

BERT D. MATTHEWS, CPA
11777 KATY FREEWAY, SUITE 341
HOUSTON, TEXAS 77079
281-531-9850

ACCOUNTANT'S COMPILATION REPORT

Innovative Beverage Group Holding, Inc.
5833 A Westview Dr.
Houston, Texas 77055

I have compiled the accompanying balance sheet of Innovative Beverage Group Holding, Inc. as of December 31, 2012 and 2011, and the related statements of income, retained earnings, and cash flows for the twelve months then ended. I have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or provide any assurance about whether the financial statements are in accordance with accounting principles generally accepted in the United States of America. The 2011 financials were audited by another accountant whose letter dated April 15, 2012, stated that he was not aware of any material modifications that needed to be made to the financial statements to be in conformity with generally accepted accounting principles.

A compilation is limited to presenting in the form of financial statements information that is the representation of management. I have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of financial statements.

My responsibility is to conduct the compilation in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements.

I am not independent with respect to Innovative Beverage Group Holding, Inc.

BERT D. MATTHEWS
CERTIFIED PUBLIC ACCOUNTANT
March 12, 2013

Innovative Beverage Group Holdings, Inc.
Consolidated Statements of Financial Position
As of December 31,

| ASSETS | <u>2012</u> | <u>2011</u> |
|---|--------------------------|--------------------------|
| Current Assets | | |
| Cash and Cash Equivalents | \$ 95,090 | \$ 6,388 |
| Accounts Receivable (Net of Allowance for Bad Debt of \$216,866 and \$216,866 at December 31, 2012 and 2011, respectively.) | 159,512 | 281,446 |
| Prepaid Expense | 11,938 | 11,938 |
| Inventory | <u>114,400</u> | <u>103,176</u> |
| Total Current Assets | 380,940 | 402,948 |
| | | |
| Property and Equipment (net of accumulated depreciation of \$36,821 and \$33,359 at December 31, 2012 and 2011, respectively) | 13,362 | 4,419 |
| | | |
| Other Assets | <u>1,000</u> | <u>1,000</u> |
| | | |
| Total Assets | <u><u>\$ 395,302</u></u> | <u><u>\$ 408,367</u></u> |
| | | |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| | | |
| Current Liabilities | | |
| Accounts Payable | \$ 384,421 | \$ 326,969 |
| Accrued Expenses | 588,861 | 655,965 |
| Notes Payable - Other | 14,226 | 271,973 |
| Total Current Liabilities | <u>987,508</u> | <u>1,254,907</u> |
| | | |
| Total Liabilities | 987,508 | 1,254,907 |
| | | |
| Shareholders' Equity (Deficit) | | |
| | | |
| Common Stock valued at \$.001 Par Value, 247,000,000 Shares Authorized. Issued and outstanding 70,099,740 and 70,099,740 at December 31, 2012 and 2011, respectively. | 70,100 | 70,100 |
| Additional Paid in Capital | 9,627,578 | 9,594,977 |
| Retained Earnings (Deficit) | <u>(10,289,883)</u> | <u>(10,511,615)</u> |
| | | |
| Total Shareholders' Equity (Deficit) | <u>(592,205)</u> | <u>(846,538)</u> |
| | | |
| Total Liabilities and Shareholders' Equity | <u><u>\$ 395,302</u></u> | <u><u>\$ 408,367</u></u> |

The information in the Notes to Consolidated Financial Statements is an integral part of these statements.

Innovative Beverage Group Holdings, Inc.
Consolidated Statements of Operations
For the Twelve Months Ending December 31,

| | <u>2012</u> | <u>2011</u> |
|---|-------------------|-------------------|
| Sales | \$ 3,365,508 | \$ 3,478,869 |
| Cost of Goods Sold | <u>2,077,227</u> | <u>2,245,532</u> |
| Gross Profit | <u>1,288,281</u> | <u>1,233,337</u> |
| Operating Expenses | | |
| Bad Debt | - | - |
| General and Administrative | 1,065,950 | 1,112,765 |
| Rent | 72,185 | 74,539 |
| Salaries and Wages | 150,000 | 150,000 |
| Depreciation | 3,462 | 3,550 |
| Total Operating Expenses | <u>1,291,597</u> | <u>1,340,854</u> |
| Operating Income (Loss) | <u>(3,316)</u> | <u>(107,517)</u> |
| Other Income | | |
| Interest Earned | - | 16 |
| Other | 257,748 | 283,869 |
| Other Expenses | | |
| Gain on Settlement | - | - |
| Interest Expense | <u>(32,701)</u> | <u>(44,923)</u> |
| Income (loss) Before Federal Income Taxes | <u>221,731</u> | <u>131,445</u> |
| Federal Income Taxes | - | - |
| Net Income (Loss) | <u>\$ 221,731</u> | <u>\$ 131,445</u> |
| Weighted Average Shares Outstanding | | |
| Basic and Diluted | 70,099,740 | 70,099,740 |
| Earnings (Loss) per Share | | |
| Basic and Diluted | 0.0032 | 0.0019 |

The information in the Notes to Consolidated Financial Statements is an integral part of these statements.

Innovative Beverage Group Holdings, Inc.
Consolidated Statement of Cash Flows
As of December 31,

| | 2012 | 2011 |
|--|---------------|----------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net Income (Loss) | 221,731 | 131,445 |
| Adjustments to Reconcile Net Income (Loss) to Net Cash Provided By (Used In) Operating Activities: | | |
| Depreciation | 3,462 | 3,550 |
| Imputed Interest | 32,601 | 44,923 |
| Accounts Receivable | 121,934 | (56,831) |
| Inventory | (11,224) | 239,600 |
| Accounts Payable | 57,452 | (128,334) |
| Accrued Expenses | (67,104) | (242,113) |
| Notes Payable-Other | (257,747) | - |
| Net Cash used in Operating Activities | 101,105 | (7,760) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Capital Expenditures | (12,403) | - |
| Net Cash Used in Investing Activities | (12,403) | - |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Repayment of Long-term Debt | - | - |
| Principle Payments on Related Party Loans | - | - |
| Proceeds From the Sale of Stock | - | - |
| Borrowings (Payments) on Line of Credit, net | - | - |
| Net Cash Provided By Financing Activities | - | - |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 88,702 | (7,760) |
| CASH AND EQUIVALENTS AT BEGINNING OF PERIOD | 6,388 | 14,148 |
| CASH AND EQUIVALENTS AT END OF PERIOD | 95,090 | 6,388 |
| SUPPLEMENTAL CASH FLOW INFORMATION | | |
| Cash Paid for Interest | 100 | 3,482 |
| Cash Paid for Income Taxes | - | - |

INNOVATIVE BEVERAGE GROUP HOLDINGS, INC.
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY (DEFICIT)

| | \$.001 Par Value Common Stock Shares | Common Stock Amount | Additional Paid- In Capital | Retained Earnings (Deficit) | Total |
|------------------------------|---|------------------------|--------------------------------|--------------------------------|--------------------|
| Balance at December 31, 2010 | <u>70,099,740</u> | <u>70,100</u> | <u>9,550,054</u> | <u>(10,643,060)</u> | <u>(1,022,906)</u> |
| Imputed Interest | | | 44,923 | | 44,923 |
| Net Income (Loss) | | | | 131,445 | 131,445 |
| Balance at December 31, 2011 | <u>70,099,740</u> | <u>70,100</u> | <u>9,594,977</u> | <u>(10,511,615)</u> | <u>(846,537)</u> |
| Imputed Interest | | | 32,601 | | 32,601 |
| Net Loss | | | | 221,731 | 221,731 |
| Balance at December 31, 2012 | <u>70,099,740</u> | <u>70,100</u> | <u>9,627,578</u> | <u>(10,289,883)</u> | <u>(592,205)</u> |

INNOVATIVE BEVERAGE GROUP HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIODS ENDING DECEMBER 31, 2012 AND 2011

1. Organization, Nature of Business, and Basis of Presentation

Organization and Nature of Business

Innovative Beverage Group Holdings, Inc. is the parent of a wholly-owned subsidiary which is a wholesale distributor of proprietary and exclusive energy drinks and New Age beverages to retail and wholesale establishments. The Company holds exclusive distribution rights for Texas, Louisiana, and Missouri through a distributor licensing agreement with World Tech, Inc. (a related affiliate) for non-proprietary drinks. The Company's proprietary drink's sales for the twelve months ending December 31, 2012 and 2011 represented 41.1% and 47.3% of sales, respectively.

In 2009, the company expanded production of its proprietary drink and signed a production agreement for the drink. This resulted in comparatively larger increase in the Company's gross margins. The Company is continuing to expand its work and relationships with distributors, which it anticipates will assist in the creation of future profitability.

Basis of Presentation

The accompanying consolidated financial statements of the Company have been presented in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary – Innovative Beverage Group, Inc. All significant intercompany balances, transactions and shareholdings have been eliminated.

Summary of Significant Accounting Policies

Cash and Cash Equivalents. Cash equivalents are comprised of certain highly liquid investments with maturity of three months or less when purchased. The Company maintains its cash in bank deposit accounts, which at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts to date. As of December 31, 2012 and 2011, the company had cash equivalents of \$95,090 and \$6,388, respectively.

Accounts Receivable. Trade accounts are recorded at the invoiced amount based on the delivery date. The Company extends credit to its customers in the normal course of doing business. The Company performs ongoing credit valuations of its customers. Earnings are charged with a provision for doubtful accounts based on management's review of the collectability of the accounts. The balance sheet presents accounts receivable net of the allowance for doubtful accounts. All accounts receivable over 90 days are written off unless there is a known exception for the cause in delayed payment.

Advertising. The Company expenses advertising production costs as they are incurred and advertising communication costs at the first time the advertising takes place. During the nine months ending December 31, 2012 and 2011 the Company's advertising and promotional expenses were \$56,149 and \$149,605, respectively.

Inventories. Inventories consist primarily of bottled beverages located at the Company's warehouse, distributor warehouses, or in the possession of sales representatives in the normal course of business. The

INNOVATIVE BEVERAGE GROUP HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIODS ENDING DECEMBER 31, 2012 AND 2011

inventory is stated at average cost not to exceed fair market value. Inventory also includes beverage items produced by the Company that are carried at direct costs not to exceed fair market value. The Company's policy is to immediately write-off any excess or obsolete inventory items. No excess or obsolete items were written off in the nine months ending December 31, 2012 nor 2011.

Property and Equipment. Property and equipment are recorded at cost. Expenditures for repair and maintenance are expensed when incurred, while costs that increase the value of the asset are capitalized. Disposals are removed at cost less accumulated depreciation with the resulting gain or loss reflected in the operations of the year of disposal. Assets are depreciated utilizing the straight-line method over their estimated useful lives, which range from three to ten years.

Revenue Recognition. The Company's revenue is generated from the sale of beverage and food products to retail and wholesale customers. Generally, the goods are delivered to the customer by the Company. The retail customer either pays by cash at delivery or by check or bank transfer subsequent to delivery. The wholesale customer is generally sold on credit. Revenue is recognized when the delivery takes place which is consistent with the four criteria of SAB 104.

Income Taxes. The company accounts for income taxes under the liability method, which requires the recognition of deferred income tax assets and liabilities for the anticipated future consequences or benefits of events that have been recognized in the financial statements or tax returns. Under this method, the deferred income tax liabilities and assets are determined on the temporary differences between financial statement carrying amounts and the tax basis of existing assets and liabilities and the recognition of available tax carryforwards. Until the current year, management included a 100% valuation allowance against any deferred tax asset as it appeared more likely than not, that the Company would not realize the benefit of such an asset in the future.

Concentrations of Credit Risk. Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of cash and receivables. The Company places its cash with high credit quality financial institutions. At times, such amounts may exceed the FDIC limits; however these deposit may typically be redeemed upon demand and therefore bear minimal credit risk.

The Company sells its products to customers in the food and beverage industry. Generally, no collateral or other security is required to support receivables. To reduce credit risk, a customer's credit history is evaluated before extension of credit and in some instances a deposit is received from the customer before the order is processed. In addition, all accounts not collected timely are written off with a charge against earnings. Bad debt expense totaled \$0 in the twelve months ended December 31, 2012 and 2011.

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*, which was primarily codified in FASB Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurements and Disclosures*. This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This statement did not require any new fair value measurements. This statement was initially effective for Innovative Beverage Group Holdings, Inc. beginning January 1, 2008 for nonfinancial assets and nonfinancial liabilities recognized or disclosed at fair value on at least an annual basis. In February 2008, the FASB decided to allow entities to electively defer the effective date of this statement until January 1, 2009 for nonfinancial assets and nonfinancial liabilities that are not recognized or disclosed at fair value on at least an annual basis. We began applying the fair value measurement and disclosure provisions of this statement to nonfinancial assets and liabilities effective

INNOVATIVE BEVERAGE GROUP HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIODS ENDING DECEMBER 31, 2012 AND 2011

January 1, 2007. This clarifies the definition of fair value, prescribes methods for measuring fair value, and establishes a fair value hierarchy to classify the input used in measuring fair value as follows:

Level 1-Inputs are unadjusted quoted prices in active markets for identical assets or liabilities available at the measurement date.

Level 2-Inputs are unadjusted quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, inputs other than quoted prices that are observable, and inputs derived from or corroborated by observable market data.

Level 3-Inputs are unobservable inputs which reflect the reporting entity's own assumptions on what assumptions the market participants would use in pricing the asset or liability based on the best available information.

The carrying amounts reported in the balance sheets for cash, accounts receivable, loans payable, and accounts payable and accrued expenses, approximate their fair market value based on the short-term maturity of these instruments.

The following table presents assets and liabilities that are measured and recognized at fair value as of December 31, 2012 on a non-recurring basis:

| Description | Level 1 | Level 2 | Level 3 | Total Gains (Losses) |
|--------------------------|---------|---------|---------|-------------------------|
| Revolving line of credit | \$ - | \$ - | \$ - | \$ - |
| Short term notes payable | | | \$ - | \$ - |

The FASB's SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities which was primarily codified in FASB Accounting Standards Codification (ASC) Topic 825, became effective for the Company on January 1, 2008. FASB ASC 825 establishes a fair value option that permits entities to choose to measure eligible financial instruments and certain other items at fair value at specified election dates. A business entity shall report unrealized gains and losses on items for which the fair value options have been elected in earnings at each subsequent reporting date. For the period ended December 31, 2012, there were no applicable items on which the fair value option was elected.

Stock Based Compensation—The Company recognizes stock-based compensation in accordance with the fair value recognition provisions of FASB's ASC 718 (formerly SFAS No. 123 (R)), "Share-Based Payment." ASC 718 generally requires share-based payments to employees, including grants of employee stock options and other equity awards, to be recognized in the statement of operation based on their fair values. Thus, the Company records compensation expense for all share-based awards granted, based on the grant date fair value estimated in accordance with the provisions of ASC 718.

The Company adopted ASC 718 using the modified prospective method, which requires that compensation expense for the portion of awards for which the requisite service has not yet been rendered and that are outstanding as of the adoption date be recorded over the remaining service period. Prior to its adoption, the Company had no share-based compensation arrangements. Accordingly, no prior periods have been restated, the impact of the FASB's ASC is not presented, and no pro forma amounts are presented had the Company recognized stock-based compensation in accordance with ASC 718.

INNOVATIVE BEVERAGE GROUP HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIODS ENDING DECEMBER 31, 2012 AND 2011

Net Loss Per Share—FASB's ASC 260 (formerly SFAS 128) "Earnings Per Share" requires presentation of basic earning or loss per share and diluted earnings or loss per share. Basic income (loss) per share ("Basic EPS") is computed by dividing net loss available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share ("Diluted EPS") are similarly calculated using the treasury stock method except that the denominator is increased to reflect the potential dilution that would occur if dilutive securities at the end of the applicable period were exercised. There were no potentially dilutive securities at December 31, 2012 nor 2011, so diluted earnings per share equals basic earnings per share.

Use of Estimates—The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenue and expense during the reporting period. Actual results could differ from these estimates.

In December 2007, the FASB issued ASC Topic 805 (previously SFAS 141(R)), *Business Combinations*. This standard broadens the guidance for business combinations and extends its applicability to all transactions and other events in which one entity obtains control over one or more other businesses. It broadens the fair value measurement and recognition of assets acquired, liabilities assumed, and interests transferred as a result of business combinations. The acquirer is no longer permitted to recognize a separate valuation allowance as of the acquisition date for loans and other assets acquired in a business combination. It also requires acquisition-related costs and restructuring costs that the acquirer expected but was not obligated to incur to be expensed separately from the business combination. It also expands on required disclosures to improve the ability of the users of the financial statements to evaluate the nature and financial effects of business combinations. This standard was effective for the first annual reporting period beginning on or after December 15, 2008. Management adopted these provisions on January 1, 2009 and there were no transactions that created an impact on the Company's financial condition or result of operations.

In December 2007, the FASB issued ASC 810-10-65-1, (previously SFAS No. 160), *Noncontrolling Interests in Consolidated Financial Statements*. This standard requires that a noncontrolling interest in a subsidiary be reported separately within equity and the amount of consolidated net income specifically attributable to the noncontrolling interest be identified in the consolidated financial statements. It also calls for consistency in the manner of reporting changes in the parent's ownership interest and requires fair value measurement of any noncontrolling equity investment retained in a deconsolidation. This standard was effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Management adopted the provisions of this standard on January 1, 2009 without a material impact on the Company's financial condition or results of operations.

FASB's ASC 815 codified SFAS 161, "Disclosures about Derivative Instruments and Hedging Activities". The new standard is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. It is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The Company does not expect ASC 815 to have a material impact on the preparation of its consolidated financial statements.

In May 2008, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position ("FSP") APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled In Cash upon Conversion (Including Partial Cash Settlement)* and was codified in FASB's ASC 470. ASC 470 clarifies that convertible debt instruments that may be settled in cash upon either mandatory or optional conversion (including partial cash settlement) are not addressed by paragraph 12 of APB Opinion No. 14, *Accounting for Convertible Debt and Debt issued with Stock Purchase*

INNOVATIVE BEVERAGE GROUP HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIODS ENDING DECEMBER 31, 2012 AND 2011

Warrants. Additionally, FSP APB 14-1 specifies that issuers of such instruments should separately account for the liability and equity components in a manner that will reflect the entity's non-convertible debt borrowing rate when interest cost is recognized in subsequent periods. FSP APB 14-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The Company will adopt FSP APB 14-1 beginning January 1, 2009, and this standard must be applied on a retroactive basis. The adoption of this standard is not expected to impact the Company's consolidated financial position and results of operations.

In May 2008, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 162, *The Hierarchy of Generally Accepted Accounting Principles*. This standard is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with generally accepted accounting principles in the United States for non-governmental entities. The adoption of this standard did not have a material impact on the preparation of these consolidated financial statements.

Also in June 2008, the FASB issued FSP EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities*, which was primarily codified in FASB ASC Topic 260, *Earnings Per Share*. This guidance provides that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents, whether paid or unpaid, are participating securities and are required to be included in the computation of earnings per share pursuant to the two-class method. The two-class method of computing earnings per share includes an earnings allocation formula that determines earnings per share for common stock and any participating securities according to dividends declared, whether paid or unpaid, and participation rights in undistributed earnings. All prior period earnings per share data presented are required to be adjusted retrospectively to conform to this statement. We adopted this guidance beginning January 1, 2009. The adoption did not impact our earnings (loss) per share for the years ended December 31, 2009 and 2008.

In June 2008, the FASB ratified the consensus reached by the EITF on EITF Issue No. 07-5, *Determining Whether an Instrument (or Embedded Feature) is Indexed to an Entity's Own Stock*, which was primarily codified in FASB ASC Topic 815, *Derivatives and Hedging*. This guidance clarifies the determination of whether equity-linked instruments (or embedded features), such as our convertible notes or warrants to purchase our common stock, are considered indexed to our own stock, which would qualify as a scope exception. We adopted the new provisions of FASB ASC 815 beginning January 1, 2009. The adoption did not have a material impact on our consolidated financial statements.

FASB's ASC 860 codified FSP FAS 140-4 and FIN 46(R)-8, "Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities" ("FSP FAS 140-4 and FIN 46(R)-8"). FSP FAS 140-4 and FIN 46(R)-8 amends FAS 140 and FIN 46(R) to require additional disclosures regarding transfers of financial assets and interest in variable interest entities. FSP FAS 140-4 and FIN 46(R)-8 is effective for interim or annual reporting periods ending after December 15, 2008. The adoption of FSP FAS 140-4 and FIN 46(R) did not have an impact on the Company's consolidated financial position and results of operations.

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events*, which was primarily codified in FASB ASC Topic 855, *Subsequent Events*. This statement establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before the financial statements are issued or are available to be issued. We adopted this statement beginning April 1, 2009. The adoption of this statement did not impact our consolidated results of operations or financial position since it requires additional disclosures only. See Note 18 to the consolidated financial statements.

INNOVATIVE BEVERAGE GROUP HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIODS ENDING DECEMBER 31, 2012 AND 2011

In June 2009, the Financial Accounting Standards Board (FASB) issued new accounting standards ASC 105-10 (previously SFAS No. 168), *The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles*. With the issuance of ASC 105-10, the FASB Accounting Standards Codification ("the Codification" or "ASC") becomes the single source of authoritative U.S. accounting and reporting standards applicable for all nongovernmental entities. Rules and interpretive releases of the SEC under the authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. This change is effective for financial statements issued for interim or annual periods ended after September 15, 2009. Accordingly, all specific references to generally accepted accounting principles (GAAP) refer to the Codification.

2. Property and Equipment

Property and equipment consists of the following as of December 31,:

| | Useful Life | 2012 | 2011 |
|--------------------------------|-------------|-----------|-----------|
| Computers and Office Furniture | 4-7 years | \$ 12,108 | \$ 12,108 |
| Warehouse Equipment | 4-10 years | 14,053 | 1,649 |
| Vehicles | 3-6 years | 24,022 | 24,022 |
| | | 50,183 | 37,779 |
| Accumulated Depreciation | | (36,821) | (33,359) |
| Total | | \$ 13,362 | \$ 4,419 |

Depreciation for the twelve months ending December 31, 2012 was \$3,462 and \$3,550 for 2011. The Company leases a fleet of delivery vehicles that are not reflected in the above.

3. Inventory

The Company's inventory consists of beverage and food products. A small amount of the inventory is held at the Company's warehouse located in Houston, Texas. The majority of the inventory is held at two independent manufacturing sites. All inventory held by manufacturers is the property of the Company and is included in the inventory balance presented on the balance sheet.

The majority of the Company's inventory consists of finished goods, but there are smaller amounts of raw material inventories of the Company's primary beverage product, Drank, which is manufactured by the Company's independent manufacturers.

The Company uses the average cost method of accounting for inventory, where the average cost is not to exceed the market value. When inventory is sold, the inventory account is relieved at the average cost and is charged a cost of sales in the period incurred.

Inventories at December 31, 2012 and 2011 are as follows:

| | 2012 | 2011 |
|----------------|------------|------------|
| Finished Goods | \$ 48,416 | \$ 55,800 |
| Raw Materials | 65,984 | 47,376 |
| Total | \$ 114,400 | \$ 103,176 |

INNOVATIVE BEVERAGE GROUP HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIODS ENDING DECEMBER 31, 2012 AND 2011

4. Line of Credit

The Company had a bank line of credit with a limit of \$100,000 bearing an interest rate of the bank's prime rate minus .25%, secured by a money market account established at the same bank in the year 2011. The line of credit was not renewed.

5. Notes Payable

Notes payable on the accompanying balance sheet consists of the following for the periods ending December 31, 2012 and 2011:

| | 2012 | 2011 |
|--|------------------|-------------------|
| Note Payable to two individuals due September 1, 2008 bearing interest at 3% secured by all unsecured assets of the Company and the personal guaranty of Peter Bianchi | \$ - | \$ 46,000 |
| Promissory note payable to an individual, bearing interest at 10% per annum, due in monthly installments equal to \$.72 per case of beverages sold by the Company in prior month, unsecured. | 14,226 | 14,226 |
| Working capital advance payable to World Tech, Inc., bearing no interest, unsecured and payable after accrued royalties to World Tech, Inc. have been paid in full. | - | - |
| Working capital loans from three individuals, all at zero percent interest, and payable on demand. | - | 211,748 |
| Total short term notes payable | \$ 14,226 | \$ 271,974 |

The Company has imputed interest on all non-interest bearing notes and those notes issued at below market rates, using a rate of 8%, which is based on the Company's average borrowing rate. Total imputed interest charged to interest expense and additional paid in capital in the twelve months ending December 31, 2012 was \$32,601 and in 2011 was \$44,923.

All notes are due within one year or on demand, and as such, are classified as current on the Company's balance sheet.

6. Commitments & Contingencies

Warehouse Lease

The Company entered into a 48 month commitment to lease office and warehouse space in Houston, Texas commencing on December 1, 2009. For the twelve months ending December 31, 2012 and 2011, the Company had rent expense of \$72,185 and \$74,539 recorded on the straight line basis. The minimum lease payments due

INNOVATIVE BEVERAGE GROUP HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIODS ENDING DECEMBER 31, 2012 AND 2011

under this contract include allocations of property taxes and common area maintenance which could change on an annual basis. The future minimum lease payments under this commitment and including the current allocations are:

| | |
|--|-----------|
| Year ending December 31, 2013 and thereafter | \$ 77,550 |
|--|-----------|

Lawsuits

The Company is the plaintiff in several lawsuits currently in the discovery phase, primarily relating to payment for receivables. All receivables uncollected as of the date this report is issued were written off for financial statement purposes. As of the date this report is issued, the Company's legal counsel could not predict an outcome of the cases. The Company has not recorded any gain contingencies for the cases, and will only record the settlement when issued by the court. The Company was successful in several suits and received a judgment of \$70,336. The Company won a lawsuit protecting its trademark rights and received a settlement of \$2,700,000 and is currently evaluating its options for enforcement.

Long Term Contracts

In January 2003, the Company entered into a Distribution and Licensing Contract with World Tech, Inc. World Tech, Inc., a commonly owned entity, holds an exclusive distribution agreement with Think Pink Beverage, Inc. and sub-licensed the distribution rights to the Acquired Company. The Company is obligated to pay \$1.11 royalty per case (on purchases of products from Think Pink Beverage, Inc.) to World Tech, Inc. In addition to the exclusive distribution rights for Texas, Louisiana and Missouri, Think Pink Beverage, Inc. provides the Company \$1.00 per case in promotional material for assistance in marketing its beverages. The contract term is for six years, and is renewable under the same terms as long as there is no default or breach of contract terms by the Company. World Tech, Inc. also receives a royalty of \$1.00 a case for every case of Drank sold. As of December 31, 2012 and 2011, the Company had accrued royalties due World Tech, Inc. in the amounts of \$18,941 and \$0 respectively.

In connection with the note payable to individuals for \$300,000, forty five days after funding and continuing for one year thereafter, the Company will pay to the lender an amount equal to \$2.00 for every case of Drank sold and \$.25 per case after the year has expired for each case of Drank for the life of the product. The agreement was signed on February 29, 2008 and the royalty accrual began on April 15, 2008. As of December 31, 2011, \$57,500 was included in accrued expenses for the amount of the royalties owed. This liability was negotiated in 2011 with a remaining balance of \$22,500 owed at December 31, 2012.

INNOVATIVE BEVERAGE GROUP HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIODS ENDING DECEMBER 31, 2012 AND 2011

Accrued Expenses

Accrued expenses consist of accrued salaries to executives, accrued royalties, and other miscellaneous items, as shown below, as of December 31, :

| | 2012 | 2011 |
|------------------|------------|------------|
| Accrued interest | \$ 15,567 | \$ 15,567 |
| Accrued expenses | 50,140 | 102,635 |
| Accrued salaries | 523,154 | 537,763 |
| Total | \$ 588,861 | \$ 655,965 |

7. Related Party Transactions

World Tech, Inc.

The Company has incurred royalty obligations to World Tech, Inc. in the twelve months ending December 31, 2012 and 2011. World Tech, Inc., a Nevada corporation, is owned 100% by Peter Bianchi and Jan Bonner who are the major shareholders of the Company. Royalties incurred under agreements between the two entities totaled \$76,017 and \$78,467.

Peter Bianchi

Peter Bianchi is President of the Company and owned 26.2% of the outstanding common stock as of December 31, 2012 and 2011. A salary of \$75,000 has been paid for the twelve months ending December 31, 2012 and 2011. The total balance due to Mr. Bianchi at December 31, 2012 is \$285,596.

Jan Bonner

Jan Bonner owned 26.2% of the outstanding common stock as of December 31, 2012 and 2011. A salary of \$75,000 has been paid for the twelve months ending December 31, 2012 and 2011. The total balance due to Mr. Bonner at December 31, 2012 is \$237,559.

Notes Payable – Related Parties

There were no notes payable to related parties at the end of December 31, 2012 and 2011.

8. Acquisition

On June 25, 2007, Innovative Beverage Group, Inc. was acquired by Ticketcart, Inc., a public company incorporated in the State of Nevada. Ticketcart, Inc., prior to acquisition implemented a reverse split exchanging 1 share for each 100 outstanding shares with any fractional shares being rounded up to the next share. Prior to the acquisition, the controlling shareholders of Ticketcart, Inc. surrendered their shares to the company which were returned to the treasury and cancelled. The Company issued 47,499,342 shares with a par value of \$.001 per share for all the outstanding share of Innovative Beverage Group, Inc. After the acquisition, the previous majority shareholders of Innovative Beverage Group Holdings, Inc. own greater than 50% of the outstanding shares of Innovative Beverage Group Holdings, Inc. The transaction was accounted for as a reverse acquisition and Ticketcart, Inc. changed its name to Innovative Beverage Group Holdings, Inc. Innovative Beverage Group, Inc.

**INNOVATIVE BEVERAGE GROUP HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIODS ENDING DECEMBER 31, 2012 AND 2011**

continues as a wholly owned subsidiary of Innovative Beverage Group Holdings, Inc. All balances in the equity rollforward have been retroactively restated to reflect this merger. There are no pro forma financials included in this report, since the historical financial statements presented already reflect the merger.

9. Common Stock Transactions

Shares for Services

In the twelve months ending December 31, 2012 and 2011, the Company issued no common shares of stock in exchange for services.

Shares for Settlement of Payable

In the twelve months ending December 31, 2012 and 2011, the Company issued no common shares in exchange for the settlement of any outstanding payable.

Shares for Cash

In the twelve months ending December 31, 2012 and 2011, the Company sold no new shares for cash.

10. Concentrations

The Company's sales are exclusively dependent upon customers in the food and beverage industry, and any impacts to this industry could have a significant impact on the Company.

For the twelve months ending December 31, 2012, two customers represented 17.0% and 4.1% of total revenues for the Company and for the twelve months ending December 31, 2011, two customers represented 28.6% and 8.4%.

As of December 31, 2012, three customers represented 29%, 17% and 8%, respectively, of the Company's accounts receivable balances and for December 31, 2011, the three largest customer balances were 25%, 25% and 15%. The Company generally does not require collateral to support accounts receivable.

11. Segments

The Company sells both beverage and food products. The following table shows the percentage of revenue generated by each segment for the twelve months ending December 31,:

| | 2012 | 2011 |
|-----------------------------|---------------------|---------------------|
| Beverage Products: | | |
| Revenue for segment | \$ 3,076,599 | \$ 3,166,006 |
| Percentage of total revenue | 91% | 91% |
| Food Products: | | |
| Revenue for segment | 288,909 | 312,863 |
| Percentage of total revenue | 9% | 9% |
| Total Revenue | \$ 3,365,508 | \$ 3,478,869 |

INNOVATIVE BEVERAGE GROUP HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIODS ENDING DECEMBER 31, 2012 AND 2011

12. Subsequent Events. None.

13. Going Concern.

During the years ended December 31, 2010 and 2009, the Company experienced negative financial results as follows:

| | <u>2010</u> | <u>2009</u> |
|-------------------------------------|----------------|----------------|
| Net loss | \$ (1,001,114) | \$ (1,943,808) |
| Negative cash flows from operations | (187,339) | (581,996) |
| Accumulated deficit | (10,643,060) | (9,641,945) |

Even though the Company had positive cash flow for 2012, management has developed specific current and long-term plans to address its viability as a going concern as follows:

The Company is attempting to raise funds through debt and/or equity offerings. If successful, these additional funds will be used to provide working capital.

In the long-term, the Company believes that cash flows from growth in its operations will provide the resources for continued operations.

The Company is also pursuing other strategic as opportunities are available.

There can be no assurance that the Company will have the ability to implement its business plan and ultimately attain profitability. The Company's long-term viability as a going concern is dependent upon three key factors, as follows:

The Company's ability to obtain adequate sources of debt or equity funding to meet current commitments and fund the continuation of its business operations in the near term.

The ability of the Company to control costs and expand revenues.

The ability of the Company to ultimately achieve adequate profitability and cash flows from operations to sustain its operations.

INNOVATIVE BEVERAGE GROUP HOLDINGS, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2012

OUR BUSINESS

This year has been a period filled with transitions and progress. We introduced our second proprietary drink in January 2012 and are quite pleased with the initial response. We restructured our national distribution and enhanced our direct oversight and control which allows us to respond more quickly to our customer requests by having removed the middlemen, and will be increasing our net profit by over 10%, as always our primary focus will be to expand our market presence. We are pleased after (2) years of an arduous creation and development phase we have completed the final development of a additional proprietary Beverage product that IBG is very excited to release and is projected for the third (3) or fourth (4) quarter 2013. Due to the slowing economic conditions, we have found retailers reluctant to provide more than just minimal space to new products. To enhance our proprietary product, we focused a considerable amount of time to the creation of flavor alternatives to our existing products. These additional flavor alternatives will be released throughout 2013. We feel an expanded product choice will assist us in obtaining desired shelf space.

Even though the majority of management's time is directed at expanding its distributors in the US market, we have increased our attention of the international markets. In 2011, we had our first full year of sales of our proprietary drink to our distributor for Mexico and through the first twelve months of 2012, their sales have increased by 12.8%. We are very pleased with the initial responses to our product in the international market and are expecting to see expansion to other countries in the near future.

FINANCIAL RESULTS:

We are pleased with our 2012 results which represents the first full two quarters of having our national distribution in house. We went from a \$124,327 operating loss at the end of June to an operating loss of \$3,316 at the end of December. This was realized even though we continue to see a weak economy.

We are pleased to announce a net income for the year of \$221,731 which was an increase of 68.7% over the prior year. This was our first time to realize consecutive years of overall net profits. This was realized even with a nominal decrease in gross revenues which we believe was primarily due to the change in distribution systems and the time required to re-establish our relations with our national distribution customers.

Expansion to new territories requires higher initial marketing costs which are being expensed when incurred as opposed to being amortized over the expected benefit period. In bringing national distribution in house we forecasted improved margins. In year over year results for the twelve months we saw our profit margins improve from 35.5% to 38.3% and this was with just the impact of six months.

INNOVATIVE BEVERAGE GROUP HOLDINGS, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2012

In addition to the current marketing expense outlays, the company continues to incur professional fees higher than desired. The company saw a reduction of these costs in the third quarter over the second quarter. While less than in prior years, these fees are primarily due to continued litigations initiated by the company to protect infringements of its proprietary product. These fees are included in the general and administrative costs. In the calendar year 2011, we were awarded settlements of \$ 283,869 and a related adjustment of \$46,000 was made in the current year. In the previous third (3) quarter we had announced a \$4.0 million dollar judgment, it was adjusted to be even more favorable to IBGH. The final disposition of the lawsuit & judgment were finalized on December 17, 2012. We were awarded a final judgment of \$2,617,000.00 and in addition were awarded a complete beverage brand currently being sold in the US Market today named "Sum Poosie Energy Drink". This judgment, not reflected in these financial statements, included the trademark and associated logo of "Sum Poosie Energy Drink" and all patents and copyrights associated with this trademark. It also included all products, ingredients and recipes associated with this product and all related marketing materials, our initial projections for the release of this brand is an additional revenue of 4.5 to 6.0 million dollars annually. We plan to bring this product to market within second (2) or third (3) quarter of 2013. This lawsuit is available and filed for review in the Harris County 61st Judicial Court under cause # 2009-00178.

We also have initiated five lawsuits associated with violations of customer contracts. We have expended the company's capital and administrator's efforts. We continue to anticipate successful outcomes on these suits where we are seeking compensatory relief in excess of \$400,000.

The company continues to focus on improving its controls over general and administrative costs. We have realized a decrease in general and administrative costs of 4.2% when compared to the prior year and a decrease of 36.3% when compared to the prior quarter. This is especially noteworthy when you consider the added costs of operating the national distribution in house. We are very proud of the hard work and due diligence of our administrative staff.

Our efforts to broaden our customer base is starting to see positive results, as we are realizing a reduction in the concentration of sales to our larger customers as they relate to total sales. This has the desired impact of reducing the risks of dependency on a few customers for both sales and collections.

Item XXI Issuer's Certifications:

Peter Bianchi, certify that:

1. I have reviewed this year-end disclosure statement of OTC MARKETS securities.
2. Based on my knowledge, this disclosure statement does not contain any untrue statement of material fact or omit to state material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement.
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

Date: May 13, 2013



Mr. Peter Bianchi

Chief Executive Officer

Innovative Beverage Group Holdings, Inc.