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.

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.