

Condensed Consolidated Interim Financial Statements of

YERBAÉ BRANDS CORP.

For the three-month and nine-month periods ended September 30, 2023 and 2022
Unaudited Expressed in U.S. Dollars

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying unaudited condensed consolidated interim financial statements of Yerbaé Brands Corp. (the "Company") have been prepared by and are the responsibility of the Company's management in accordance with International Reporting Standards ("IFRS"). Management acknowledges responsibility for the preparation and presentation of the unaudited condensed interim consolidated financial statements, including responsibility for significant accounting estimates and the choice of accounting principles and methods that are appropriate to the Company's circumstances.

Table of Contents

Page(s)

FINANCIAL STATEMENTS

Statements of Financial Position.....	4
Statements of Loss and Comprehensive Loss.....	5
Statements of Changes in Stockholders' Equity/(Deficit).....	6
Statements of Cash Flows	7
Notes to Financial Statements.....	8-33

YERBAÉ BRANDS CORP.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION
(Unaudited - Expressed in U.S. Dollars)

	September 30, 2023	December 31, 2022
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,617,486	\$ 856,547
Accounts receivable (Note 2)	913,084	922,725
Inventories (Note 6)	987,054	921,954
Prepaid expenses and other current assets	440,372	138,496
Total current assets	3,957,996	2,839,722
Property and equipment, net (Note 5)	65,949	191,200
OTHER ASSETS		
Right-of-use assets - financing leases	260,971	340,411
Deferred offering costs	1,024,823	-
TOTAL ASSETS	\$ 5,309,739	\$ 3,371,333
LIABILITIES AND STOCKHOLDERS' EQUITY/(DEFICIT)		
CURRENT LIABILITIES		
Accounts payable	\$ 1,630,936	\$ 2,733,015
Current maturities of notes payable (Note 8)	73,178	3,811,622
Due to line of credit (Note 7)	-	879,555
Current portion of financing lease liabilities	133,071	74,272
Accrued expenses	826,592	714,428
Total current liabilities	2,663,777	8,212,892
NONCURRENT LIABILITIES		
Long-term financing lease liabilities	196,574	296,913
Notes payable (Note 8)	2,300,412	279,882
Total noncurrent liabilities	2,496,986	576,795
Total liabilities	5,160,763	8,789,687
STOCKHOLDERS' EQUITY/(DEFICIT)		
Common stock (Note 9)	5,838	3,022
Additional paid-in capital	32,964,646	5,976,898
Stock options reserve (Note 10)	1,020,581	502,551
Warrants reserve (Note 11)	7,788,453	2,546,912
Accumulated deficit	(41,630,542)	(14,447,737)
Total stockholders' equity/(deficit)	148,976	(5,418,354)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY/(DEFICIT)	\$ 5,309,739	\$ 3,371,333

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

YERBAÉ BRANDS CORP.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

(Unaudited - Expressed in U.S. Dollars)

For the three-month and nine-month periods ended September 30, 2023 and 2022

	Three-month periods ended		Nine-month periods ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
REVENUES				
Gross revenues	\$ 3,442,566	\$ 2,059,686	\$ 11,411,015	\$ 5,798,063
Less discounts	(428,054)	(141,766)	(1,361,996)	(500,291)
Total net revenues (Note 2)	3,014,512	1,917,920	10,049,019	5,297,772
COST OF SALES (Note 13)	1,417,603	803,031	4,968,058	1,901,272
Gross profit	1,596,909	1,114,889	5,080,961	3,396,500
EXPENSES (Note 13)				
Operating expenses	4,736,129	2,511,063	13,467,436	7,974,378
One time RTO non cash expenses	-	-	13,884,841	-
Other non cash expenses	815,417	19,477	3,249,858	97,175
Total expenses	5,551,546	2,530,540	30,602,135	8,071,553
Net loss before other income/(expense)	(3,954,637)	(1,415,651)	(25,521,174)	(4,675,053)
OTHER INCOME (EXPENSE)				
Interest expense	(85,658)	(33,982)	(203,337)	(98,340)
Accretion expense (Note 8)	(149,098)	-	(1,458,361)	-
Gain/(loss) on sale of vehicles	818	-	67	-
Total other income (expense)	(233,938)	(33,982)	(1,661,631)	(98,340)
NET LOSS BEFORE INCOME TAXES	(4,188,575)	(1,449,633)	(27,182,805)	(4,773,393)
Income tax expense	-	-	-	-
NET LOSS AND COMPREHENSIVE LOSS	(\$4,188,575)	(\$1,449,633)	(\$27,182,805)	(\$4,773,393)
LOSS PER SHARE				
Basic and diluted (Note 14)	(\$0.07)	(\$0.05)	(\$0.52)	(\$0.16)

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

YERBAÉ BRANDS CORP.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN STOCKHOLDERS' (DEFICIT) (Unaudited - Expressed in U.S. Dollars)

	Common Stock		Additional Paid-In Capital	Stock Options Reserve	Warrants Reserve	Accumulated Deficit	Total
	Number of Shares	Amount					
BALANCE, DECEMBER 31, 2021	29,354,431	\$2,935	\$4,927,721	-	-	\$(5,347,311)	\$(416,655)
Issuance of Common Stock (Note 9)	782,437	78	949,186	-	-	-	949,264
Net loss	-	-	-	-	-	(4,773,393)	(4,773,393)
BALANCE, SEPTEMBER 30, 2022	30,136,868	\$3,014	\$5,876,906	-	-	\$(10,120,704)	\$(4,240,784)
BALANCE DECEMBER 31, 2022	30,217,566	\$3,022	\$5,976,898	\$502,551	\$2,546,912	\$(14,447,737)	\$(5,418,354)
Share Round Down (Note 9)	(552)	-	-	-	-	-	-
Convertible Debt (Note 8, Note 9)	5,853,399	585	4,812,255	-	-	-	4,812,840
Performance Shares Issued (Note 9)	8,000,000	800	7,110,619	-	-	-	7,111,419
Finco Shares Issued (Note 9)	2,015,163	202	2,433,202	-	-	-	2,433,404
Finder's Fee Shares (Note 9)	507,662	51	720,829	-	-	-	720,880
Recapitalization (Note 9)	8,239,215	824	7,525,176	-	-	-	7,526,000
Issuance of Common Stock (Note 9)	2,456,321	246	2,118,623	-	2,347,160	-	4,466,029
Exercise of Warrants (Note 11)	1,094,968	109	1,040,102	-	-	-	1,040,212
Stock Compensation Expense (Note 10)	-	-	1,226,940	518,030	-	-	1,744,970
Additional Warrants Issued (Note 11)	-	-	-	-	2,894,381	-	2,894,381
Net loss	-	-	-	-	-	(27,182,805)	(27,182,805)
BALANCE, SEPTEMBER 30, 2023	58,383,742	\$5,838	\$32,964,646	\$1,020,581	\$7,788,453	\$(41,630,542)	\$148,976

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

YERBAÉ BRANDS CORP.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
(Unaudited - Expressed in U.S. Dollars)

For the nine-month periods ended September 30, 2023 and 2022

	September 30, 2023	September 30, 2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (27,182,805)	\$ (4,773,393)
Adjustments to reconcile net loss to net cash flows from operating activities		
Depreciation	29,083	53,895
Accretion Expense	1,458,361	-
Noncash financing lease expense	59,535	-
Noncash warrant expense	1,643,777	-
Noncash finders fee shares	720,880	-
Noncash consulting services	74,999	-
Noncash listing expense - Kona Bay RTO	6,884,350	-
Noncash listing expense - performance shares	6,086,596	-
Stock compensation expense (Options/RSU's/PSU's)	1,695,014	43,280
Subtotal	(8,530,210)	(4,676,218)
Change in non cash working capital items relating to operations:		
Accounts receivable	10,614	(712,638)
Inventories	(65,099)	(281,225)
Prepaid expenses and other current assets	(322,349)	24,046
Accounts payable	(1,109,011)	733,403
Accrued expenses	116,961	112,972
Net cash used in operating activities	(9,899,094)	(4,799,660)
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale/(purchase) of property and equipment	96,168	(54,437)
Net cash from/(used in) investing activities	96,168	(54,437)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments to LOC	(3,306,168)	(1,377,101)
Proceeds from LOC	2,426,613	1,939,687
Payments on notes payable	(818,621)	(31,475)
Proceeds from notes payable	3,715,388	3,500,000
Proceeds from warrant exercises	1,040,212	-
Proceeds from issuance of common stock	7,506,441	949,264
Net cash provided by financing activities	10,563,865	4,980,375
NET INCREASE IN CASH AND CASH EQUIVALENTS	760,939	126,278
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	856,547	348,501
CASH AND CASH EQUIVALENTS, END OF PERIOD	1,617,486	474,779
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid for interest	160,290	100,712
SUPPLEMENTAL DISCLOSURES OF NONCASH TRANSACTIONS		
Notes payable and accrued interest converted to equity	4,812,840	-
Detachable warrants issued with debt	1,388,340	-

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

YERBAÉ BRANDS CORP.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Unaudited - Expressed in U.S. Dollars)
September 30, 2023

1. DESCRIPTION OF BUSINESS

YERBAÉ BRANDS CORP. (“**Yerbaé**” or the “**Company**”) is a beverage manufacturer and marketing company incorporated pursuant to the provisions of the *Business Corporations Act* (British Columbia) (“**BCBCA**”), that produces products for the consumer-packaged goods industry. Yerbaé’s head office is located at 18801 N. Thompson Peak Parkway, Suite D-380, Scottsdale, Arizona 85255 and its registered and records office is located at 800-885 West Georgia Street, Vancouver, British Columbia, V6C 3H1.

On May 19, 2022, Yerbaé (formerly Kona Bay Technologies Inc. (“**Kona Bay**”)) entered into a definitive arrangement agreement and plan of merger, as amended on August 31, 2022, and February 8, 2023 (collectively, the “**Arrangement Agreement**”), with Yerbaé Brands Co. (“**Yerbaé US**”), Kona Bay Technologies (Delaware) Inc. (“**Merger Sub**”), a wholly owned Delaware subsidiary of the Company, 1362283 B.C. Ltd. (“**FinCo**”), a wholly owned British Columbia subsidiary of Kona Bay, and Todd and Karrie Gibson, with respect to the proposed merger and business combination of Kona Bay with Yerbaé US (the “**Transaction**”). On February 8, 2023, Yerbae completed its Transaction with Yerbaé US by way of a reverse takeover conducted pursuant to: (i) the provisions of the Delaware *General Corporations Law* (“**DGCL**”) in which Merger Sub merged with and into Yerbaé US, and (ii) a plan of arrangement conducted pursuant to the provisions of the BCBCA, which resulted in the amalgamation of Kona Bay with FinCo (the “**Amalgamation**”). In connection with the Closing, Yerbaé (formerly, Kona Bay Technologies Inc.) consolidated its outstanding common shares (each, a “**Common Share**”) on the basis of 5.8 pre-consolidation Common Shares for every one post-consolidation Common Share prior to the completion of the Amalgamation and changed its name from “Kona Bay Technologies Inc.” to “YERBAÉ BRANDS CORP.”.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the significant accounting policies followed by the Company:

Basis of Preparation

These condensed consolidated 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 condensed consolidated interim financial statements do not include all the disclosures required for annual financial statements prepared in accordance with International Financial Reporting Standards (“**IFRS**”) and should be read in conjunction with the Yerbae US annual audited financial statements of the Company for December 31, 2022, which can be found in the information circular on Yerbaé, (formally Kona Bay) filed on SEDAR+. The condensed consolidated interim financial statements of the Company for the three-month and nine-month periods ending September 30, 2023 and 2022 were authorized for issue by the Company’s Board of Directors on November 29, 2023.

YERBAÉ BRANDS CORP.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Unaudited - Expressed in U.S. Dollars)
September 30, 2023

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues, and expenses. Actual results may differ from these estimates. The Company regularly reviews its estimates and assumptions; however, it is possible that circumstances may arise that may cause actual results to differ from management estimates, and these differences could be material. Estimates and underlying assumptions are reviewed on an ongoing basis and revisions to estimates are recorded prospectively.

Significant estimates and judgments used in the preparation of the consolidated financial statements are described in the annual audited consolidated financial statements for the year ended December 31, 2022, with the exception of new significant accounting estimates and judgements noted below.

YERBAÉ BRANDS CORP.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Unaudited - Expressed in U.S. Dollars)
September 30, 2023

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other disclosures relating to the Company's exposure to risks and uncertainties include: financial instruments (See Note 4).

Judgements

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:

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.
- The Company allocates the offering proceeds between any issued debt and warrants based on relative fair value. Further, the Company recognizes the amount allocated to the warrants as a reduction (i.e. discount) to the amount recognized for the debt. The discount will be amortized to interest expense over the estimated life of the loan. The Company utilizes the Black-Scholes model to determine the fair value of any warrants issued alongside debt instruments.
- 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.

YERBAÉ BRANDS CORP.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Unaudited - Expressed in U.S. Dollars)
September 30, 2023

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. 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.

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.

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:

Years
<hr/>
5

YERBAÉ BRANDS CORP.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Unaudited - Expressed in U.S. Dollars)
September 30, 2023

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue From Contracts with Customers

The Company is in the business of manufacturing plant-based beverages 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 plant-based beverages. The Company transfers control and recognizes revenue from the sale of product at a point in time upon delivery of the product to customers or distributors pursuant to the terms of the contract.

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. In general, the sale of sparkling water does not include multiple promised goods and services.

The following reflects the disaggregation of the Company's net revenue from contracts with customers for the three-month and nine-month periods ended September 30, 2023 and 2022:

Geographical Region

	<u>Three-month periods ended</u>		<u>Nine-month periods ended</u>	
	<u>September 30,</u> <u>2023</u>	<u>September 30,</u> <u>2022</u>	<u>September 30,</u> <u>2023</u>	<u>September 30,</u> <u>2022</u>
United States - Midwest	\$ 908,164	\$ 593,313	\$ 3,506,176	\$ 1,532,143
United States - West	1,611,691	751,531	5,222,663	2,364,365
United States - East	494,657	573,076	1,320,180	1,401,264
TOTAL NET REVENUE	\$ 3,014,512	\$ 1,917,920	\$ 10,049,019	\$ 5,297,772

YERBAÉ BRANDS CORP.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Unaudited - Expressed in U.S. Dollars)
September 30, 2023

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Timing of Net Revenue Recognition

	<u>Three-month periods ended</u>		<u>Nine-month periods ended</u>	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Goods and services transferred at a point in time	\$ 3,014,512	\$ 1,917,920	\$ 10,049,019	\$ 5,297,772
TOTAL NET REVENUE	\$ 3,014,512	\$ 1,917,920	\$ 10,049,019	\$ 5,297,772

Products are primarily sold to customers throughout the United States. Product orders are typically processed within five days of order receipt and collected within 30 days from shipment. Various economic factors affect 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 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 September 30, 2023 and December 31, 2022, there were no contract liabilities.

	<u>September 30, 2023</u>	<u>December 31, 2022</u>
Accounts receivable	<u>\$ 913,084</u>	<u>\$ 922,725</u>

The Company currently does not hold a reserve for accounts receivable as historical bad debt expenses have been immaterial.

YERBAÉ BRANDS CORP.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Unaudited - Expressed in U.S. Dollars)
September 30, 2023

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 the change in 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.

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.

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.

YERBAÉ BRANDS CORP.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Unaudited - Expressed in U.S. Dollars)
September 30, 2023

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Options issued 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, share capital is credited for consideration received and for fair value amounts previously credited to reserves.

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.

YERBAÉ BRANDS CORP.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

(Unaudited - Expressed in U.S. Dollars)

September 30, 2023

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 September 30, 2023 and December 31, 2022, the Company's capital structure is composed of the following:

	September 30, 2023	December 31, 2022
Cash and cash equivalents	\$ 1,617,486	\$ 856,547
Due to line of credit	-	(879,555)
Notes payable	(2,373,590)	(4,091,504)
Subtotal	(756,104)	(4,114,512)
Stockholders' equity/(deficit)	148,977	(5,418,354)
NET CAPITAL (DEFICIT)	<u>\$ (607,127)</u>	<u>\$ (9,532,866)</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 CORP.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Unaudited - Expressed in U.S. Dollars)
September 30, 2023

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 September 30, 2023 and December 31, 2022:

<u>Financial Liabilities</u>	September 30, 2023				
	Carrying Amount	Contractual Cash Flow	0 to 12 Months	13 to 24 Months	Thereafter
Accounts payable	\$ 1,630,936	\$ 1,630,936	\$ 1,630,936	\$ -	\$ -
Accrued interest	89,942	89,942	89,942	-	-
Accrued expenses	736,650	736,650	736,650	-	-
Due to LOC	-	-	-	-	-
Notes payable	2,373,590	3,712,473	73,178	3,617,960	21,335
Financing lease liabilities	329,645	329,645	133,071	138,996	57,578
TOTAL	\$ 5,160,763	\$ 6,499,646	\$ 2,663,777	\$ 3,756,956	\$ 78,913

<u>Financial Liabilities</u>	December 31, 2022				
	Carrying Amount	Contractual Cash Flow	0 to 12 Months	13 to 24 Months	Thereafter
Accounts payable	\$ 2,733,015	\$ 2,733,015	\$ 2,733,015	\$ -	\$ -
Accrued interest	\$ 46,264	46,264	46,264	-	-
Accrued expenses	668,164	668,164	668,164	-	-
Due to LOC	879,555	879,555	879,555	-	-
Notes payable	4,091,504	5,625,727	5,236,256	61,681	327,790
Financing lease liabilities	371,185	371,185	74,272	136,807	160,106
TOTAL	\$ 8,789,687	\$ 10,323,910	\$ 9,637,526	\$ 198,488	\$ 487,896

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 shareholders, for which the interest rates charged are fixed.

YERBAÉ BRANDS CORP.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Unaudited - Expressed in U.S. Dollars)
September 30, 2023

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 and comprehensive 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 September 30, 2023 and December 31, 2022:

September 30, 2023	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	\$ 1,617,486	\$ 1,617,486	\$ -	\$ -	\$ -	\$ -
Accounts receivable	913,084	913,084	-	-	-	-
Accounts payable	-	-	1,630,936	1,630,936	-	-
Accrued interest	-	-	89,942	89,942	-	-
Accrued expenses	-	-	736,650	736,650	-	-
Due to LOC	-	-	-	-	-	-
Notes payable	-	-	2,373,590	2,373,590	-	-
Financing lease liability	-	-	329,645	329,645	-	-

December 31, 2022	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	\$ 856,547	\$ 856,547	\$ -	\$ -	\$ -	\$ -
Accounts receivable	922,725	922,725	-	-	-	-
Accounts payable	-	-	2,733,015	2,733,015	-	-
Accrued Interest	-	-	46,264	46,264	-	-
Accrued expenses	-	-	668,164	668,164	-	-
Due to LOC	-	-	879,555	879,555	-	-
Note payable	-	-	4,091,504	4,091,504	-	-
Financing lease liability	-	-	371,185	371,185	-	-

YERBAÉ BRANDS CORP.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Unaudited - Expressed in U.S. Dollars)
September 30, 2023

5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of September 30, 2023:

	Vehicles
Balance at December 31, 2022	\$ 253,453
Additions	-
Dispositions	(143,538)
Balance at September 30, 2023	\$ 109,915
 <u>Accumulated Depreciation</u>	
Balance at December 31, 2022	\$ 62,253
Additions	29,083
Dispositions	(47,370)
Balance at September 30, 2023	\$ 43,966
 <u>Carrying Amount</u>	
At December 31, 2022	\$ 191,200
At September 30, 2023	\$ 65,949

6. INVENTORIES

Inventories consist of the following as of September 30, 2023 and December 31, 2022:

	September 30 , 2023	December 31, 2022
Raw material	\$ 59,344	\$ 55,462
Finished goods	928,896	867,601
Reserve for shrinkage	(1,186)	(1,109)
 TOTAL	\$ 987,054	\$ 921,954

YERBAÉ BRANDS CORP.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Unaudited - Expressed in U.S. Dollars)
September 30, 2023

7. DUE TO LINE OF CREDIT

On May 16, 2023, Yerbaé replaced their line of credit provider Ampla and secured a new accounts receivable and inventory revolving line of credit of \$2,500,000 from Oxford Commercial Finance, a Michigan banking corporation, through its Delaware subsidiary Yerbaé LLC. The Company can draw down funds as needed, and only pay interest on the amount borrowed. The Debt Facility is secured by a security interest in all assets of Yerbaé, including a first security interest in Yerbaé's accounts receivable and inventory. The outstanding balance due to Oxford Commercial Finance was \$0 at September 30, 2023 and the outstanding balance due to Ampla was \$879,555 at December 31, 2022.

8. NOTES PAYABLE

Notes payable consisted of the following at September 30, 2023 and December 31, 2022:

	September 30, 2023	December 31, 2022
Note payable to the Small Business Administration, secured by all assets of the Company, due October 2050, payable in monthly principal and interest payments of \$731. Interest on the note is at 3.75%. The first monthly installment was due in October 2022.	\$ -	\$ 150,000
Notes payable due in a lump payment at maturity, including interest at 8%, due February 8, 2023. The notes are secured by certain assets of the Company. The note was paid in full on February 15, 2023.	-	\$ 500,000
Notes payable to two investors in the amount of \$4,500,000 in total. (1)	\$ -	\$ 3,257,051
Short term note payable to director. All accrued interest waived. \$50,000 repayment made on April 21, 2023, remaining \$50,000 will be paid in October, 2023.	\$ 50,000	\$ -
Notes payable in monthly installments ranging from \$543 to \$652, including interest ranging from 2.90% to 5.49%, due October 2026. The notes are secured by vehicles.	\$ 65,832	\$ 184,453
Notes payable to multiple investors in the amount of \$3,802,000 in total. The loans accrue interest at 6.00%. The notes are unsecured and are due 24 months from issue date. These notes also contain certain conversion rights. There are two conversion options: (a) automatic conversion upon Change in Control event; and (b) upon maturity of the notes. (2)	\$ 2,257,758	\$ -
Subtotal	2,373,590	4,091,504
Less current maturities	(73,178)	(3,811,622)
TOTAL	\$ 2,300,412	\$ 279,882

YERBAÉ BRANDS CORP.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Unaudited - Expressed in U.S. Dollars)
September 30, 2023

8. NOTES PAYABLE (Continued)

- (1) The loans accrued interest at 8.00%. All accrued interest was waived on conversion of the notes. The notes were secured by substantially all the assets of the Company and were due on the earlier of 12 months from issue date or upon completion of a liquidation event as defined in the agreements. These notes also contained certain conversion rights as described in the agreement. There are two conversion options: (a) automatic conversion upon liquidation event; and (b) upon maturity of the notes. Subsequent to year end on February 8, 2023, all the notes have converted into stock of the Company. The notes payable were issued with detachable warrants. During the nine months ended September 30, 2023, in conjunction with the Transaction, the principal amount of the notes was converted into Common Shares (see note 9) and the remaining debt discount in the amount of \$1,242,949 was recorded to accretion expense upon the conversion of the note.

- (2) See below for additional description of the notes payable which were issued pursuant to the First Tranche and Second Tranche, as defined below. The notes payable were issued with detachable warrants which reduced the carrying value of this note at September 30, 2023 by an aggregate of \$1,135,238. In addition, the Company recorded an aggregate of \$319,415 as debt issuance costs which included an aggregate of \$204,050 of cash finders fees paid and \$115,365 related to the fair value of 165,100 agents warrants issued in conjunction with the First Tranche and Second Tranche which is also included in debt discount. In addition, during the nine months ended September 30, 2023, the Company recorded accretion expense of \$215,411. During the nine months ended September 30, 2023, \$305,000 in principal and \$7,840 in accrued interest was converted into an aggregate of 222,123 Common Shares. (see Note 9)

On April 13, 2023, Yerbaé successfully closed the first tranche (the “**First Tranche**”) of a private placement offering of unsecured convertible debenture units (each, a “**Debenture Unit**”) at a price of \$1,000 per Debenture Unit, pursuant to which First Tranche consisted of 1,650 Debenture Units for gross proceeds of \$1,650,000. Following the closing of the First Tranche, Yerbaé closed the second tranche (the “**Second Tranche**”) of the Debenture Unit offering on May 5, 2023, pursuant to which Second Tranche consisted of 2,152 Debenture Units for gross proceeds of \$2,152,000. Each Debenture Unit consisted of: (i) one (1) \$1,000 principal amount in unsecured convertible debenture (each, a “**Debenture**”); and (ii) 714 Warrants. Together with the proceeds of the First Tranche, the Company raised gross aggregate proceeds of \$3,802,000 under the Offering.

The Debentures mature on April 30, 2025 (the “**Maturity Date**”) and bear interest at a rate of 6.0% per annum, payable on the earlier of the Maturity Date or the date of conversion of the Debentures. The interest will be payable in Common Shares to be determined at the Market Price (as that term is defined in the Policies of the TSXV). The principal amount of the Debentures will be convertible at the holder’s option into Common Shares at any time prior to the close of business on the earlier of: (i) the last business day immediately preceding the Maturity Date, and (ii) the date fixed for redemption in the case of a change of control, at a conversion price of \$1.40 per Common Share (the “**Conversion Price**”), subject to

YERBAÉ BRANDS CORP.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Unaudited - Expressed in U.S. Dollars)
September 30, 2023

8. NOTES PAYABLE (Continued)

adjustment in certain customary events. Each Warrant entitles the holder thereof to acquire one Common Share (each, a “**Warrant Share**”) at a price per Warrant Share of \$1.70 at any time prior to the Maturity Date, subject to an acceleration right whereby, if, in the event the Common Shares have a daily volume weighted average trading price on the TSXV (or such other recognized North American securities exchange) of \$3.00 or greater per Common Share for any 10 consecutive trading day period at any time after the date that is four months following the issuance of the Warrants, the Company may accelerate the expiry of the Warrants by giving notice to the holders thereof (by disseminating a news release advising of the acceleration) and, in such case, the Warrants will be deemed to have expired on the day which is 30 days after the date of such notice.

Future principal maturities of notes payable at September 30, 2023 were as follows:

0-12 months	\$ 73,178
13-24 months	2,280,935
25-36 months	<u>19,477</u>
 TOTAL	 <u>\$ 2,373,590</u>

9. SHARE CAPITAL

Yerbaé is authorized to issue an unlimited number of Common Shares without par value and 100,000,000 preferred shares (each, a “**Preferred Share**”) without par value.

Issued and outstanding:	September 30, 2023	December 31, 2022
Common Shares ⁽¹⁾	58,383,742	30,217,566
Preferred Shares	-	-
Warrants ⁽²⁾	13,939,444	7,385,741
Stock Options ⁽³⁾	2,440,639	1,052,669
RSUs ⁽⁴⁾	943,755	-
PSUs ⁽⁵⁾	934,623	-
Fully-Diluted Share Total	<u>76,642,203</u>	<u>38,655,976</u>

(1) The outstanding Common Shares total is inclusive of the 8,000,000 Performance Shares.

(2) The weighted average strike price of outstanding warrants is \$1.417.

(3) The weighted average strike price of outstanding options is \$1.035.

(4) The RSUs vest after 12 months. 808,041 vest in March 2024. The remaining 135,714 vest in May 2024.

(5) During the nine month period ended September 30, 2023, the Company granted an aggregate of 1,032,449 PSU’s of which 97,826 were forfeited during the period. 685,867 of the PSUs vest contingent upon and at the time the Company reaches US\$12,500,000 in net sales for 2023. 248,756 vest contingent upon and at the time of completion of 12 consecutive months of consulting services ending September 2024.

YERBAÉ BRANDS CORP.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited - Expressed in U.S. Dollars) September 30, 2023

9. SHARE CAPITAL (Continued)

For the nine month period ended September 30, 2022, the Company had the following transactions:

In February 2022, the Company issued 29,536 shares at \$0.68 per share to an investor in the pre RTO company for total proceeds of \$20,000.

In September 2022, the Company issued an aggregate of 752,901 shares at an average price of \$1.23 per share to investors in the pre RTO company for total proceeds of \$929,264.

For the nine month period ended September 30, 2023, the Company had the following transactions:

On May 19, 2022, Yerbaé (formerly Kona Bay) entered into the Arrangement Agreement with Yerbaé US, Merger Sub, FinCo, Todd Gibson and Karrie Gibson, with respect to the Transaction. On February 8, 2023, Yerbae completed its Transaction with Yerbaé US by way of a reverse takeover. conducted pursuant to: (i) the provisions of the DGCL in which Merger Sub merged with and into Yerbaé US, and (ii) a plan of arrangement conducted pursuant to the provisions of the BCBCA. In connection with the Closing, Yerbaé (formerly, Kona Bay) consolidated its outstanding Common Shares on the basis of 5.8 pre-consolidation Common Shares for every one post-consolidation Common Share prior to the completion of the Amalgamation and changed its name from “Kona Bay Technologies Inc.” to “YERBAÉ BRANDS CORP.”. Total shares issued relating to the recapitalization that were issued to former Kona Bay shareholders was 8,239,215 common shares with a fair value of \$7,526,000.

At the time of Closing, an aggregate of 54,493,953 Common Shares were issued and outstanding of which: 35,848,290 Common Shares were issued to the former Yerbaé shareholders (inclusive of an aggregate of 5,631,276 Common Shares issued to former holders of an aggregate of \$4,500,000 in convertible promissory notes of Yerbaé US converted immediately prior to closing of the Transaction), 8,000,000 performance Common Shares (each, a “**Performance Share**”) were issued with a fair value of \$11,360,000 of which \$2,433,404 was recognized as a reduction of equity related to the current financing proceeds received and \$2,840,000 has been included as deferred offering costs initially, and as of September 30, 2023, the deferred offering costs balance is \$1,024,523. The Performance Shares are held in escrow and are to be released upon the completion of certain performance-based incentives related to the listing of the Common Shares on the TSX Venture Exchange (“**TSXV**”), future equity financings, and certain trailing gross revenue targets, and 2,015,163 Shares were issued to former holders of subscription receipts of FinCo issuable in connection to a concurrent financing of \$2,433,404 to the Transaction.

YERBAÉ BRANDS CORP.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Unaudited - Expressed in U.S. Dollars)
September 30, 2023

9. SHARE CAPITAL (Continued)

In addition, the 1,087,752 options to purchase shares of common stock (each, a “**Yerbaé US Share**”) of Yerbaé US which were outstanding immediately prior to closing of the Transaction were cancelled and the holders thereof were granted an aggregate of 1,087,752 options to purchase Common Shares (each, an “**Option**”), 1,754,464 warrants to purchase Yerbaé US Shares which were outstanding immediately prior to Closing were cancelled and the holders thereof were granted an aggregate of 1,754,464 replacement warrants of Yerbaé, and 2,015,163 warrants to purchase shares of FinCo which were outstanding immediately prior to closing of the Transaction were cancelled and the holders thereof were granted an aggregate of 2,015,163 replacement warrants. 5,631,276 warrants were also issued as part of the conversion of the \$4,500,000 convertible promissory notes.

In connection with the closing of the Transaction, the parties paid customary advisory fees to an eligible arm’s length third party finder (the “**Finder**”), in consideration for the Finder’s services in facilitating the identification, negotiation and implementation of the Transaction which consisted of the issuance of 507,662 Common Shares with a fair value of \$720,880, as well as a cash payment of \$200,000

On July 17 2023, Yerbaé announced a non-brokered private placement of units (each, a “**Unit**”) of the Company at a price of \$1.83 per Unit for aggregate gross proceeds of up to \$5,000,000 (the “**Offering**”), with each Unit consisting of one Common Share and one warrant entitling the holder thereof to acquire one additional Common Share at a price per warrant share of \$2.15 for a period of 24 months from the date of issuance. On August 18, 2023, Yerbaé closed the initial tranche of the Offering which consisted of the issuance by the Company of 2,219,629 Units for aggregate gross proceeds of \$4,061,921. In connection with the closing of the initial tranche, the Company paid eligible finders cash fees of \$33,243. On August 31, 2023, Yerbaé closed the second tranche of the Offering which consisted of the issuance by the Company of 225,329 Units for aggregate gross proceeds of \$412,352.

Yerbae entered into an agreement, as amended on June 19, 2023 with Force Family Office Inc. (“**Force Family**”). Under the terms of the Force Family agreement, Force Family will provide certain business development and corporate strategies services to enhance the Company's growth and market positioning. In consideration for the services to be provided by Force Family, the Company agreed to pay Force Family an aggregate consulting fee of \$150,000 payable in Common Shares as to \$25,000 in Common Shares on the date that is one month from the date of execution of the Force Family agreement at a deemed price per Common Share equal to the prevailing market price of the Common Shares on the date of such payment and \$125,000 in Common Shares on the date of expiration of the six month term at a deemed price per Common Share equal to the prevailing market price of the Common Shares on the date of such payment. Accordingly, on July 21, 2023 the Company issued 11,363 Common Shares to Force Family at a deemed price of \$2.20 per Common Share in satisfaction of the initial \$25,000 payment.

YERBAÉ BRANDS CORP.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Unaudited - Expressed in U.S. Dollars)
September 30, 2023

9. SHARE CAPITAL (Continued)

During the nine months ended September 30, 2023, \$305,000 in principal amount of Debentures and \$7,840 in accrued interest was converted into an aggregate of 222,123 Common Shares. The principal amount was converted using a Common Share price of \$1.40 and the accrued interest was converted using a weighted average Common Share price of \$1.81.

During the nine month period ending September 30, 2023, the Company received proceeds of \$1,040,212 in relation to the exercise of an aggregate of 1,094,968 Warrants at \$0.95 per Common Share resulting in the issuance of 1,094,968 Common Shares.

At September 30, 2023, there were 58,383,742 common shares issued and outstanding.

10. STOCK COMPENSATION PLAN

In connection with the Transaction, each outstanding stock option of Yerbaé US outstanding immediately prior to the Merger was exchanged for an equivalent number of Options of Kona Bay (now Yerbaé) on the basis of one Kona Bay (now Yerbaé) Option for ever one Yerbaé US stock option. As a result, Yerbaé US's former stock option plan was cancelled and subsequently replaced by the adoption of Yerbaé's current Equity Incentive Plan (the "**Plan**"), adopted by shareholders of the Company on December 21, 2022, and which became effective on February 8, 2023, in connection with the closing of the Transaction.

The Plan is a rolling omnibus incentive plan for "**Options**" and a fixed 10% plan for performance-based awards such as restricted share units ("**RSUs**"), performance share units ("**PSUs**"), and deferred share units (collectively, "**Performance-Based Awards**"), such that the aggregate number of Common Shares that: (i) may be issued upon the exercise or settlement of Options granted under the Plan, shall not exceed 10% of the Company's issued and outstanding Common Shares from time to time, and (ii) may be issued in respect of Performance-Based Awards shall not exceed 5,455,121. Under the Plan, settled or terminated Options or Performance-Based Awards shall be available for subsequent grants under the Plan and the number of Options available to grant increases as the number of issued and outstanding Common Shares increases.

As at September 30, 2023, the Company had an aggregate of 2,440,639 Options, 943,755 RSUs and 934,623 PSUs outstanding. Total stock-based compensation expense recorded for the nine month period ended September 30, 2023 was \$1,695,014.

YERBAÉ BRANDS CORP.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Unaudited - Expressed in U.S. Dollars)
September 30, 2023

10. STOCK COMPENSATION PLAN (Continued)

	Total Options		Vested Options	
	Total Options Outstanding	Weighted Average Exercise Price (\$)	Vested Options Outstanding	Weighted Average Exercise Price (\$)
BALANCE, DECEMBER 31, 2021	968,133	0.649	250,408	0.627
Granted	119,619	0.953	-	-
Vested	-	-	121,218	0.628
Exercised	-	-	-	-
Forfeited	(35,087)	0.923	(3,189)	0.627
BALANCE, DECEMBER 31, 2022	1,052,665	0.674	368,437	0.627
Granted	1,748,982	1.270	-	-
Vested	-	-	242,435	0.627
Exercised	-	-	-	-
Forfeited	(361,008)	1.119	-	-
BALANCE, SEPTEMBER 30, 2023	2,440,639	1.035	610,871	0.627

A summary of the Options outstanding as of September 30, 2023, is as follows:

Expiry Date	Exercise Price	Total Options Outstanding	Vested Options Outstanding
8/16/2026	\$0.627	15,949	-
1/1/2027	\$0.627	199,371	199,371
1/22/2028	\$0.627	39,874	39,874
6/20/2028	\$0.627	79,748	79,748
7/10/2028	\$0.627	159,496	159,496
1/1/2029	\$0.627	31,899	12,760
1/1/2029	\$0.652	15,946	6,380
8/1/2029	\$0.627	79,748	31,899
10/31/2029	\$0.627	31,899	31,899
1/1/2030	\$0.627	103,672	20,734
3/1/2030	\$0.627	63,798	12,760
3/10/2030	\$1.160	1,171,159	-
3/25/2030	\$0.627	79,748	15,950
5/31/2030	\$1.550	100,000	-
6/23/2030	\$1.490	13,587	-
9/18/2030	\$2.010	175,000	-
10/11/2031	\$0.953	31,898	-
1/24/2032	\$0.953	15,949	-
4/11/2032	\$0.953	15,949	-
6/6/2032	\$0.953	15,949	-
TOTAL		2,440,639	610,871

YERBAÉ BRANDS CORP.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Unaudited - Expressed in U.S. Dollars)
September 30, 2023

10. STOCK COMPENSATION PLAN (Continued)

A summary of the RSUs outstanding as of September 30, 2023 is as follows:

Grant Date	Vesting Date	Number Outstanding
3/10/2023	3/10/2024	808,041
5/31/2023	5/31/2024	135,714
TOTAL		943,755

A summary of the PSUs outstanding as of September 30, 2023 is as follows:

Grant Date	Vesting Date	Number Outstanding
3/10/2023	Vest on 3/10/2024 contingent upon the Company reaching US\$12,500,000 in net sales for 2023	685,867 ⁽¹⁾
9/18/2023	Vest contingent upon and at the time of completion of 12 consecutive months of consulting services	248,756
TOTAL		934,623

(1) Amount is net of 97,826 PSUs that were forfeited during the nine-month period ended September 30, 2023.

11. WARRANTS

At September 30, 2023, the Company had outstanding Warrants to purchase 13,939,444 Common Shares at prices ranging from \$0.85 to \$2.15 per Common Share. The Warrants expire at various dates through February 8, 2026. At September 30, 2023, Yerbaé had an aggregate of 13,939,444 Common Shares reserved for the due exercise of the outstanding Warrants.

Management used peer companies to determine the volatility index in the estimation of the fair value of the Warrants.

Using the Black-Scholes-Merton option pricing model, management has determined that the Warrants have a weighted average value ranging from \$0.12 to \$0.96 per Warrant, resulting in total value of \$7,788,453 which has been recognized as Warrants Reserve in shareholder' equity. Total warrant expense recorded in the nine month period ended September 30, 2023 was \$1,643,777.

YERBAÉ BRANDS CORP.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Unaudited - Expressed in U.S. Dollars)
September 30, 2023

11. WARRANTS (Continued)

The assumptions used in the calculated fair value of warrants are as follows:

Risk-free interest rate	3.99%
Expected life in years at date of issuance	2-5 years
Expected volatility	75.34%

A summary of Warrant activity is as follows:

	Number of Warrants	Weighted Average Exercise Price (\$)
BALANCE, DECEMBER 31, 2021	-	-
Issued	5,950,268	0.989
Exercised	-	-
Expired	-	-
BALANCE, DECEMBER 31, 2022	5,950,268	0.989
Issued	9,084,144	1.642
Exercised	(1,094,968)	0.950
Expired	-	-
BALANCE, SEPTEMBER 30, 2023	13,939,444	1.417

YERBAÉ BRANDS CORP.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Unaudited - Expressed in U.S. Dollars)
September 30, 2023

11. WARRANTS (Continued)

A summary of the issued and outstanding Warrants as of September 30, 2023 is as follows:

Expiry Date	Exercise Price	Total Outstanding
8/8/2024	\$1.50	3,234,675
4/13/2025	\$1.70	1,178,100
4/13/2025	\$1.40	57,499
5/5/2025	\$1.70	1,536,528
5/5/2025	\$1.40	107,601
8/8/2025	\$1.37	308,823
8/18/2025	\$2.15	2,219,629
8/31/2025	\$2.15	225,329
2/8/2026	\$0.95	659,496
2/8/2026	\$0.85	4,411,764
TOTAL		13,939,444

12. REVERSE TAKEOVER TRANSACTION

On February 8, 2023, Yerbaé (formerly Kona Bay) acquired, pursuant to the terms of the Arrangement Agreement, all of the issued and outstanding securities of Yerbaé US by way of a reverse takeover conducted pursuant to: (i) the provisions of the DGCL in which Merger Sub merged with and into Yerbaé US, and (ii) a plan of arrangement conducted pursuant to the provisions of the BCBCA, which resulted in the Amalgamation of Kona Bay (now Yerbaé) with FinCo. Following the Closing, Yerbaé US became a wholly-owned subsidiary of the Company. In accounting for Transaction, consideration was determined by the market value of the Common Shares of Kona Bay (now Yerbaé) plus and/or minus Kona Bay's assets and liabilities, at closing of the Transaction. The resulting consideration of the Transaction was \$6,884,350 and is reflected in the income statement as part of the "One Time RTO Non Cash Expenses" with the offsetting entry booked to Additional Paid in Capital. It should be noted that "Listing Expense" is a non-cash expense.

YERBAÉ BRANDS CORP.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Unaudited - Expressed in U.S. Dollars)
September 30, 2023

13. EXPENSES BY NATURE

Expenses consist of the following:

	<u>Three-month periods ended</u>		<u>Nine-month periods ended</u>	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
<u>COST OF SALES</u>				
Materials	\$ 1,378,422	\$ 745,206	\$ 4,854,156	\$ 1,725,725
Rent	39,181	57,824	113,902	175,547
Total cost of sales	\$ 1,417,603	\$ 803,030	\$ 4,968,058	\$ 1,901,272
<u>OPERATING EXPENSES</u>				
Advertising, marketing, and promotions	\$ 1,886,414	\$ 854,519	\$ 5,542,848	\$ 3,117,527
Employee Benefits	772,470	614,101	2,325,024	1,703,238
Outbound Freight	575,560	491,474	1,956,911	1,587,751
Travel Expense	132,870	74,967	406,399	282,596
Investor Relations	745,596	-	989,434	-
Professional Fees	285,190	133,253	1,208,219	333,936
Miscellaneous	94,966	146,882	209,754	422,479
Office Expenses	243,063	195,867	828,847	526,851
Total Operating Expenses	\$ 4,736,129	\$ 2,511,063	\$13,467,436	\$ 7,974,378
<u>One Time RTO Non Cash Expenses</u>				
Non Cash Listing Expenses – Kona Bay shares	-	-	6,884,350	-
Non-Cash Listing Expenses – Finders shares/warrants	-	-	913,894	-
Non Cash Listing Expenses – Performance shares	-	-	6,086,597	-
TOTAL	-	-	13,884,841	-
<u>Other Non-Cash Expenses</u>				
Non Cash Consulting Expenses	74,999	-	74,999	-
Warrant Expense	-	-	1,450,762	-
RSU/PSU Expense	549,686	-	1,176,984	-
Stock Option Expense	184,000	-	518,030	43,280
Depreciation Expense	6,732	19,477	29,083	53,895
TOTAL	815,417	19,477	3,249,858	97,175

YERBAÉ BRANDS CORP.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Unaudited - Expressed in U.S. Dollars)
September 30, 2023

14. LOSS PER SHARE

Basic loss per share is calculated by dividing the net loss by the weighted average number of Common Shares issued during the periods ended September 30, 2023, and 2022. The following table reflects the loss and share data used in the basic loss per share calculations:

	<u>Three-month periods ended</u>		<u>Nine-month periods ended</u>	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Net loss	\$ (4,188,575)	\$ (1,449,633)	\$ (27,182,805)	\$ (4,773,393)
Weighted average number of Common Shares in issue	57,196,035	29,778,445	52,761,925	29,518,339
BASIC LOSS PER SHARE	\$ (0.07)	\$ (0.05)	\$ (0.52)	\$ (0.16)

Diluted loss per share did not include the effect of outstanding stock options, PSUs, RSUs, warrants and convertible debentures as the effect would be anti-dilutive.

15. RELATED PARTIES

Key Management Personnel

Related parties of the Company include key management personnel, companies controlled by key management personnel and close family members of key management personnel. Key management personnel are persons having authority and responsibility for planning, directing, and controlling the activities of the Company, directly or indirectly, including any directors (whether executive or otherwise) of the Company. Key management personnel are composed of the Board and executive leadership team.

Related-Party Transactions

	<u>Three-month periods ended</u>		<u>Nine-month periods ended</u>	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
	\$	\$	\$	\$
Salaries	106,250	50,000	318,750	150,000
Share Based Payment	395,040	-	812,431	-
TOTAL	501,290	50,000	1,131,181	150,000

YERBAÉ BRANDS CORP.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Unaudited - Expressed in U.S. Dollars)
September 30, 2023

15. RELATED PARTIES (continued)

On January 30, 2023, the Company entered into a loan agreement with a director of the Company. An aggregate of \$100,000 was advanced by related parties pursuant to the loan agreements and other advances. On April 21, 2023, the Company repaid \$50,000 of this loan and as of September 30, 2023, the balance remaining on the loan totals \$50,000.

16. SEASONALITY

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 first and fourth quarters tend to be slightly lower. However, this will vary from time to time due to marketing campaigns, new product introductions, and/or other factors and Company initiatives.

17. SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the reporting date but before financial statements are 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, non-recognized subsequent events). Management has evaluated subsequent events through November 29, 2023, and determined that the following significant subsequent events occurred:

Subsequent to September 30, 2023, the Company issued an aggregate of 160,777 Common Shares pursuant to the conversion of \$220,000 principal amount of Debentures and \$6,766 in accrued interest related thereto. The principal amount was converted using a Common Share price of \$1.40 and the accrued interest was converted using a weighted average Common Share price of \$1.81.

On October 5, 2023, the Company received proceeds of \$34,000 from the exercise of 20,000 Warrants at an exercise price of \$1.70 per Common Share and issued 20,000 Common Shares related thereto.

On October 31, 2023, the Company granted 11,905 stock Options to an employee at an exercise price of \$1.43 per Common Share.

On November 16, 2023, the Company received proceeds of \$151,521 from the exercise of 159,496 Warrants at an exercise price of \$0.95 per Common Share and issued 159,496 Common Shares related thereto.

On November 24, 2023 the Company issued 66,489 shares to Force Family at a deemed price of \$1.88 per Common Share in satisfaction of the final \$125,000 payment per agreement (see note 9).

YERBAÉ BRANDS CORP.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Unaudited - Expressed in U.S. Dollars)
September 30, 2023

18. MANAGEMENT PLANS

As is common for entities in their initial growth stage, Yerbae has experienced historical losses from operations, including the current fiscal year. Since February 2023, Yerbae's Common Shares have been listed for trading on the TSXV under the symbol YERB.U. The Company expects to raise additional capital during fiscal year 2023. Yerbae continues to aggressively pursue increased revenue and building brand awareness for 2023 and beyond. In addition, Yerbae is working toward positive cash flows but with continued investments into consumer awareness, new retail expansion, and investment into E-commerce and infrastructure, there can be no assurance that the Company will be successful in accomplishing its objectives; however, management believes these efforts have already begun to positively impact the Company's brand awareness and expects this to continue the progression of the brand's long-term success.

These condensed consolidated interim financial statements have been prepared assuming the Company will continue on a going-concern basis, which assumes that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of operations. The Company expects to raise additional capital during fiscal year 2023. For the nine months ended September 30, 2023, the Company reported a net loss of \$27,182,805 (September 30, 2022 - \$4,773,393), and an accumulated deficit of \$41,630,542 (December 31, 2022 - \$14,447,737). The Company concluded that a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. The Company's long-term continued operations are dependent on its abilities to monetize assets or raise additional funding from loans, equity financings, or other arrangements and continued retail expansion. There is no assurance that future financing activities will be successful. These financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and statement of financial position classifications that would be necessary were the going concern assumption not appropriate. Such adjustments could be material.