Transaction, the amalgamated and merged entity is referred to throughout the Opinion as the “Resulting Issuer”.
8. Kona Bay will issue an aggregate of 3.0 million performance shares to Klutch upon the achievement of certain financing milestones.
9. Kona Bay will issue an aggregate of 5.0 million performance shares to the Gibsons upon the achievement of gross sales milestones.

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<sup>1</sup> Parent Shares (being the Amalco Shares after completion of the Amalgamation) to be issued to the Company Shareholders in exchange for their Company Shares pursuant to the Plan of Arrangement and the Merger

<sup>2</sup> The corporation arising from the amalgamation of Kona Bay and Finco

<sup>3</sup> Means one Parent Share and one share purchase warrant, with each such warrant entitling the holder thereof to acquire on additional Parent Share at a price per Parent Share equal to 125% of the price of the Parent Unit, payable in cash, for a period of three years

The above is meant to be a summary of the key terms and the reader is advised to refer to the Agreement as provided by the Company.

The Transaction was announced on May 24, 2022 (“Announcement Date”).

## **2.0 Engagement of Evans & Evans, Inc.**

2.01 Evans & Evans was formally engaged by the Board pursuant to an engagement letter signed June 24, 2022 (the “Engagement Letter”) to prepare the Opinion.

2.02 The Engagement Letter provides the terms upon which Evans & Evans has agreed to provide the Opinion to the Board. The terms of the Engagement Letter provide that Evans & Evans is to be paid a fixed professional fee for its services. In addition, Evans & Evans is to be reimbursed for its reasonable out-of-pocket expenses and to be indemnified by Kona Bay in certain circumstances. The fee established for the Opinion is not contingent upon the opinions presented.

## **3.0 Scope of Review**

3.01 In connection with preparing the Opinion, Evans & Evans has reviewed and relied upon, or carried out, among other things, the following:

- Reviewed the press release announcing the Transaction as of May 24, 2022.
- Reviewed the Arrangement Agreement and Plan of Merger by and among Yerbaé Brands Co., Kona Bay Technologies Inc., Kona Bay Technologies (Delaware) Inc., 1362283 B.C. Ltd., Todd Gibson and Karrie Gibson.
- Reviewed the Yerbaé Disclosure Letter associated with the Agreement.

### **Kona Bay Technologies Inc.**

- Reviewed Kona Bay’s consolidated financial statements for the years ended September 30, 2020 and 2021 as audited by Charlton & Company, Chartered Professional Accountants of Vancouver, British Columbia.
- Reviewed Kona Bay’s condensed consolidated interim financial statements for the six month-period ended March 31, 2022 and for the nine month-period ended June 30, 2022.
- Reviewed Kona Bay’s Management Discussion and Analysis for the six month-period ended March 31, 2022 and for the nine month-period ended June 30, 2022. Prior year reports were not deemed relevant given the sale of Act360 in September of 2021.
- Reviewed the Kona Bay Material Change Report respecting the Transaction.

**KONA BAY TECHNOLOGIES INC.**

September 29, 2022

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- Reviewed Kona Bay's trading price for the period September 2021 (following the sale of ACT360) to May 20, 2022 (when trading was halted pending completion of the Transaction).

Yerbaé Brands Co.

- Interviewed management of the Company on several occasions to gain an understanding of the Company's past, present and planned operations.
- Reviewed the Company's website [www.yerbae.com](http://www.yerbae.com) and the Spring 2022 Investor Presentation.
- Reviewed the Company's Amended and Restated Certificate of Incorporation and Bylaws.
- Reviewed the Certificate of Registration for Yerbaé, LLC from the State of Arizona.
- Reviewed the management-prepared budget for the years ended December 31, 2022 to 2024. The budget included the actual income statement results for the first six months of 2022.
- Reviewed the Company's financial statements for the years ended December 31, 2019, 2020 and 2021 as audited by Sikich LLP, Certified Public Accountants & Advisors of Naperville, Illinois.
- Reviewed the Company's condensed consolidated interim financial statements for the six month-period ended June 30, 2022.
- Reviewed distribution agreements with and purchase orders from major distributors / customers.
- Reviewed a list of Yerbaé's key suppliers along with the agreements in place where available.
- Reviewed the Company's shareholder list and fully diluted capitalization table.
- Reviewed the Yerbaé trademark certificates. One trademark is held by Todd Gibson but that is in the process of being transferred to the Company.
- Reviewed a summary of the Company's outstanding interest-bearing debt as of May 31, 2022. Also reviewed the Growth Line of Credit Agreement with Ampla LLC and the U.S. Small Business Administration Loan Authorization and Agreement.
- Reviewed the Promissory Note dated April 18, 2022 between the Company and Capital Asset Investments LLC for US\$500,000. The note matures on October 14, 2022.

- Reviewed the Convertible Promissory Notes between the Company and Klutch for a total of US\$3.0 million dated February 10, 2022 and May 20, 2022. The amounts owed to Klutch automatically convert to equity at the closing of the Transaction.
- Conducted a general review of the Company through various online reviews of the Company and its products. On Amazon, the Company's products have over 650 reviews and over 80% are four stars or higher.
- Reviewed financial and stock market trading data on the following companies: GURU Organic Energy Corp.; Celsius Holdings, Inc.; National Beverage Corp.; Reed's, Inc.; RushNet, Inc.; Zevia PBC; NewAge, Inc.; Primo Water Corporation; Monster Beverage Corporation; Equator Beverage Company; Rocky Mountain High Brands, Inc.; Full Motion Beverage, Inc.; and The Alkaline Water Company Inc.
- Information on mergers and acquisitions involving beverage companies and natural products companies.
- Information on the Company's markets from a variety of sources.
- **Limitation and Qualification:** Evans & Evans did not visit the offices of either of the Companies.

#### **4.0 Market Overview**

- 4.01 In assessing the fairness of the Transaction, Evans & Evans did review information on the Company's market.
- 4.02 Caffeinated beverages are caffeinated drinks that contain caffeine. The most preferred and consumed naturally caffeinated beverages are coffee and tea. Other drinks are artificially caffeinated as part of their production process. These include certain soft and energy drinks. The consumption of caffeinated beverages is often intended for the physical and mental effects of caffeine. Caffeine is a xanthine alkaloid that naturally occurs in seeds, leaves and fruits of several plants such as coffee, tea, and guarana among others.
- 4.03 The caffeinated beverage market has witnessed significant growth over the past several years owing to factors such as rising income levels and improved standards of living in emerging regions, such as China and India. Additionally, increased research and development and usage of natural sweeteners in caffeinated beverages is expected to drive demand as consumers become increasingly health conscious. Awareness related to the adverse health effects, such as insomnia and stomach aches caused due to the high consumption of these beverages is projected to hamper the overall growth of the caffeinated beverage market.
- 4.04 The Disease Prevention and Health Promotion in December 2020, suggested that caffeine containing energy drinks are being consumed heavily, mainly among young adults (aged between 18-30 years), this is expected to drive demand of the segment by the year 2027.



According to the U.S. National Consumer League, the average intake of caffeine among adults globally ranges from 110 mg/day up to 260 mg/day and an average intake in children ranges between 5-32 mg/day while for teens it is between 63-80 mg/day<sup>4</sup>.

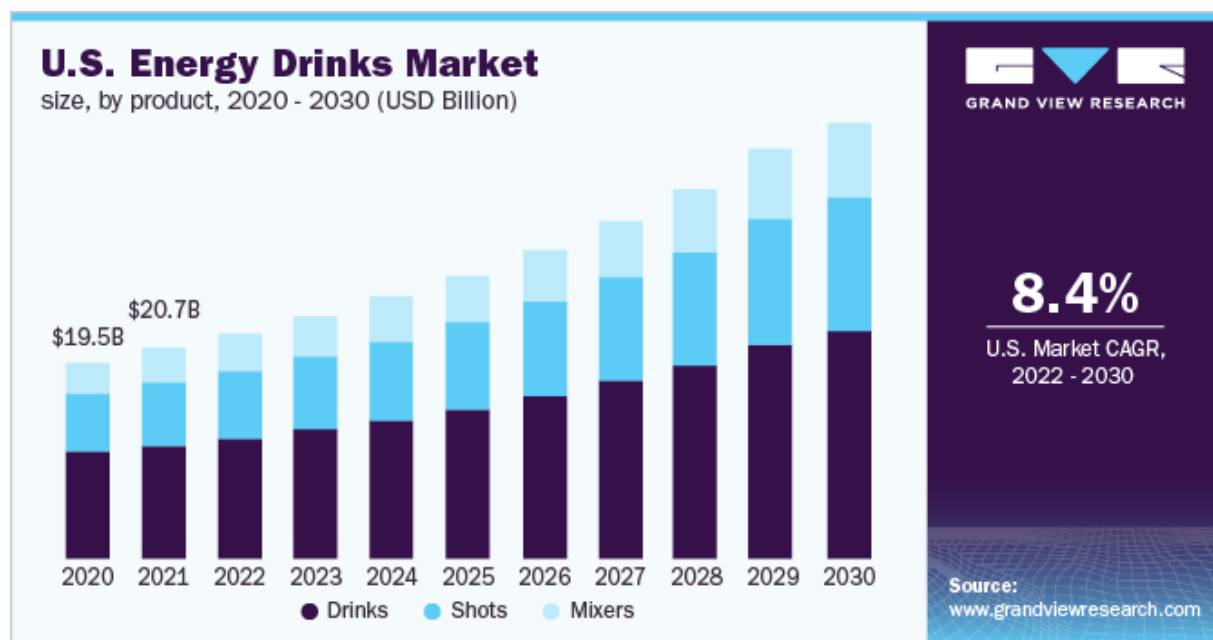
- 4.05 Energy drinks are a highly popular beverage option, with more than 30% of young adults and adolescents in America regularly consuming them for supporting perceived benefits such as improving athletic performance, reducing body fat and more.
- 4.06 Better-for-you innovation also has been an increasing trend in the caffeinated beverage segment as manufacturers create new natural, organic, low-calorie and low-sugar options to appeal to health-conscious consumers. Evans & Evans found in its research that to differentiate in this competitive market, caffeinated beverage manufacturers are creating new formulations with a goal of adding more benefits than just a boost in energy. Ingredients to enhance immune support are showing up alongside caffeine in new offerings from Riff, PepsiCo, Inc. and ZOA Energy. Riff Energy+ Immunity is a sparkling energy drink featuring plant-based energy and immunity boosting ingredients. The beverages are made with cascara, an upcycled coffee bean pulp that is otherwise discarded. The drinks also include antioxidants like elderberries and vitamin C. Riff Energy+ Immunity drinks are non-GMO, carbon neutral and contain 120 mg of caffeine per can. PepsiCo, Inc. launched Mountain Dew Rise Energy, an energy drink designed to offer a mental boost and immune support, according to the company. Nestle SA's Perrier brand launched its first line of carbonated energy beverages that are made with plant-based caffeine from organic green coffee and yerba mate extracts. Perrier Energize contains about the same amount of caffeine as an 8-oz cup of coffee. The beverages are certified organic and contain 35 calories and 7 grams of sugar per can.
- 4.07 Global energy drink sales are estimated to reach US\$53.1 billion by the end of 2022. The industry is expected to grow by a compound annual growth rate ("CAGR") of 7.1% by 2027 to an estimated \$86.1 billion<sup>5</sup>.
- 4.08 While estimates of market size and projected growth vary, Evans & Evans found consistently across all sources that North Americans consume more energy drinks than any other geographic market in the world, with the European market close behind. The Asia Pacific market is expected to see the highest growth rates.
- 4.09 The global energy drinks market size was valued at US\$86.35 billion in 2021 and is expected to expand at a CAGR of 8.3% from 2022 to 2030. The growing demand for energy drinks as a potential energy booster in order to improve physical and cognitive performance has been shaping the market growth. Drinks that are free from sugar, glucose, and high fructose corn syrups have been gaining traction among consumers. Market players are

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<sup>4</sup> <https://www.globenewswire.com/en/news-release/2021/06/07/2242849/0/en/Global-Caffeine-Market-is-expected-to-surpass-US-23-219-0-Million-by-2027-Says-Coherent-Market-Insights-CMI.html>

<sup>5</sup> <https://www.researchandmarkets.com/reports/4771939/energy-drinks-market-growth-trends-covid-19>

aggressively marketing these drinks as functional beverages that uplift energy and alertness as well as provide a physical boost<sup>6</sup>.



4.10 According to Brandessence Market Research, the energy drink market size reached US\$61.23 billion in 2020 and expected to reach US\$99.62 billion by 2027. The growing availability of energy drinks at sports stores, retail chains, and increased affordability of energy drinks market through new channels like e-commerce remain key drivers of growth<sup>7</sup>.

4.11 The global energy drinks market was valued at US\$75.854 billion in 2021 and is predicted to be worth US\$149.756 billion by 2030, with a CAGR of 8.1% from 2022 to 2030<sup>8</sup>.

## 5.0 Prior Valuations

5.01 Management of Kona Bay represented to Evans & Evans that there have been no formal valuations or appraisals relating to the Companies or any affiliate or any of their material assets or liabilities made in the preceding three years which are in the possession or control of Kona Bay.

<sup>6</sup> <https://www.grandviewresearch.com/industry-analysis/energy-drinks-market#:~:text=The%20global%20energy%20drinks%20market%20size%20was%20estimated%20at%20USD,USD%2091.94%20billion%20in%202022>

<sup>7</sup> <https://www.prnewswire.com/news-releases/at-7-2-cagr-energy-drinks-market-size-is-to-hit-usd-99-62-bn-by-2027--says-brandessence-market-research-301425325.html>

<sup>8</sup> <https://www.globenewswire.com/news-release/2022/07/15/2480161/0/en/Energy-Drinks-Market-Size-is-expected-to-reach-at-USD-149-756-Million-by-2030-Registering-a-CAGR-of-8-1-Driven-by-Increasing-Consumer-Oriented-Advertising-by-Manufacturers.html>

**6.0 Conditions and Restrictions**

- 6.01 The Opinion is intended for the use of the Board of Kona Bay and placement on Kona Bay's file. The Opinion may be submitted to the TSXV and the court approving the Transaction. The Opinion may be referenced and/or included in Kona Bay's information circular to be prepared in connection with the Transaction and may be submitted to the Kona Bay Shareholders.
- 6.02 The Opinion may not be issued to any international stock exchange and/or regulatory authority beyond the TSXV.
- 6.03 The Opinion may not be issued and/or used to support any type of value with any other third parties (beyond the Board), legal authorities, nor stock exchanges, or other regulatory authorities, nor any tax authority.
- 6.04 Any use beyond that defined above is done so without the consent of Evans & Evans and readers are advised of such restricted use as set out above.
- 6.05 The Opinion should not be construed as a formal valuation or appraisal of the Companies or their respective securities or assets. Evans & Evans, has, however, conducted such analyses as we considered necessary in the circumstances.
- 6.06 In preparing the Opinion, Evans & Evans has relied upon and assumed, without independent verification, the truthfulness, accuracy and completeness of the information and the financial data provided by the Companies. Evans & Evans has therefore relied upon all specific information as received and declines any responsibility should the results presented be affected by the lack of completeness or truthfulness of such information. Publicly available information deemed relevant for the purpose of the analyses contained in the Opinion has also been used. The Opinion is based on: (i) our interpretation of the information which the Companies, as well as their representatives and advisers, have supplied to-date; (ii) our understanding of the terms of the Transaction; and (iii) the assumption that the Transaction will be consummated in accordance with the expected terms.
- 6.07 The Opinion is necessarily based on economic, market and other conditions as of the date hereof, and the written and oral information made available to us until the date of the Opinion. It is understood that subsequent developments may affect the conclusions of the Opinion, and that, in addition, Evans & Evans has no obligation to update, revise or reaffirm the Opinion.
- 6.08 Evans & Evans denies any responsibility, financial, legal or other, for any use and/or improper use of the Opinion however occasioned.
- 6.09 Evans & Evans is expressing no opinion as to the price at which any securities of the Issuer or the Resulting Issuer will trade on any stock exchange at any time.

- 6.10 Evans & Evans is expressing no opinion as to whether any alternative transaction might have been more beneficial to the Kona Bay Shareholders.
- 6.11 Evans & Evans reserves the right to review all information and calculations included or referred to in the Opinion and, if it considers it necessary, to revise part and/or its entire Opinion and conclusion in light of any information which becomes known to Evans & Evans during or after the date of this Opinion.
- 6.12 In preparing the Opinion, Evans & Evans has relied upon letters from each of the Companies confirming to Evans & Evans in writing that the information and management's representations made to Evans & Evans in preparing the Opinion are accurate, correct, and complete, and that there are no material omissions of information that would affect the conclusions contained in the Opinion.
- 6.13 Evans & Evans has based its Opinion upon a variety of factors. Accordingly, Evans & Evans believes that its analyses must be considered as a whole. Selecting portions of its analyses or the factors considered by Evans & Evans, without considering all factors and analyses together, could create a misleading view of the process underlying the Opinion. The preparation of a fairness opinion is a complex process and is not necessarily susceptible to partial analysis or summary description. Any attempt to do so could lead to undue emphasis on any particular factor or analysis. Evans & Evans' conclusions as to the fairness, from a financial point of view, to the Kona Bay Shareholders of the Transaction were based on its review of the Transaction taken as a whole, in the context of all of the matters described under "Scope of Review", rather than on any particular element of the Transaction or the Transaction outside the context of the matters described under "Scope of Review". The Opinion should be read in its entirety.
- 6.14 Evans & Evans was not requested to, and we did not, solicit indications of interest or proposals from third parties regarding a possible acquisition of or merger with the Issuer. Our opinion also does not address the relative merits of the Transaction as compared to any alternative business strategies or transactions that might exist for the Issuer, the underlying business decision of the Issuer to proceed with Transaction, or the effects of any other transaction in which the Issuer will or might engage.
- 6.15 Evans & Evans expresses no opinion or recommendation as to how any shareholder of the Issuer should vote or act in connection with the Transaction, any related matter or any other transactions. We are not experts in, nor do we express any opinion, counsel or interpretation with respect to, legal, regulatory, accounting or tax matters. We have assumed that such opinions, counsel or interpretation have been or will be obtained by the Issuer from the appropriate professional sources. Furthermore, we have relied, with the Issuer's consent, on the assessments by the Issuer and its advisors, as to all legal, regulatory, accounting and tax matters with respect to the Issuer and the Transaction, and accordingly we are not expressing any opinion as to the value of the Issuer's tax attributes or the effect of the Transaction thereon.

6.16 No claim shall be brought against Evans & Evans and all of its Principal's, Partner's, staff or associates' total liability for any errors, omissions or negligent acts, whether they are in contract or in tort or in breach of fiduciary duty or otherwise, arising from any professional services performed or not performed by Evans & Evans, its Principal, Partner, any of its directors, officers, shareholders or employees, more than two years after the date of the Opinion.

**7.0 Assumptions**

7.01 In preparing the Opinion, Evans & Evans has made certain assumptions as outlined below.

7.02 With the approval of the Board and as provided for in the Engagement Letter, Evans & Evans has relied upon, and has assumed the completeness, accuracy and fair presentation of, all financial information, business plans, forecasts and other information, data, advice, opinions and representations obtained by it from public sources or provided by the Companies or their respective affiliates or any of their respective officers, directors, consultants, advisors or representatives (collectively, the "Information"). The Opinion is conditional upon such completeness, accuracy and fair presentation of the Information. In accordance with the terms of the Engagement Letter, but subject to the exercise of its professional judgment, and except as expressly described herein, Evans & Evans has not attempted to verify independently the completeness, accuracy or fair presentation of any of the Information.

7.03 Senior officers of the Companies represented to Evans & Evans that, among other things: (i) the Information (other than estimates or budgets) provided orally by, an officer or employee of the Companies or in writing by the Companies (including, in each case, affiliates and their respective directors, officers, consultants, advisors and representatives) to Evans & Evans relating to the Companies, their affiliates or the Transaction, for the purposes of the Engagement Letter, including in particular preparing the Opinion was, at the date the Information was provided to Evans & Evans, fairly and reasonably presented and complete, true and correct in all material respects, and did not, and does not, contain any untrue statement of a material fact in respect of the Companies, their affiliates or the Transaction and did not and does not omit to state a material fact in respect of the Companies, their affiliates or the Transaction that is necessary to make the Information not misleading in light of the circumstances under which the Information was made or provided; (ii) with respect to portions of the Information that constitute financial estimates or budgets, they have been fairly and reasonably presented and reasonably prepared on bases reflecting the best currently available estimates and judgments of management of Yerbaé or its associates and affiliates as to the matters covered thereby and such financial estimates and budgets reasonably represent the views of management of Yerbaé; and (iii) since the dates on which the Information was provided to Evans & Evans, except as disclosed in writing to Evans & Evans, there has been no material change, financial or otherwise, in the financial condition, assets, liabilities (contingent or otherwise), business, operations or prospects of the Company or any of its affiliates and no material change has

occurred in the Information or any part thereof which would have, or which would reasonably be expected to have, a material effect on the Opinion.

- 7.04 In preparing the Opinion, we have made several assumptions, including that all final or executed versions of documents will conform in all material respects to the drafts provided to us, all of the conditions required to implement the Transaction will be met, all consents, permissions, exemptions or orders of relevant third parties or regulating authorities will be obtained without adverse condition or qualification, the procedures being followed to implement the Transaction are valid and effective and that the disclosure provided or (if applicable) incorporated by reference in any documents provided to shareholders with respect to Kona Bay and the Transaction will be accurate in all material respects and will comply with the requirements of applicable law. Evans & Evans also made numerous assumptions with respect to industry performance, general business, market and economic conditions and other matters, many of which are beyond the control of Evans & Evans and any party involved in the Transaction. Although Evans & Evans believes that the assumptions used in preparing the Opinion are appropriate in the circumstances, some or all of these assumptions may nevertheless prove to be incorrect.
- 7.05 The Companies and all of their related parties and their principals had no contingent liabilities, unusual contractual arrangements, or substantial commitments, other than in the ordinary course of business, nor litigation pending or threatened, nor judgments rendered against, other than those disclosed by management that would affect the evaluation or comment.
- 7.06 As of June 30, 2022, all assets and liabilities of Kona Bay have been recorded in their accounts and financial statements and follow International Financial Reporting Standards.
- 7.07 As of June 30, 2022, all assets and liabilities of Yerbaé have been recorded in their accounts and financial statements and follow International Financial Reporting Standards. An audit of the June 30, 2022 Yerbaé financial statements would not result in any material changes to the reviewed statements provided to the authors of the Report.
- 7.08 There were no material changes in the financial position of the Companies between the date of the financial statements and the date of the Opinion unless noted in the Opinion.
- 7.09 Representations made by the Companies as to the number of shares and derivative securities issued and outstanding are accurate.

## **8.0 Analysis of the Transaction**

- 8.01 Following completion of the Transaction, the Kona Bay Shareholders will hold approximately 9.7% of the issued and outstanding shares of the Issuer, excluding the shares issued to convert the Bridge Loan. Based on a financing price of \$1.58 (US\$1.23), the implied value of the Kona Bay interest in the Resulting Issuer is approximately \$7.3 to \$7.8 million or \$0.27 per Kona Bay common share pre-Consolidation.

## **KONA BAY TECHNOLOGIES INC.**

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- 8.02 As of the date of the Opinion, Kona Bay had no material assets or liabilities and no ongoing business. Accordingly, the \$7.3 to \$7.8 million is the implied value of the “public vehicle” and the provision of liquidity and access to financing.
- 8.03 In the experience of Evans & Evans, in transactions involving a public shell, the shell’s interest in the issuer post-Transaction is generally in the range of 3% to 10%, depending on the cash available and the shell’s participation in any concurrent or subsequent financing rounds.
- 8.04 Post-Transaction, the Resulting Issuer will have in the range of 50 to 52 million common shares outstanding. The ultimate number of common shares will be determined by the final gross proceeds of the Concurrent Financing and the exchange rate at closing as the Concurrent Financing is being undertaken in US dollars and Kona Bay trades in Canadian dollars. In the view of Evans & Evans, the number of shares outstanding is very reasonable and allows for future financings.

### **9.0 Analysis of Kona Bay**

- 9.01 In assessing the value of Kona Bay, Evans & Evans considered the following analyses and factors, amongst others: (1) a trading price analysis; (2) net asset value and (3) other considerations.
- 9.02 Evans & Evans also reviewed the market capitalization of Kona Bay for the 10, 30, 90 and 180-trading days preceding the date the Issuer’s shares were halted from trading. The Issuer’s share price was halted at \$0.25, which was an increase from the \$0.10 to \$0.15 the shares had traded at prior to May 2022. In the view of Evans & Evans trading price is not indicative of the value of the Issuer.
- 9.03 Evans & Evans reviewed the financial position of Kona Bay as of the date of the Opinion. As noted above, Kona Bay has no material assets or liabilities as of the date of the Opinion and no ongoing business. The net asset value is nominal and as such the value implied by the Transaction exceeds the net asset value and, in the view of Evans & Evans, a reasonable premium for being a reporting issuer.

### **10.0 Analysis of Yerbaé**

- 10.01 In assessing the fairness of the Transaction and the associated position the Yerbaé shareholders will hold in the Resulting Issuer, Evans & Evans considered the following analyses and factors, amongst others in determining the enterprise value (“EV”) of Yerbaé: (1) guideline company analysis; (2) mergers and acquisition analysis; (3) a discounted cash flow (“DCF”) analysis; and (4) other considerations. The EV of Yerbaé, as implied by the Transaction and Concurrent Financing, is in the range of \$73 million.
- 10.02 Evans & Evans reviewed the financial position and financial results of Yerbaé as of the date of the Opinion as outlined in more detail in section 1.04 of this Opinion. Yerbaé is a growth stage company that is in the midst of expanding its distribution reach across the

United States and Canada, prior to expansion to the rest of the world. Yerbaé management reports the Company is on pace for its fourth straight year of revenue growth and is expecting growth to continue in the short-term. The Company is seeking funding to continue to invest in sales, marketing and promotion. As such, Yerbaé is expecting losses to continue for at least the next three years as the Company focuses on market expansion. Funds from the Concurrent Financing will be used to repay certain debt and for working capital.

10.03 Evans & Evans assessed the EV of Yerbaé as implied by comparing certain of the related valuation metrics to the metrics indicated for referenced guideline public companies. The identified guideline companies selected were considered reasonably comparable to Yerbaé. In the tables below we have summarized the EV, market capitalization and EV to trailing 12 months (“TTM”) and EV to current fiscal year (“CFY”) and EV to next fiscal year (“NFY”) multiples.

(Canadian Dollars) Company Name	Exchange / Ticker	Market Capitalization	Enterprise Value	TTM Revenue	CFY Revenue	NFY Revenue	TTM EBITDA	EV/ TTM Revenue	EV/ CFY Revenue	EV/ NFY Revenue	EV/ EBITDA
GURU Organic Energy Corp.	TSX:GURU	121	75	31	30	37	-20	2.4 x	2.5 x	2.0 x	N/A
Celsius Holdings, Inc.	NASDAQCM:CELH	9,423	9,342	627	849	1,273	24	14.9 x	11.0 x	7.3 x	386.5 x
National Beverage Corp.	NASDAQGS:FIZZ	5,002	4,973	1,467	1,604	1,699	261	3.4 x	3.1 x	2.9 x	19.1 x
Reed's, Inc.	NASDAQCM:REED	20	50	67	82	97	-21	0.7 x	0.6 x	0.5 x	N/A
RushNet, Inc.	OTCPK:RSHN	22	31	7	n/a	n/a	1	4.1 x	N/A	N/A	28.1 x
Zevia PBC	NYSE:ZVIA	241	135	202	246	324	-152	0.7 x	0.5 x	0.4 x	N/A
Primo Water Corporation	NYSE:PRMW	2,799	4,866	2,798	3,041	3,177	474	1.7 x	1.6 x	1.5 x	10.3 x
Monster Beverage Corporation	NASDAQGS:MNST	63,582	60,248	7,740	8,856	9,818	2,177	7.8 x	6.8 x	6.1 x	27.7 x
Rocky Mountain High Brands, Inc.	OTCPK:RMHB	5	6	1	n/a	n/a	-6	5.4 x	N/A	N/A	N/A
Full Motion Beverage, Inc.	OTCPK:FMBV	3	0	n/a	n/a	n/a	0	N/A	N/A	N/A	N/A
The Alkaline Water Company Inc.	NASDAQCM:WTER	72	82	82	100	122	-48	1.0 x	0.8 x	0.7 x	N/A
<b>Minimum</b>								<b>0.7 x</b>	<b>0.5 x</b>	<b>0.4 x</b>	<b>10.3 x</b>
<b>Average</b>								<b>4.2 x</b>	<b>3.4 x</b>	<b>2.7 x</b>	<b>94.3 x</b>
<b>Median</b>								<b>2.9 x</b>	<b>2.1 x</b>	<b>1.8 x</b>	<b>27.7 x</b>
<b>Maximum</b>								<b>14.9 x</b>	<b>11.0 x</b>	<b>7.3 x</b>	<b>386.5 x</b>

Evans & Evans initially identified 11 companies as outlined in the table above. Thereafter, Evans & Evans focused on companies deemed most comparable to Yerbaé. The identified guideline companies had an EV / TTM revenue multiple ranging from 0.7x to 14.9x, with an average of 4.2x and a median of 2.9x. The EV of Yerbaé as implied by the Transaction implies an EV / TTM revenue multiple of 6.0x which is above the median and average.

The identified guideline companies had an EV / CFY revenue multiple ranging from 0.5x to 11x, with an average of 3.4x and a median of 2.1x. The EV of Yerbaé as implied by the Transaction implies an EV / CFY revenue multiple of 4.7x which is above the median and average.

In assessing the reasonableness of the above, we considered the following:

- there are a limited number of directly comparable public companies, when one considers differentiating factors such as size and market niche;
- no company considered in the analysis is identical to Yerbaé; and
- an analysis of the results of the foregoing necessarily involves complex considerations and judgments concerning the differences in the financial and operating characteristics



of Yerbaé, the Transaction and other factors that could affect the trading value and aggregate transaction values of the companies to which they are being compared.

Given the above-noted factors and our analysis of the observed multiples of selected public companies, Evans & Evans considered this approach with the DCF analysis and the mergers & acquisition analysis in making the final determination of the EV of Yerbaé.

10.04 Evans & Evans assessed the reasonableness of the implied \$73 million EV of the Company by comparing certain of the related valuation metrics to the metrics indicated by transactions involving the acquisition of companies within Yerbaé's industry.

10.05 Evans & Evans also assessed the value of Yerbaé based on a DCF analysis. Evans & Evans reviewed the Company's financial projections for the years ended December 31, 2022 to 2024 and thereafter extended the projections to 2026. In undertaking the extension, Evans & Evans, assumed the Company's operating margins would continue to improve and trend towards those of the profitable guideline companies. Based on discussions with management, we understand the Company will not reach a state where cash flows are positive. However, if Yerbaé continues to execute on its business plan, continues to expand its product line and distribution network, the Company would be attractive as a takeover target. Accordingly, we used a multiple of revenue as an exit multiple.

Evans & Evans then discounted the net after-tax cash flows to the present using a risk adjusted discount rate and added the net present value of the exit value. In undertaking this analysis, Evans & Evans found the EV of Yerbaé as determined in a DCF analysis exceeded the EV implied by the Transaction.

10.06 Evans & Evans calculated the EV of Yerbaé based on a weighting of the three values arrived at above. In determining the appropriate weighting, Evans & Evans relied primarily on the guideline public company analysis and the DCF analysis.

## **11.0 Fairness Conclusions**

11.01 In considering fairness, from a financial point of view, Evans & Evans considered the Transaction from the perspective of the Kona Bay Shareholders and did not consider the specific circumstances of any particular shareholder, including with regard to income tax considerations.

11.02 Based upon and subject to the foregoing and such other matters as we consider relevant, it is our opinion, as of the date of the Opinion, that the Transaction is fair, from a financial point of view, to the Kona Bay Shareholders. In arriving at this conclusion, Evans & Evans considered the following qualitative and quantitative factors.

- a. The proposed ownership of 9.7% of the Resulting Issuer following completion of the Transaction is above the net asset value of Kona Bay combined with the premium observed in the market for TSXV shells.

- b. The calculated value for Yerbaé as determined by Evans & Evans was supportive of the EV implied by the Transaction.
- c. Following the completion of the Transaction, the Resulting Issue is expected to have approximately 50 to 52 million common shares issued and outstanding. Given the anticipated need for additional financings, the number of share outstanding provides flexibility for future financings.
- d. Yerbaé brings and established operating business and a growing sector to the Kona Bay Shareholders.

## **12.0 Qualifications & Certification**

- 12.01 The Opinion preparation was carried out by Jennifer Lucas and thereafter reviewed by Michael Evans.

Mr. Michael A. Evans, MBA, CFA, CBV, ASA, Principal, founded Evans & Evans, Inc. in 1989. For the past 36 years, he has been extensively involved in the financial services and management consulting fields in Vancouver, where he was a Vice-President of two firms, The Genesis Group (1986-1989) and Western Venture Development Corporation (1989-1990). Over this period, he has been involved in the preparation of over 3,000 technical and assessment reports, business plans, business valuations, and feasibility studies for submission to various Canadian stock exchanges and securities commissions as well as for private purposes.

Mr. Michael A. Evans holds: a Bachelor of Business Administration degree from Simon Fraser University, British Columbia (1981); a Master's degree in Business Administration from the University of Portland, Oregon (1983) where he graduated with honors; the professional designations of Chartered Financial Analyst (CFA), Chartered Business Valuator (CBV) and Accredited Senior Appraiser. Mr. Evans is a member of the CFA Institute, the Canadian Institute of Chartered Business Valuators ("CICBV") and the American Society of Appraisers ("ASA").

Ms. Jennifer Lucas, MBA, CBV, ASA, Partner, joined Evans & Evans in 1997. Ms. Lucas possesses several years of relevant experience as an analyst in the public and private sector in British Columbia and Saskatchewan. Her background includes working for the Office of the Superintendent of Financial Institutions of British Columbia as a Financial Analyst. Ms. Lucas has also gained experience in the Personal Security and Telecommunications industries. Since joining Evans & Evans Ms. Lucas has been involved in writing and reviewing over 2,500 valuation and due diligence reports for public and private transactions.

Ms. Lucas holds: a Bachelor of Commerce degree from the University of Saskatchewan (1993), a Master's in Business Administration degree from the University of British Columbia (1995). Ms. Lucas holds the professional designations of Chartered Business Valuator and Accredited Senior Appraiser. She is a member of the CICBV and the ASA.

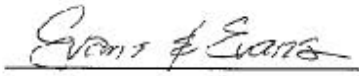
**KONA BAY TECHNOLOGIES INC.**

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- 12.02 The analyses, opinions, calculations and conclusions were developed, and this Opinion has been prepared in accordance with the standards set forth by the Canadian Institute of Chartered Business Valuators.
- 12.03 The authors of the Opinion have no present or prospective interest in Kona Bay, Yerbaé or any entity that is the subject of this Opinion, and we have no personal interest with respect to the parties involved.

Yours very truly,

A handwritten signature in cursive script that reads "Evans & Evans". The signature is written in black ink and is positioned above a horizontal line.

**EVANS & EVANS, INC.**

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**EVANS & EVANS, INC.**

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**SCHEDULE "O"**

**INTERIM ORDER**

*[See attached]*



Form 35 (Rules 8-4(1), 13-1(3), 17-1(2) and 25-9(2))

No. 5-228168  
Vancouver Registry

IN THE SUPREME COURT OF BRITISH COLUMBIA  
IN THE MATTER OF SECTIONS 288 TO 299 OF THE *BUSINESS CORPORATIONS ACT*, S.B.C. 2002, CHAPTER 57, AS AMENDED

- and -

IN THE MATTER OF A PROPOSED ARRANGEMENT INVOLVING  
YERBAE BRANDS CO., KONA BAY TECHNOLOGIES INC., KONA BAY  
TECHNOLOGIES (DELAWARE) INC., 1362283 B.C. LTD., TODD  
GIBSON AND KARRIE GIBSON

KONA BAY TECHNOLOGIES INC.

PETITIONER

**INTERIM ORDER MADE AFTER APPLICATION**

BEFORE ) *Muster* )  
 ) *Nielsen* ) **OCT 13 2022**

ON THE APPLICATION of the Petitioner, Kona Bay Technologies Inc. ("**Kona Bay**") without notice, coming on for hearing at The Law Courts at 800 Smithe Street, Vancouver, British Columbia on 13/October/2022 and on hearing Michael Larsen, counsel for the Petitioner, for an interim order pursuant to Section 291 of the *Business Corporations Act*, S.B.C. 2002, c.57, as amended ("**BCBCA**"), and upon reading the materials and pleadings filed herein, and upon being advised that it is the intention of the Petitioner to rely on Section 3(a)(10) of the United States Securities Act of 1933, as amended (the "**1933 Act**");

THIS COURT ORDERS that:

**DEFINITIONS**

1. As used in this Interim Order Made After Application (the "**Interim Order**"), unless otherwise defined, terms beginning with capital letters have the respective meanings set out in the draft Management Information Circular (the "**Information Circular**"), containing the draft Notice of the Meeting (the "**Notice**") to the holders (the "**Kona Bay Shareholders**") of the Kona Bay common shares (the "**Kona Bay Shares**")

relating to the annual general and special meeting of Kona Bay attached as Exhibit "B" to the Affidavit of Ron Schmitz made on October 11, 2022 (the "**Schmitz Affidavit**");

## **MEETING**

2. Pursuant to the BCBCA and Kona Bay's Articles, Kona Bay is authorized to call, hold and conduct a general annual and special meeting (the "**Meeting**") of the Kona Bay Shareholders, to be held via teleconference only on November 14, 2022 commencing at 10:00 a.m. (Vancouver time), to:

- (a) to consider and, if thought fit, pass, with or without variation, a special resolution, the full text of which is set forth in Schedule L to the Information Circular (the "**Arrangement Resolution**"), to approve a proposed plan of arrangement (the "**Arrangement**") under Division 5 of Part 9 of the BCBCA involving Yerbae Brands Co., Kona Bay Technologies Inc., Kona Bay Technologies (Delaware) Inc., 1362283 B.C. Ltd., Todd Gibson and Karrie Gibson;
- (b) to act upon such other matters, including amendments to the foregoing, as may properly come before the Meeting or any adjournment(s) or postponement(s) thereof.

3. The record date for determining the Kona Bay Shareholders who are entitled to receive notice of, attend and vote at the Meeting is October 5, 2022 (the "**Record Date**"), as approved by the board of directors of Kona Bay (the "**Board**"), and shall not change in respect of any adjournment to the Meeting.

4. The Meeting shall be called, held and conducted in accordance with the BCBCA, the Information Circular, and the Articles of Kona Bay, subject to the terms of this Interim Order.

5. The Chair of the Meeting shall be a person so authorized in accordance with the Articles of Kona Bay. The Chair is at liberty to call on the assistance of legal counsel to Kona Bay at any time and from time to time as the Chair of the Meeting may deem necessary or appropriate.

6. The only persons entitled to attend the Meeting shall be those Kona Bay Shareholders that appear on the central securities register of Kona Bay (the "**Registered Kona Bay Shareholders**") as of the close of business (Vancouver time) on the Record Date or their proxy holders, the Board, auditors and advisors and any other person admitted on the invitation or consent of the Chair of the Meeting, and the only persons entitled to be represented and to vote at the Meeting shall be the Registered Kona Bay Shareholders as at the close of business (Vancouver time) on the Record Date, or their respective proxy holders.

## ADJOURNMENT

7. Notwithstanding the provisions of the BCBCA, Kona Bay, if it deems it advisable, is specifically authorized to adjourn or postpone the Meeting on one or more occasions, without the necessity of first convening the Meeting or first obtaining any vote of the Kona Bay Shareholders respecting the adjournment or postponement and without the need for approval of the Court. Notice of any such adjournments or postponements shall be given by such method as Kona Bay may determine is appropriate in the circumstances, including by press release, news release, newspaper advertisement, or by notice sent to the Kona Bay Shareholders by one of the methods specified in paragraph 11 of this Interim Order.

8. The Record Date shall not change in respect of adjournments or postponements of the Meeting.

## AMENDMENTS

9. Prior to the Meeting, Kona Bay is authorized to make such amendments, revisions or supplements to the Arrangement as it may determine without any additional notice to the Kona Bay Shareholders, and the Arrangement, as so amended, revised and supplemented, shall be the Arrangement submitted to the Meeting, and the subject of the Arrangement Resolution.

## NOTICE OF MEETING AND METHOD OF DISTRIBUTION OF MEETING MATERIALS

10. The Information Circular is hereby deemed to represent sufficient and adequate disclosure, including for the purpose of Section 290(1)(a) of the BCBCA, and Kona Bay shall not be required to send to the Kona Bay Shareholders any other or additional statement pursuant to Section 290(1)(a) of the BCBCA.

11. The Information Circular, the Notice, the form of proxy for the Registered Kona Bay Shareholders and the form of voting instruction form for non-registered Kona Bay Shareholders (collectively, referred to as the "**Meeting Materials**"), with such deletions, amendments or additions thereto as counsel for Kona Bay may advise are necessary or desirable, provided that such amendments are not inconsistent with the terms of this Interim Order, shall be distributed to:

- (a) the Registered Kona Bay Shareholders as they appear on the central securities register of Kona Bay as at the Record Date at least twenty-one (21) days prior to the date of the Meeting, excluding the date of mailing, delivery or transmittal and the date of the Meeting, by one or more of the following methods:
  - (i) by prepaid ordinary mail addressed to the Kona Bay Shareholders at their respective addresses as they appear on the central securities register of Kona Bay as at the Record Date;

- (ii) by delivery in person or by courier delivery to the address specified in paragraph 11(a)(i) above; or
  - (iii) by email or facsimile transmission to any Kona Bay Shareholder who identifies himself, herself or itself to the satisfaction of Kona Bay (acting through its representatives), who requests such email or facsimile transmission and, if required by Kona Bay, agrees to pay the charges related to such transmission;
- (b) in the case of non-registered Kona Bay Shareholders, by providing copies of the relevant portions of the Meeting Materials to their intermediaries and registered nominees at least twenty-one (21) days prior to the date of the Meeting, excluding the date of mailing, delivery or transmittal and the date of the Meeting, for sending to beneficial owners in accordance with National Instrument 54-101 – *Communications with Beneficial Owners of Securities of a Reporting Issuer of the Canadian Securities Administrators* (“NI 54-101”) by one or more of the methods specified in paragraph 11(a)(i)-(iii) of this Interim Order;
- (c) the directors and auditors of Kona Bay by mailing the Meeting Materials by prepaid ordinary mail, email or facsimile transmission, courier or delivery in person, to such persons at least twenty-one (21) days prior to the date of the Meeting, excluding the date of mailing or transmittal and the date of the Meeting;

and substantial compliance with this paragraph shall constitute good and sufficient notice of the Meeting.

12. Accidental failure of or omission by Kona Bay to give notice to any one or more of the Kona Bay Shareholders, directors or the auditors of Kona Bay, or the non-receipt of such notice by any of such persons, or any failure or omission to give such notice as a result of events beyond the reasonable control of Kona Bay (including, without limitation, any inability to use postal services) shall not constitute a breach of this Interim Order, or a defect in the calling of the Meeting, and shall not invalidate any resolution passed or proceeding taken at the Meeting, but if any such failure or omission is brought to the attention of Kona Bay then it shall use reasonable efforts to rectify it by the method and in the time most reasonably practicable in the circumstances.

13. No other form of service of the Meeting Materials or any portion thereof need be made or notice given or other material served in respect of these proceedings or the Meeting, except as may be directed by a further order of this Court. Provided that notice of the Meeting and the provision of the Meeting Materials to the Kona Bay Shareholders take place in compliance with this Interim Order, the requirement of Section 290(1)(b) of the BCBCA to include certain disclosure in any advertisement of the Meeting is waived.



## **DEEMED RECEIPT OF NOTICE**

14. The Meeting Materials shall be deemed, for the purposes of this Interim Order, to have been received:

- (a) in the case of mailing, when deposited in a post office or public letter box;
- (b) in the case of delivery in person or by courier, the day of such personal delivery or delivery by courier;
- (c) when provided to intermediaries and registered nominees; and
- (d) in the case of any means of transmitted, recorded or electronic communication, when dispatched or delivered for dispatch.

15. Mailing of the Meeting Materials in accordance with paragraph 11 of this Interim Order shall be good and sufficient service of the Notice of Hearing of Petition, the Petition, the Schmitz Affidavit and this Interim Order on all persons who are entitled to be served. No other form of service need be made. No other materials need be served on such persons in respect of these proceedings, and service of further affidavits in support is dispensed with.

## **AMENDMENTS TO MEETING MATERIALS**

15. The Petitioners are authorized to make such amendments, revisions or supplements to the Meeting Materials as they may determine and the Meeting Materials, as so amended, revised or supplemented, shall be the Meeting Materials to be distributed in accordance with paragraph 11 of this Interim Order.

## **UPDATING MEETING MATERIALS**

16. Notice of any amendments, updates or supplement to any of the information provided in the Meeting Materials may be communicated to the Kona Bay Shareholders by press release, news release, newspaper advertisement or by notice sent to the Kona Bay Shareholders by one of the methods specified in paragraph 11 of this Interim Order, as determined to be the most appropriate method of communication by the Board.

## **QUORUM AND VOTING**

17. The quorum for the Meeting is one person who is, or who represents by proxy, one or more. Kona Bay Shareholders who are entitled to vote at the Meeting

18. In respect of the Arrangement Resolution, the votes taken at the Meeting shall be taken on the basis of one vote per Kona Bay Share held, and the vote required to pass the Arrangement Resolution shall be an affirmative vote by at least: (i) two-thirds (66 $\frac{2}{3}$ %) of the votes cast on the Arrangement Resolution in person or by proxy by Kona Bay Shareholders (excluding from the count of total votes cast any spoiled,

illegible or defective ballots and abstentions); (ii) simple majority of the votes cast by the Kona Bay Shareholders, excluding the votes of Kona Bay Shares held or controlled by "interested parties", "related parties of interested parties" and "joint actors" of such interested parties as defined and contemplated under MI 61-101 – *Protection of Minority Security Holders in Special Transactions*, if applicable.

19. The vote required to pass the Arrangement Resolution shall be sufficient to authorize and direct Kona Bay to do all such acts and things as may be necessary or desirable to give effect to the Arrangement on a basis consistent with what is provided for in the Information Circular without the necessity of any further approval by the Kona Bay Shareholders, subject only to the final approval of this Honourable Court.

20. For the purposes of counting votes respecting the Arrangement Resolution, any spoiled votes, illegible votes, defective votes and abstentions shall be deemed to be votes not cast and the Kona Bay Shares represented by such spoiled votes, illegible votes, defective votes and abstentions shall not be counted in determining the number of Kona Bay Shares represented at the Meeting. Proxies that are properly signed and dated but which do not contain voting instructions shall be voted in favour of the Arrangement Resolution.

21. In all other respects, the terms, restrictions and conditions of the Kona Bay Articles and the BCBCA shall apply in respect of the Meeting.

#### **SCRUTINEER**

22. A representative of Kona Bay's transfer agent, Odyssey Trust Company, is authorized to act as scrutineer for the Meeting.

#### **SOLICITATION OF PROXIES**

23. Kona Bay is authorized to use proxies at the Meeting in accordance with the Kona Bay's Articles of Incorporation. Kona Bay is authorized, at its own expense, to solicit proxies, directly and through its directors, officers and employees, and through such agents or representatives as it may retain for the purpose, and by mail or such other forms of personal or electronic communication as it may determine.

24. The procedure for delivery, revocation and use of proxies at the Meeting shall be as set out in the Meeting Materials.

#### **APPLICATION FOR FINAL ORDER**

25. Upon approval, with or without variation, by the Kona Bay Shareholders of the Arrangement, in the manner set forth in this Interim Order, Kona Bay may apply to this Court for, *inter alia*, an Order:

- (a) pursuant to Sections 291 and 295 of the BCBCA approving the Arrangement and its terms and conditions;

- (b) pursuant to Section 291 of the BCBCA declaring that the terms and conditions of the Arrangement, and the exchange of securities to be effected by completion of the Arrangement, are substantively and procedurally fair;
- (c) pursuant to Section 297 of the BCBCA that the Arrangement shall be binding on Kona Bay, the Kona Bay Shareholders and other affected parties upon taking effect; and
- (d) pursuant to Sections 291, 292 and 296 of the BCBCA that the Arrangement shall take effect as of the Effective Time,  
  
(collectively, the “Final Order”).

26. Kona Bay is at liberty to proceed with hearing of the Final Order on November 16, 2022 at 9:45 a.m. (Vancouver time) at the Courthouse at 800 Smithe Street, Vancouver, British Columbia or as soon thereafter as the hearing of the Final Order can be heard, or at such other date and time as Kona Bay may determine or this Court may direct.

27. Any Kona Bay Shareholder, director, auditor, or other interested party with leave of the Court, desiring to support or oppose the application has the right to appear (either in person or by counsel) and make submissions at the hearing of the application for the Final Order. Any such person seeking to appear at the hearing of the application for the Final Order shall:

- (a) file a Response to Petition, in the form prescribed by the *Supreme Court Civil Rules*, with this Court; and
- (b) serve the filed Response to Petition, together with a copy of any additional affidavits and other materials on which the person intends to rely at the hearing for the Final Order on the Petitioner’s solicitors at:

**Clark Wilson LLP**  
Barristers and Solicitors  
900 – 885 West Georgia Street  
Vancouver, B.C. V6C 3H1  
Attention: Michael Larsen

by or before 5:00 p.m. (Vancouver time) on or before November 10, 2022.

28. Sending the Notice of Hearing of Petition, the Petition, the Schmitz Affidavit, and this Interim Order in accordance with paragraph 11 of this Interim Order shall:

- (a) constitute good and sufficient service of the within proceedings and no other form of service need be made and no other material need be served

on such persons in respect of these proceedings and that service of the affidavits in support is dispensed with; and

- (b) to the extent necessary, shorten the time period provided in the *Supreme Court Civil Rules* for filing a Response to Petition and for delivery of a Notice of Hearing of this Petition for final order.

29. Kona Bay shall be at liberty to give notice of this application to persons outside the jurisdiction of this Court in the manner specified herein.

30. The only persons entitled to receive notice of any further proceedings herein, including any hearing to sanction or approve the Arrangement, and to appear and be heard thereon, shall be the solicitors for Kona Bay.

31. In the event that the hearing for the Final Order is adjourned, only those persons who have filed and served a Response to Petition in accordance with this Interim Order need be provided notice of materials filed in this proceeding and the adjourned hearing date.

32. Accidental failure of or omission by Kona Bay to send the Notice of Hearing of Petition, the Petition, the Schmitz Affidavit and this Interim Order in accordance with paragraph 11, to any of the Kona Bay Shareholders, or any of the directors or auditors of Kona Bay shall not invalidate any order made by this Honourable Court to approve the Arrangement, but if any such failure or omission is brought to the attention of Kona Bay, then Kona Bay shall use reasonable efforts to rectify it by the method and in the time most reasonably practicable in the circumstances.

#### **VARIANCE**

33. Kona Bay shall be entitled, at any time, to apply to vary this Interim Order and apply for such other orders as may be necessary or appropriate.

34. *Supreme Court Civil Rules* 8-1 and 16-1(13) shall not apply to any further applications in respect of this proceeding, including the application for the Final Order and any application to vary this Interim Order.

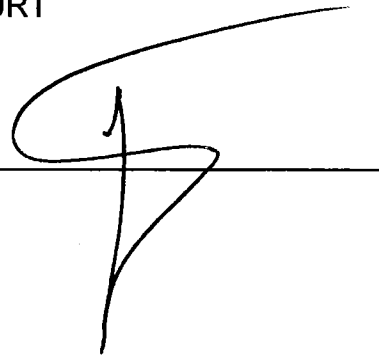
THE FOLLOWING PARTIES APPROVE THE FORM OF THIS ORDER AND CONSENT TO EACH OF THE ORDERS, IF ANY, THAT ARE INDICATED ABOVE AS BEING BY CONSENT:

*Mike Larsen*

\_\_\_\_\_  
Signature of Lawyer for Kona Bay Technologies Inc.  
Lawyer: Clark Wilson LLP, Michael Larsen

BY THE COURT

\_\_\_\_\_  
Registrar

A large, stylized handwritten signature in black ink, written over a horizontal line. The signature is highly cursive and appears to be a single continuous stroke.

**CERTIFICATE OF THE ISSUER**

The foregoing constitutes full, true, and plain disclosure of all material facts relating to the securities of Kona Bay Technologies Inc. assuming completion of the Transaction.

**DATED** as of November 13, 2022.

**KONA BAY TECHNOLOGIES INC.**

*"Ron Schmitz"*

\_\_\_\_\_  
Ron Schmitz  
CEO

*"Gurdeep Phachu"*

\_\_\_\_\_  
Gurdeep Phachu  
CFO

On behalf of the Board of Kona Bay Technologies Inc.

*"Rose Zanic"*

\_\_\_\_\_  
Rose Zanic  
Director

*"Scott Davis"*

\_\_\_\_\_  
Scott Davis  
Director

**CERTIFICATE OF THE TARGET**

The foregoing, as it relates to Yerbaé Brands Co., constitutes full, true, and plain disclosure of all material facts relating to the securities of Yerbaé Brands Co.

**DATED** as of November 13, 2022.

**YERBAÉ BRANDS CO.**

*"Todd Gibson"*

\_\_\_\_\_  
Todd Gibson  
CEO

*"Nicholas Cranny"*

\_\_\_\_\_  
Nicholas Cranny  
CFO

On behalf of the Board of Yerbaé Brands Co.

*"Karrie Gibson"*

\_\_\_\_\_  
Karrie Gibson  
Director

*"Todd Gibson"*

\_\_\_\_\_  
Todd Gibson  
Director

## **ACKNOWLEDGMENT – PERSONAL INFORMATION**

**“Personal Information”** means any information about an identifiable individual, and includes information contained in any items in the attached Information Circular that are analogous to Items 4.2, 11, 12.1, 15, 17.2, 18.2, 23, 24, 26, 31.3, 32, 33, 34, 35, 36, 37, 38, 40 and 41 of TSXV Form 3B1/3B2, as applicable.

The undersigned hereby acknowledges and agrees that it has obtained the express written consent of each individual to:

- (a) the disclosure of Personal Information by the undersigned to the TSXV (as defined in Appendix 6B) pursuant to TSXV Form 3B1/3B2; and
- (b) the collection, use and disclosure of Personal Information by the TSXV for the purposes described in Appendix 6B or as otherwise identified by the TSXV, from time to time.

**DATED** as of November 13, 2022

**KONA BAY TECHNOLOGIES INC.**

*“Ron Schmitz”*

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Ron Schmitz

CEO