

**IGNITE**  
INTERNATIONAL BRANDS, LTD.

CSE: BILZ, OTCQX: BILZF  
[WWW.IGNITE.CO](http://WWW.IGNITE.CO)

## Management Discussion and Analysis

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For the ended December 31, 2019



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## **INTRODUCTION**

This Management's Discussion and Analysis ("MD&A"), prepared as at June 15, 2020, reviews the financial condition and results of operations of Ignite International Brands, Ltd. (the "Company" or "Ignite") for the year ended December 31, 2019 and all other material events up to the date of this report. The following discussion should be read in conjunction with a) the consolidated financial statements and related notes for the year ended December 31, 2019 and b) the annual audited financial statements and related notes of Ignite International, Ltd. ("Ignite US") for the period ended December 31, 2018, which is the accounting acquirer in the Reverse Takeover Transaction ("RTO") (see Corporate Highlights section below with respect to the "RTO"). These statements can be found under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com).

This MD&A has been prepared in compliance with the requirements of section 2.2.1 of Form 51-102F1, in accordance with National Instrument 51-102 – Continuous Disclosure Obligations. The financial data included in the discussion provided in this report has been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretation Committee ("IFRIC") All dollar amounts are in Canadian dollars, unless otherwise noted.

The Company's certifying officers are responsible for ensuring that the consolidated financial statements and MD&A do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading considering the circumstances under which it was made. Information is considered material if: (i) such information results in, or would reasonably be expected to result in, a significant change in the market price or value of Ignite's Subordinate Voting Shares; (ii) there is a substantial likelihood that a reasonable investor would consider it important in making an investment decision; or (iii) it would significantly alter the total mix of information available to investors. Management, in conjunction with the Board of Directors, evaluates the materiality in this regard referencing all relevant circumstances, including potential market sensitivity.

The Company's directors certify that the consolidated financial statements and MD&A present, in all material respects, the financial condition, results of operations and cash flows, of the Company as the date hereof.

## **ACCOUNTING PERIODS**

This MD&A is based on information in the consolidated financial statements and accompanying notes thereto for the year ended December 31, 2019. Comparative amounts in the consolidated financial statements and accompanying notes thereto are for the year ended December 31, 2018.

## **CAUTIONARY STATEMENT REGARDING FORWARD LOOKING STATEMENTS**

*Except for statements of historical fact, information contained in this MD&A constitutes “forward-looking statements” within the meaning of Canadian securities legislation that involve inherent risks and uncertainties. Forward-looking statements include, but are not limited to, statements with respect to Ignite's intended business focus and growth strategy; projected financial performance of the Company; the expected development of the Company's business, projects and joint ventures; completion of the Company's projects that are currently underway, in development or otherwise under consideration; and future liquidity, working capital and capital requirements. Forward-looking statements are necessarily based upon several estimates and assumptions that, while considered reasonable by management, are subject to known and unknown risks, uncertainties, and other factors which may cause the actual results and future events to differ materially from those expressed or implied by such forward-looking statements. Such factors include, but are not limited to: general business, economic, operational, competitive, political and social uncertainties; the effects and impacts of the coronavirus disease (COVID-19) pandemic, the extent and duration of which are uncertain at this time on the Company's business and general economic and business conditions and markets, ability of Ignite to give effect to its business plan; reliance on the "IGNITE" brand which may not prove to be as successful as contemplated; the ability to and risks associated with unlocking future licensing opportunities with the "IGNITE" brand and the ability of the Company to capture significant market share. Readers are cautioned that the foregoing list of factors that may affect future growth, results and performance is not exhaustive, and undue reliance should not be placed on forward-looking statements. There can be no assurance that any of the forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. Ignite disclaims any intention or obligation to update or revise any forward-looking statements, whether because of new information, future events or otherwise, except as required by law.*

## **OVERVIEW OF THE BUSINESS**

### **COMPANY OVERVIEW**

Ignite is a CSE-listed and OTCQX traded company operating in permissible CBD and cannabis sectors trading under the symbol “BILZ” and “BILZF”, respectively. The Company's head office is located at 11 Cidermill Avenue, Unit 200, Vaughan, Ontario, Canada L4K 4B6 and its registered and records office is located at 700 West Georgia Street, 25<sup>th</sup> Floor, Vancouver, British Columbia V7Y 1B3. The Company is a reporting issuer in British Columbia, Alberta, and Ontario.

The Company is a consumer goods company, leveraging the IGNITE brand via multiple product platforms in the cannabidiol (“CBD”), cannabis, apparel, and beverage sectors. Ignite is in the process of expanding its business operations which currently includes branding, marketing, licensing, sales, and distribution, across the United Kingdom, the United States, Canada, Mexico, and other strategic rest of world markets. The Company intends to affect its growth through brand leveraging, product development, targeted marketing, and strategic supply chain partnerships in each of these target jurisdictions.

### **OUTLOOK**

Coronavirus 2019 (COVID-19) is an infectious disease caused by severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2). Since December 31, 2019, the outbreak of COVID-19 has resulted in governments worldwide, including Canada and the United States, enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed

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quarantine periods and social distancing, have caused material disruption to businesses globally, resulting in an economic slowdown. Such events may result in a period of business disruption, and in reduced operations, any of which could have a material adverse impact on the Company's profitability, results of operations, financial condition and the trading price of the Company's securities. Governments and central banks have reacted to the COVID-19 pandemic with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID-19 pandemic is unknown at this time, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company. To date, a number of businesses have suspended or scaled back their operations and development as cases of COVID-19 have been confirmed, for precautionary purposes or as governments have declared a state of emergency or taken other actions.

As of the date of this publication, the Company continues to react to the economic impact of COVID-19 on its operations. The Company will be materially impacted from both a profitability and liquidity perspective from the detrimental economic conditions created by COVID-19 in wholesale trade channels within its active markets such as the United States and the United Kingdom. A number of the businesses within these channels that are currently or may represent potential trading partners have been deemed non-essential or have voluntarily decided to temporarily shutter their operations which may limit the Company's ability to realize continuing profits from these partners. In addition, the Company has experienced and will continue to plan for disruptions within its supply chain as current and potential vendors implement measures to protect the viability of their own businesses.

The Company is committed to an aggressive plan to proactively implement measures to sustain its operations including but not limited to:

1. Refocusing sales and marketing efforts within higher margin, direct to consumer (ecommerce) channels,
2. Continuing with new IGNITE branded product introductions offering a wider selection of experiences to its broad consumer base and actively trading wholesale partners,
3. Materially reducing or deferring larger pools of fixed and variable costs within its operations including non-essential headcount, rents and associated carrying costs, discretionary expenditures such as corporate sponsored events and costs associated with business travel.
4. Actively engaging supply chain partners to negotiate extended payment terms where possible, and
5. Proactively adjusting finished goods inventory and demand planning ensuring that investments in working capital are focused on near term revenue generating opportunities.

Should these measures or other similar actions implemented by the Company not prove effective or there is a sustained economic shutdown or downturn in key markets due to the COVID-19 scenario, the Company may be further limited in its ability to sustain sufficient liquidity to maintain its operations. The Company's ability to continue in the normal course of operations is dependent on its ability to raise equity or debt financing or through the sale of its investments at amounts favourable to the Company. Should this ability be materially impaired due to the COVID-19 scenario, the Company may not be able to continue its operations in its current state.

The breadth of the impact of the COVID-19 pandemic on investors, businesses, the global economy and the financial and commodity markets may also have a material adverse impact on the Company's profitability, results of operations, financial conditions and the trading price of the Company's securities.

The Company is committed to proactively revising and updating disclosures regarding the impact of COVID-19 on its operations as facts and circumstances change for the benefit of its shareholders.

Although the Company has been successful in the past in obtaining financing, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be on terms that are acceptable to the Company. The uncertainty of the Company's ability to achieve profitable operations and its success in raising additional capital funding may cast significant doubt on the Company's ability to continue as a going concern. 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 if the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations for the foreseeable future.

## **CORPORATE HIGHLIGHTS**

### **REVERSE TAKEOVER TRANSACTION ("RTO") AND CONCURRENT FINANCING**

On February 28, 2019, the Company entered into a letter agreement (the "Letter Agreement") with Ignite International, Ltd. ("Ignite US") pursuant to which the Company would acquire all the shares of Ignite US ("the RTO Transaction"). The Transaction constituted a change in business and a reverse take-over ("RTO") under the rules of the CSE. The Company's shares were halted from trading on the CSE until adequate filings were made with the CSE and the Transaction was completed.

On April 11, 2019, the Company announced that it had entered into a definitive business combination agreement with respect to the RTO Transaction (the "Definitive Agreement") and that the Transaction was expected to be completed by way of a plan of arrangement under the *Business Corporations Act* (British Columbia). The Definitive Agreement provided that the Company acquire all the Ignite US shares it did not already hold in exchange for 756,257 Proportionate Voting Shares and 67,681,000 Subordinate Voting Shares, which would result in Ignite US becoming a wholly owned subsidiary of the Company. As a result, approximately 91.4% of the equity securities of the Company were issued to Ignite US shareholders pursuant to the RTO Transaction and, following the RTO Transaction, the existing Ignite US shareholders held approximately 95.6% of the equity securities of the Company (assuming in each case the conversion of all Proportionate Voting Shares into Subordinate Voting Shares).

The Proportionate Voting Shares and Subordinate Voting Shares have the same rights, are equal in all respects and are treated by the Company as if they were shares of one class only. Proportionate Voting Shares will at any time, at the option of the holder, and subject to certain conversion conditions to ensure that the Company remains a "foreign private issuer" (as such term is defined in Rule 405 of Regulation C under the U.S. Securities Act of 1933 (the "SEC Rules")), be convertible into Subordinate Voting Shares at a ratio of 200 Subordinate Voting Shares for each Proportionate Voting Share. Prior to conversion, each Proportionate Voting Share will carry 200 votes per share (compared to one vote per Subordinate Voting Share).

On May 24, 2019, the Company completed a non-brokered offering (the “Offering”) of 17,200,000 subscription receipts (“the Subscription Receipts”) at a price of \$1.50 per Subscription Receipt for gross proceeds of \$25,800,000 (the “Offering Proceeds”). The Offering was completed in conjunction with the RTO Transaction and the Offering Proceeds were held in escrow to be released upon satisfaction of certain escrow release conditions, which conditions were met on May 30, 2019. Upon satisfaction of the escrow release conditions, each Subscription Receipt automatically converted into one Subordinate Voting Share of the Company.

Pursuant to the terms of the Definitive Agreement, the Company created a new class of proportionate voting shares (the “Proportionate Voting Shares”) and renamed its common shares as subordinate voting shares (the “Subordinate Voting Shares”). The RTO Transaction was completed on May 30, 2019 and the Subordinate Voting Shares resumed trading on June 4, 2019 under the name “Ignite International Brands, Ltd.” with its Subordinate Voting Shares listed for trading on the CSE under the ticker symbol “BILZ”.

The Company has accounted for the RTO Transaction as a business combination under the scope of IFRS 3, Business Combination. The consideration consisted entirely of shares of the Company which were measured at the fair value of the shares that the Company would have been required to issue to Ignite US shareholders had the RTO Transaction been structured as a legal acquisition of Ignite US by the Company.

Further details on the RTO Transaction can be found in the notes to the Company’s initial listing statement dated May 30, 2019 or updated listing statement dated June 15, 2020, which can be found under the Company’s SEDAR profile at [www.sedar.com](http://www.sedar.com).

### **CONVERTIBLE DEBENTURE FINANCING**

On October 4, 2019, the Company announced a non-brokered private placement of convertible debenture units (the “Units”) for up to \$50 million (the “Offering”), issuable in series (each, a “Series”).

On October 25, 2019, the Company closed the first series (“Series A”) of the Offering of Units selling 10,000 Units for aggregate gross proceeds of \$10,000,000 (the “Series A Convertible Debentures”).

Each Unit issued in Series A comprises of C\$1,000 principal amount of unsecured senior convertible debentures (a “Convertible Debenture”) accruing interest at 8.0% per annum, payable semi-annually in arrears until maturity, and 250 subordinate voting share purchase warrants of the Company (each, a “Warrant”). The Series A Convertible Debentures have a maturity date of October 25, 2022.

Subject to the Company’s early redemption right (as described below), the Series A Convertible Debentures are convertible, at the option of the holder, into subordinate voting shares at a price equal to \$2.66 at any time prior to the close of business on October 24, 2022. Each Warrant issued in Series A entitles the holder thereof to acquire one Subordinate Voting Share (a “Warrant Share”) at an exercise price equal to \$3.32 (the “Series A Conversion Price”) at any time up to October 25, 2022.

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Beginning on October 26, 2020, the Company may, at its option, require the conversion of the then-outstanding principal amount of the Series A Convertible Debentures (plus any accrued and unpaid interest thereon) at the Series A Conversion Price, in the event that the daily volume-weighted average trading price (the "VWAP") of the Subordinate Voting Shares on the CSE exceeds two times such Conversion Price for any 10-consecutive trading day period (the "Series A Redemption Right").

On December 10, 2019, the Company closed the second series ("Series B") of the Offering selling 10,000 Units for aggregate gross proceeds of \$10,000,000 (the "Series B Convertible Debentures").

The Series B Convertible Debentures have a maturity date of December 10, 2022.

Subject to the Company's early redemption right (as described below), the Series B Convertible Debentures are convertible, at the option of the holder, into Subordinate Voting Shares of the Company at a price equal to \$2.39 (the Series B Conversion Price) at any time prior to the close of business on December 9, 2022. Each Warrant issued in Series B entitles the holder thereof to acquire one Subordinate Voting Share at an exercise price equal to \$3.22 at any time up to December 10, 2022.

Beginning on December 11, 2020, the Company may, at its option, require the conversion of the then-outstanding principal amount of the Series B Convertible Debentures (plus any accrued and unpaid interest thereon) at the Series B Conversion Price, in the event that the daily volume-weighted average trading price of the Subordinate Voting Shares on the CSE exceeds two times such Conversion Price for any 10-consecutive trading day period.

All Convertible Debentures issued in each series of the Offering will rank pari passu in right of payment of principal and interest with each other.

The net proceeds from the Offering will be used by the Company for working capital and other general corporate purposes.

Further details on the Series A and B Convertible Debentures can be found in the notes to the Company's consolidated financial statements for the year ended December 31, 2019 which can be found in the Company's SEDAR profile at [www.sedar.com](http://www.sedar.com).

## **UNITED STATES**

On May 13, 2019, Ignite International, Ltd. ("Ignite US") signed a definitive agreement with ECVD/MMS Wholesale, LLC ("UBIQ") for the distribution of CBD products in the United States via B2C (ecommerce) and B2B channels. Under the operating agreement, Ignite US and UBIQ formed a new corporate entity operating as Ignite Distribution, LLC ("Ignite USJO") with corporate operations based in New York, United States. Throughout the year ended December 31, 2019, the Company and UBIQ continued to aggressively pursue saturation of the US CBD markets through new product introductions and expansion of trade channels as the acceptance of CBD products broadens within the United States.



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The Company received approval for its OTCQX listing on September 3, 2019 on OTCQX under the symbol "BILZF." On September 18, 2019, The Company received confirmation of its approval from the Depository Trust Company (DTC) to become full service eligible, which will allow for electronic trading.

On January 2, 2020, the Company entered a partnership agreement with a global entrepreneur and industry leader in hemp and CBD. To facilitate the partnership agreement, the Company formed, Ignite Social, LLC. (Ignite "Social"). Ignite Social was created for individuals and social media influencers to work with the Company directly and initiate a social selling concept that allows an influencer's direct and indirect value to be measured. Ignite Social will offer a distinct and unique set of nutraceuticals and performance wear products for its members to enjoy and promote as well as exclusive sponsored events all around the world for its members.

On January 13, 2020, the Company entered into agreements with two leading US companies; Acosta, Inc. ("Acosta") and Accelerate 360 ("Accelerate"). Acosta is a leading full-service sales and marketing agency in the consumer-packaged goods industry, and pursuant to the terms of the agreement, will use its vast resources to support the Company in a broad spectrum of capabilities with its deep experience and connections. The Company views Acosta as a sales and marketing powerhouse behind some of the world's most recognized brands and a proven resource for top retailers across the United States and Canada. Pursuant to the agreement, Ignite will tap into Acosta's 100+ offices across the United States and Canada to reach 200,000+ outlet visits each month. Accelerate provides a complete CBD solution for retail partners from program management to distribution and merchandising. Accelerate distributes some of the largest and most prestigious CBD brands in the United States with a wide range of products that are regularly tested in reputable and independent labs. Ignite understands that Accelerate is committed to delivering the right products to the right place at the right time. The Company's view is that Accelerate combines an experienced staff with cutting-edge technology and data analytics to execute at the highest levels in the industry.

On January 13, 2020, the Company also announced that during fiscal 2020, it plans to introduce new product lines, including beverages and an expanded apparel line. These value-added additions will supplement the current line of expanded CBD product offerings, including those introduced in November and December of 2019 which included broad spectrum and isolate gummies, broad spectrum and full spectrum drops, bath bombs, roll-ons, lip balms, sports creams, an exciting new line of CBD pet products including drops (peanut butter and natural), coat spray, hot spot cream, and soft chew treats, and broad spectrum CBG drops and full spectrum CBN drops. CBG (cannabigerol) is a cannabinoid found in hemp plants that is similar to CBD, but more uplifting. CBN (cannabinol) is a cannabinoid found in hemp plants that is similar to CBD, but more calming. As with other extracts, these drops contain multiple cannabinoids along with a proprietary terpene blend. The combination of these plant compounds magnifies the cannabinoids through an entourage effect.

On January 20, 2020, in concert with its strategy associated with new product introductions previously announced, the Company expanded its product offerings with the formation of a new division – Ignite Beverages Inc. ("Ignite BEV"). Ignite Bev is expected to focus on the development and distribution of innovative premium beverages across multiple product categories. Ignite Bev will remain aligned with Ignite's quality standards and only offer the highest-quality products to its consumers. Ignite Beverages is expected to deliver a variety of beverages to the market commencing with the launch of an Alkaline PH9 water followed by additional products in the largest ready-to-drink categories that align with the IGNITE brand. All these new beverage products are expected to be distributed

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nationality within the United States in accordance with applicable laws, and available for purchase in traditional channels of trade such as convenience, grocery, and specialty retail locations.

On February 10, 2020, the Company introduced vodka to its premium beverages line. Ignite's vodka is gluten free, distilled from corn and blends high-quality ingredients representing Ignite's world-class brand.

On February 18, 2020, the Company announced that it had introduced the addition of a performance beverage, ZRO, to its expanding beverage portfolio.

On March 23, 2020, in keeping with its commitment to continue to offer innovative products to its consumers and expanding its presence in strategic wholesale channels, the Company launched two CBD gummies, two CBD sport creams, three CBD essential oils and three CBD tinctures to be represented by the Coastal Carolina Division of Circle K. This agreement marks the first Circle K division to offer IGNITE products to consumers in the United States. Pursuant to the terms of the agreement and subject to applicable laws, customers will be able to purchase the above noted products in over four hundred (400) Circle K locations through North Carolina, South Carolina, and Virginia. The products would also be available for purchase on the Company's website at [www.ignite.co](http://www.ignite.co).

#### **UNITED KINGDOM**

To facilitate the manufacture and distribution of CBD products in the United Kingdom, Ignite International Brands (U.K.) Ltd. ("Ignite UK") was incorporated by the Registrar of Companies for England and Wales on May 2, 2019 as a private company under the Companies Act 2006.

On May 7, 2019, the Company signed definitive agreements for the manufacture and distribution of CBD products in the United Kingdom with Taylor Mammon & Nathan Limited ("Taylor Mammon"), a leading manufacturer and distributor of white label CBD solutions, based in the United Kingdom. The agreements also include the option for the Company to expand into other strategic European markets. Under the agreements, Taylor Mammon will, under an exclusive IGNITE license in the United Kingdom, manufacture, package and distribute a wide array of premium IGNITE branded CBD products to select wholesale and retail channels. Commercial activation of the markets serviced by Ignite and Taylor Mammon under these agreements commenced July 11, 2019 with the launch of the Company's dedicated ecommerce platform servicing the United Kingdom and other CBD permissible jurisdictions within EU member states. The activation of wholesale channels continues to progress as the Company seeks to strengthen its presence and product exposure in independent and high street retail platforms. In addition, the Company is working closely with Taylor Mammon to expand its CBD product offerings within the United Kingdom to include, but not limited to, other health and wellness applications.

On August 6, 2019, the Company signed an agreement with WHSmith, a worldwide retail market leader, to serve as exclusive CBD product provider at 276 premier WHSmith travel stores in the United Kingdom starting in August 2019. Under the agreement, WHSmith will launch with the IGNITE ONE device, a rechargeable vape pen compatible with IGNITE CBD pods and IGNITE branded tinctures. As of the date of this report, the Company has fulfilled its first purchase order requirement and WH Smith has satisfied payment for that order. WH Smith and the Company are assessing timelines for subsequent shipments supported by the Company's presence within other high street retailers in the United Kingdom.

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On March 31, 2020, the Company expanded its partnership with UK manufacturer and distributor Taylor Mammon to add new CBD products, including roll-ons, bath bombs, tattoo cream, moisturizers, creams, serums and body oils which make up an exciting new skincare product line. In conjunction with Taylor Mammon, the Company is also expanding its existing range of tinctures to offer different levels of potency and will also begin to offer 10ml CBD e-liquids for vape devices in the UK.

## **MEXICO**

On October 15, 2019, the Company incorporated Ignite Internacional Marcas de Mexico, SA de CV. (“Ignite MEX”). Ignite MEX is a subsidiary of Ignite US, owning 90%. 10% ownership lies with Ignite International Brands (Ireland), Ltd. (“Ignite IRL”). Ignite MEX was incorporated to facilitate the introduction of IGNITE branded products via convenience, specialty retail, pharmacy, and direct to consumer (ecommerce) channels.

## **CANADA**

On July 24, 2019, the Company, WeedMD Inc. (“WeedMD”), and its wholly owned subsidiary, CX Industries Inc., entered into an exclusive licensing and supply agreement (the “Agreement”). On September 24, 2019, WeedMD notified the Company that it would not be fulfilling its obligations contemplated under the Agreement. The Company subsequently identified comparable federally licensed suppliers of cannabis and cannabis related products, including Cannabis 2.0 offerings, for alternative supply arrangements that would have otherwise been provided by WeedMD under the Agreement.

On March 2, 2020, the Company executed a non-exclusive licensing agreement with CannMart, Inc. (“Cannmart”). The Agreement grants CannMart a licence to use certain IGNITE branded trademarks on legal cannabis-based products in consideration for certain royalty payments. CannMart will work with the Company’s quality control and product development teams to source premium inputs, including flower and Cannabis 2.0 offerings, from Canadian craft cannabis producers for IGNITE Products. Under the Agreement, CannMart assumes all functions associated with procurement, processing, and packaging of the IGNITE Products in its Health Canada-licensed processing facility. In addition, CannMart will oversee the sale and distribution of the IGNITE Products in Canada, leveraging its Canadian trade channels. The Company will, on behalf of CannMart, market the IGNITE Products in Canada.

## **INVESTMENTS**

### ***Numinus Wellness, Inc. (formerly Salvation Botanicals Ltd.)***

Numinus Wellness Inc. (“Numinus”), formerly a privately held company named Salvation Botanicals Ltd. (“Salvation”), is a public company (NUMI:TSXV) based in Nanaimo, British Columbia which is able to produce high-quality standardized cannabinoid products. Numinus also operates one of the first analytics laboratories in Canada, accredited by Health Canada to test cannabis and cannabis derivatives for licensed producers of medical cannabis, Access to Cannabis for Medical Purposes Regulations (“ACMPR”) growers, approved cannabis patients, industrial hemp producers and any other party legally entitled to possess cannabis.

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The Company's investment is comprised of an aggregate of 3,000,000 units (the "Units") of Salvation at a price of \$0.50 per Unit for a total cost of \$1,500,000. Each Unit is comprised of one common share of Salvation and one-half of one common share purchase warrant exercisable into one-half of a share of Salvation at a price of \$0.75 for a term of eighteen months. The warrants granted were extended for an additional eighteen months upon completion of the reverse takeover transaction (refer below).

Subsequent to December 31, 2019, Salvation completed a reverse take-over transaction with Rojo Resources Ltd ("Rojo"), and changed the name of the resulting issuer to Numinus Wellness Inc ("Numinus"). Concurrent with the reverse-takeover transaction, Rojo completed a non-brokered private placement of subscription receipts at \$0.25 per subscription receipt, with each subscription receipt entitling the holder to receive one common share and one-half of a share purchase warrant of Numinus.

As a result, the Company recorded an unrealized loss on its investment in Numinus of \$750,000 which is recorded in the statement of loss and comprehensive loss. The unrealized loss was determined using Level 2 inputs.

***Tahoe Hydroponics Company LLC***

On August 23, 2017, the Company entered into a Letter of Agreement (the "LOA") with a US based cannabis cultivation company ("Tahoe"). The terms of the LOA included a loan, from the Company to Tahoe, for USD\$3,000,000 to be implemented prior to October 15, 2017.

On April 24, 2018, the Company and Tahoe mutually terminated the LOA and replaced it with a promissory note evidencing the existing advance of USD\$1,350,000 from the Company to Tahoe with a 6% annual interest rate. Terms of the promissory note require Tahoe to make blended monthly installment payments of USD\$78,623 and maturing on December 31, 2019.

At December 31, 2019, the promissory note and related accrued interest was settled in full.

**FINANCIAL PERFORMANCE SUMMARY**

**LOSS FOR THE PERIOD**

The Company reported a net and comprehensive loss of \$69.0MM for the year ended December 31, 2019 ("FY 2019") compared to \$12.7MM for the year ended December 31, 2018 ("FY 2018"). Included in the current fiscals net loss and comprehensive loss are net losses attributable to non-controlling interests of \$1.5MM (\$nil in FY 2018), several one-time charges associated with impairments of \$21.9MM (\$nil in FY 2018), and the write-down on an investment totaling \$0.8MM (\$nil in FY 2018). Adjusting for the above noted items, FY 2019 net and comprehensive loss on a like-for-like basis was \$44.8MM or an increase of \$32.1MM from FY 2018.

**REVENUES AND GROSS PROFIT**

Revenues and gross profits earned during the year were derived from (1) wholesale and ecommerce sales of IGNITE branded CBD products sold exclusively in the United States and the United Kingdom under permissible regulatory product guidelines, (2) online sales of IGNITE branded merchandise in the United States and the United Kingdom,

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and (3) royalties generated from the sale of cannabis and cannabis related products in the United States by third party licensed distributors.

Revenues for FY 2019 totaled \$9.7MM compared to \$2.4MM for FY 2018. E-commerce represents 66% of the Company's revenues, while wholesale and royalty channels represent 30% and 4%, respectively. Activation of the UK market initiated in July 2019 through the Company's subsidiary Ignite UK. The US represented 85% of total revenue at \$8.2MM while the remainder came from new markets to the Company (the UK and Mexico at \$1.3MM and \$0.2MM respectively). Revenues from E-Commerce of \$6.4MM or 66% of total revenues (94% in FY 2018) increased \$4MM or 174% from \$2.3MM in FY 2018, while Wholesale sales totaled \$2.9MM compared to \$nil in FY 2018. Royalty revenues of \$0.4MM also experienced significant growth increasing \$0.3MM or 204% compared to FY 2018 though only make up 4% of total revenues (5% in FY 2018).

Gross profit on revenues for FY 2019 totaled \$2.1MM, or 22% of revenue, compared to \$0.7MM, or 29% of revenue for FY 2018. The decrease in gross profit as a percent of revenue is a result of the increase in Wholesale sales (31% of total revenue in FY 2019 compared to 0% in FY 2018) which are at a lower profit margin compared to E-Commerce.

## **OPERATING EXPENSES**

### ***General and Administrative Expenses:***

General and administrative costs were \$18.5MM for FY 2019 compared to \$6.4MM for FY 2018. FY 2019 saw significant expansion of the Company as it moved into new geographies and new product lines. As such, the Company expanded its personnel through sourcing and hiring at all levels; this resulted in increased compensation costs as well as other ancillary costs to support higher staffing levels. In addition to this, the Company incurred increased professional services and consulting fees to support the geographic and product line expansions, all of which are aligned to the Company's growth objectives.

- ***Payroll and benefits*** for FY 2019 totaled \$11.2MM, an increase of \$8.6MM from \$2.5MM in FY 2018. The net increase can be attributed to the growth of the Company as it filled the various management and administrative positions to begin developing, marketing, and distributing the IGNITE product line. In October 2019, the Company implemented a reduction of its full-time staff in both its US and Canadian operations in concert with its commitment to proactively manage resources for the benefit of its shareholders. By implementing such measures, the Company reduced payroll and benefit costs by approximate \$1.7MM annualized.
- ***Office expenses*** for FY 2019 totaled \$0.8MM, an increase of \$0.4MM from \$0.4MM in FY 2018. The increase is a direct result of the increased in staffing levels producing the need for incremental costs such as information technology requirements, supplies and office equipment.
- ***Facilities expenses*** for FY 2019 totaled \$0.7MM, an increase of \$0.6MM from \$0.1MM in FY 2018. The additional costs are a direct result of the increased staffing levels resulting in the need for additional office space and other facility related expenses. At the commencement of the fourth quarter of FY 2019, the Company exited its shared-use workspace in Los Angeles, California, which housed a portion of its US

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operations and entered into a lease agreement for dedicated office space at a nearby facility in Culver City, California. The Company does not expect to realize material cost savings from the relocation.

- **Consulting and Advisory Fees** for FY 2019 totaled \$2.3MM, an increase of \$1.1MM from \$1.2MM in FY 2018. The increase is attributed to costs associated with the Company's regulatory compliance requirements in the various jurisdictions in which it operates and general consultative services including recruitment costs for key executive and management team members.
- **Professional fees** for FY 2019 totaled \$1.4MM, an increase of \$0.4MM from \$1.0MM in FY 2018. The increase is attributed to legal and accounting costs associated with the addition of subsidiaries, in addition to advisory costs associated with the Company's expansion in the United States, the United Kingdom and Mexico, and meeting securities reporting requirements.
- **Insurance** for FY 2019 totaled \$0.6MM, an increase of \$0.6MM from, \$0.1MM in FY 2018. The increase is attributed to the Company securing additional insurance coverage covering the scope of expanded global operations.
- **Travel and accommodation** for FY 2019 totaled \$1.3MM, an increase of \$0.2MM from \$1.1MM in FY 2018. The increase is largely due to various due diligence activities conducted by key management team members in assessing realized and potential business opportunities in both domestic and international markets, promotional activities to create awareness of the Company's brand and attending various trade shows to promote IGNITE branded products.

**Share-based payments:**

During FY 2019, the Company recorded share-based payments of \$1.2MM compared to \$nil in FY 2018 as the Company had not yet issued stock options in the year-ago fiscal period.

- On May 30, 2019, the Company completed an RTO Transaction. The Company has accounted for the transaction as a business combination under the scope of IFRS 3, Business Combination. As such, \$90,625, the fair value of all outstanding stock options of the accounting acquiree, was applied to consideration paid.
- On November 5, 2019, the Company granted an aggregate of 4,330,000 options to a director and certain employees of the Company pursuant to the Company's Stock Option Plan. The grant entitles the holders of such options to acquire, in the aggregate, up to 4,330,000 subordinate voting shares of the Company at an exercise price of \$2.25 per subordinate voting share expiring on June 3, 2024.
- On November 29, 2019, the Board determined that it was in the best interests of the Corporation to cancel 1,160,000 stock options held by certain executives and director for no monetary consideration. Each of the option holders voluntarily surrendered such stock options held by them and provided the Company with written consent regarding the cancellation of such stock options. These options were replaced on December 30, 2019.

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- On December 30, 2019, the Company granted an aggregate of 1,220,000 options to executives and certain employees of the Company pursuant to the Company's stock option plan. The grant entitles the holders of such options to acquire, in the aggregate, up to 1,220,000 subordinate voting shares of the Company at an exercise price of \$2.25 per subordinate voting share expiring on June 3, 2024.

***Marketing and promotions***

Marketing costs incurred were \$22.3MM for FY 2019, an increase of \$11.7MM from \$10.6MM in FY 2018. These costs are directly related to the promotion of the Company and its licensed "IGNITE" brand. Marketing, promotional, and brand awareness activities were carried out during fiscal 2019 in concert with the launch of the Company's IGNITE branded products in the United States, Canada, and the United Kingdom. The Company revisits its marketing and promotional activities on a regular basis to ensure that it continues to diligently, and cost effectively, market and promote the IGNITE brand.

**OTHER EXPENSES**

***Listing Costs***

The Company incurred transaction costs totalling \$0.7MM during FY 2019. These costs are entirely comprised of one-time charges associated with the RTO Transaction.

***Interest expense***

The Company incurred interest costs \$0.8MM for FY 2019, an increase of \$0.5MM from \$0.3MM in FY 2018. The increase can be attributed to 1) the costs associated with the Company securing interest bearing financing to meet its working capital needs prior to the completion of the RTO Transaction, and 2) on-going costs associated with financing provided to Ignite USJO.

***Inventory Impairment***

During the year the Company recorded inventory impairments totaling \$3.5MM (\$nil in FY 2018) resulting from management's assessment that the cost of certain finished goods and packaging inventory was not able to be recovered through the applicable products net realizable value given (1) that the packaging had to be discontinued due to regulatory changes in labelling requirements and (2) that the finished goods were no longer able to be monetized given a shift away from the particular branded products.

***Goodwill Impairment***

During FY 2019 the Company recorded goodwill impairments totaling \$18.4MM (\$nil in FY 2018). Goodwill was recorded at the time of the RTO transaction and allocated to Ignite Pubco which holds acquired entities. Upon testing at year end it was determined that the recoverable amount was \$nil and thus the full goodwill amount was taken as a write-down.

***Fair value adjustment on investment***

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At the end of FY 2019, the Company recorded an unrealized loss on its investment in Numinus of \$0.75MM (\$nil in FY 2018), a reduction of 50% from the \$1.5MM previously recorded, which negatively impacted net income (see Investments note above for more information).

**TOTAL ASSETS**

Total assets of the Company were \$38.7MM as of December 31, 2019, an increase of \$16.2MM compared to assets of \$22.5MM as at December 31, 2018. The increase is largely attributed to (1) the acquisition of Ignite US, (2) the issuance of 17,200,000 Subordinate Voting Shares for gross cash proceeds of \$25.8MM, (3) the issuance of Series A and Series B convertible debentures for gross cash proceeds of \$20MM and (4) investments in net working capital, including finished goods inventory and deposits tied to commercial activations in the United States, Mexico and the United Kingdom.

**TOTAL LIABILITIES**

Total liabilities of the Company were \$33.8MM as of December 31, 2019, an increase of \$24.3MM compared to \$9.5MM as at December 31, 2018. The increase is attributed to the additional liabilities recognized with the acquisition of Ignite US and the startup of commercial activities in the United States and United Kingdom, increases related to on-going costs associated with financing provided to Ignite USJO and the issuance of the Series A and Series B convertible debentures and the associated coupon interest payable.

**SUMMARY OF QUARTERLY RESULTS**

The following table summarizes information derived from the Company's financial statements for each of the eight most recently completed quarters:

Quarter Ended	Revenues	Cost of goods sold	Gross profit	Net income (loss)	Net income (loss) per share <sup>(1)</sup>
	\$	\$	\$	\$	\$
December 31, 2019	1,701,892	2,418,016	(716,124)	(34,155,958)	(0.13)
September 30, 2019	3,388,238	2,571,821	816,416	(13,120,675)	(0.12)
June 30, 2019	2,074,819	1,271,543	803,276	(10,977,687)	(0.10)
March 31, 2019	1,522,998	956,647	566,351	(11,288,673)	(0.11)
December 31, 2018	1,901,128	1,401,143	499,985	(8,297,357)	(0.16)
September 30, 2018	540,253	335,265	204,987	(6,879,133)	(0.07)
June 30, 2018	169	-	169	(1,469,318)	(0.01)
<sup>(2)</sup> March 31, 2018	-	-	-	(557,801)	(0.00)

<sup>(1)</sup> Fully diluted loss per share amounts are not shown as they would be anti-dilutive.

The Company has incurred significant operating costs relating to the start-up of its operations over the last eight quarters including expenses related to commercial activations, brand development and brand awareness initiatives. In FY 2019, the Company began to generate revenues from sales of various IGNITE branded products and will



continue to diligently invest in activation and marketing initiatives which may negatively impact its profitability in the short term as sales continue to grow across its diverse markets.

#### **LIQUIDITY AND CAPITAL RESOURCES**

During the year ended December 31, 2019, the Company generate negative cash flow from operations.

The Company's financial success is reliant on management's ability to identify and evaluate opportunities to expand its business operations which currently includes branding, marketing, licensing, sales and distribution across the United States, Canada, Mexico and other international jurisdictions, including but not limited to the United Kingdom, and leverage multiple product platforms. The Company intends to affect this expansion through brand leveraging, product development, targeted marketing, and strategic supply chain partnerships in each of the target jurisdictions.

In order to finance these initiatives including its global working capital needs, the Company will be dependent on investor sentiment remaining positive towards the product sectors in which IGNITE branded products are represented, including cannabis, and towards the IGNITE brand in particular, so that funds can be raised through the sale of the Company's securities or alternative forms of investment including debt. Many factors have an influence on investor sentiment, including a positive investor climate, a company's past financial performance and the experience and caliber of a company's key management team. There is no certainty that funding will be available at the times and in the amounts required to fund the Company's activities. Note 1 of the Company's December 31, 2019 consolidated financial statements further discuss the going concern of the Company. The Company's financial statements do not include any adjustments that might result from these uncertainties.

The Company's consolidated financial statements have been prepared with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. The Company's ability to continue in the normal course of operations is dependent on its ability to raise financing or through the sale of its investments at amounts favorable to the Company. Management estimates there is sufficient working capital and access to funding as of December 31, 2019 to continue current operations for the next twelve months.

The Company's working capital, defined as current assets less current liabilities, as of December 31, 2019 was \$10.7MM, an increase of \$5.2MM compared to \$5.6MM as at December 31, 2018. The increase is a result of the aforementioned issuance of subordinated voting shares in FY 2019. The Company has no material commitments for capital expenditures as of the December 31, 2019 reporting date.

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**Premise leases**

The Company has the following future commitments associated with its lease obligations:

	December 31, 2019	December 31, 2018
<b>Cost</b>	<b>\$</b>	<b>\$</b>
Within the next 12 months	3,049,830	-
Between 1 - 2 years	1,471,605	-
Between 2 - 3 years	282,139	-
Between 3 - 4 years	416,397	-
Between 4 - 5 years	544,554	-
	<b>5,764,525</b>	<b>-</b>

**Notice of Claim**

The Company was served with a Notice of Claim dated November 28, 2018 which has been filed in the Supreme Court of British Columbia naming the Company as one of three defendants. The Notice of Claim alleges a finder's fee of \$120,000 is due to the claimant for work in a previous completed private placement. The Company believes the lawsuit is without merit and has filed a response accordingly. No provision has been made by the Company with regards to the Notice of Claim, and there has been no further action in relation to this Notice of Claim as at the date of filing this MD&A.

**Legal**

The Company may be contingently liable with respect to claims incidental to the ordinary course of its operations. In the opinion of management, and based on management's consultation with legal counsel, the ultimate outcome of such matters will not have a materially adverse effect on the Company. Accordingly, no provision has been made in these consolidated financial statements for losses, if any, which might result from the ultimate disposition of these matters should they arise.

**Option to Purchase**

On May 27, 2018, the Company entered into a three-year agreement that included an option to purchase a residential property. Terms of the option agreement, which expires June 1, 2021, allow the Company to acquire the residential property at pre-determined purchase prices based on the timing the option is exercised. The remaining options to purchase as at December 31, 2019 are as follows:

Option Exercise Date	Exercise Price (USD)	USD:CAD as at December 31, 2019	Exercise Price (CAD)
May 31, 2020*	62,500,000	1.2988	81,175,000
May 31, 2021	65,000,000	1.2988	84,422,000

\*option expired unexercised

### ***Cash and Financial Conditions***

The Company had a cash balance of \$15.1MM as of December 31, 2019, an increase of \$1.8MM compared to \$13.3MM as of December 31, 2018.

The Company does not have any unused lines of credit or other arrangements in place to borrow funds and has no off-balance sheet arrangements. The Company does not use hedges or other financial derivatives.

### ***Financing Activities***

On January 1, 2019, the Company adopted IFRS 16. IFRS 16 replaces IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease ("IFRIC 4"), the accounting for onerous lease liabilities which were previously measured under IAS 37 Provisions ("IAS 37") and other related IFRS interpretations. IFRS 16 prescribes a single recognition and measurement model for lease contracts and requires the recognition of a right-of-use asset and corresponding lease liability for most leases, including subleases.

The Company elected to adopt IFRS 16 *Leases* using the simplified method by recognizing an opening balance sheet adjustment for the Company's discounted right-of-use assets and corresponding lease liabilities as of January 1, 2019. Accordingly, there was no opening adjustment to retained earnings and the comparative 2018 statements of comprehensive income and cash flows have not been restated to reflect the accounting presentation prescribed under IFRS 16.

The adoption of the new standard resulted in the recognition of a right-of-use asset of \$7.9MM recorded in aggregate with the Company's property, plant and equipment and a corresponding lease obligation of in the consolidated statement of financial position. The asset will be amortized over the term of the remaining term of the lease and the liability will be discounted at effective interest rates between 7.5% and 8.0%.

On January 31, 2019, Ignite US entered a US\$15MM promissory note with a US company controlled by a director of the Company. The note proceeds were advanced in their entirety, rather than on a standby basis, serving as a line of credit for the Company to fund working capital and general corporate expenses during the period leading up to the closing date of the RTO Transaction. The note was unsecured, carried an interest rate of 5% per annum, and matured January 30, 2020 with all principal and accrued interest due at that time. On June 29, 2019, the entire amount of the note, US\$15MM, in addition to accrued interest owing to the date of repayment totaling US\$0.3MM, was repaid.

On May 16, 2019, Ignite USJO was granted a secured promissory note from a company related to Ignite for USD\$3MM, maturing on May 16, 2020 (the "II Note"). The promissory note bears an interest rate equal to ten percent (10%) per annum. Collateral on the promissory note is security interest in all the membership interests of Ignite USJO. At December 31, 2019, the promissory note balance is \$4.1MM, which includes \$0.2MM in interest payable. Subsequent to year-end, the II Note was amended and restated (see Subsequent Events section).

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On May 30, 2019, the Company issued 17,200,000 Subordinate Voting Shares at \$1.50 per share for gross proceeds of \$25.8MM. The Company had incurred \$38,660 in cash costs in connection with the placement. The placement was executed concurrent with the RTO Transaction.

On October 25, 2019, as part of an Offering announced on October 3, 2019, the Company issued unsecured senior convertible debentures units for gross proceeds of \$10MM. In conjunction with the same Offering, on December 10, 2019, the Company issued additional Units for gross proceeds of \$10MM. The Company incurred cash costs of \$81,483 in connection with the Offering. The reader is referred to the section marked “*Corporate Highlights, Convertible Debentures*” and note 8 of the consolidated financial statements for the year ended December 31, 2019 for further details on the Offering including valuation under IFRS principles).

***Investing Activities***

The reader is referred to Financing Activities above for the impact on Investing Activities regarding the adoption of IFRS 16 *Leases*.

As a result of the RTO Transaction, the Company acquired cash \$4.5MM (refer to note 7 of the consolidated financial statements for year ended December 31, 2019).

As of December 31, 2019, cash of \$0.3MM has been consolidated with the Company’s cash as required under IFRS 10, Consolidated Financial Statements, for subsidiaries and investments to which control has been established.

**RELATED PARTY TRANSACTIONS**

**KEY MANAGEMENT PERSONNEL**

Key management personnel include those persons having authority and responsibility for planning, directing, and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of executive and non-executive members of the Company’s Board of Directors and corporate officers.

Remuneration attributed to key management personnel can be summarized as follows:

	<b>For the year ended December 31, 2019</b>	For the year ended December 31, 2018
	\$	\$
Management salaries, bonuses, and other benefits	1,314,468	469,479
Share-based payment – management	362,431	-
Share-based payments – directors	123,350	-
<b>Total</b>	<b>1,800,249</b>	<b>469,479</b>

**AMOUNTS DUE TO AND FROM RELATED PARTIES:**

As of December 31, 2019, \$67,990 (December 31, 2018; \$1,672,023) was due to companies related to the CEO and Chairman of the Company for expenses incurred on behalf of the Company. These expenses related to travel and facilities expenses.

**RELATED PARTY TRANSACTIONS:**

During the year ended December 31, 2018, the Company executed a Shared Services Agreement (“SSA”) with Blitz NV (“Blitz”), a company related to the Chief Executive Officer. Under the terms of the SSA, certain costs incurred for the benefit of both companies are allocated accordingly between the two entities. In connection with the SSA \$381,742 were reimbursed for salaries that were allocated to the Company. As the end of FY 2019, the Company had settled all amounts due to Blitz in relation to the SSA.

On June 5, 2018, Ignite US received a secured promissory note from an entity controlled by the CEO and Chairman of the Company, for the purchase of a property in Nevada, which Ignite US subsequently leased over a two-year lease term. The note had a principal balance of USD\$8,514,340, bore annual interest of 5% and was due on demand. The note was settled by a stock repurchase transaction completed in November 2018. The Company made lease payments totalling \$186,409 on the leased property and incurred \$10,727 in accrued interest on the lease. Throughout the term of the lease, the Company invested USD \$344,295 in leasehold improvements; however, in conjunction with preparation of the RTO Transaction, it was determined by management that it was beneficial to terminate the lease effective April 30, 2019. The Company recorded a \$211,994 loss on disposal of leasehold improvements after termination of the lease.

On January 31, 2019, Ignite US entered into a promissory note payable in the amount of \$19.6MM (US\$15MM) with an entity whose principal shareholder is a former director of the Company. The note payable bore interest of 5% per annum and was due January 30, 2020. On June 26, 2019, the Company repaid the principal in full, along with \$0.4MM (US\$0.3MM) in accrued interest.

In the first quarter of 2019, credit card facilities were unattainable by the Company due to the nature of concern for the industry by banking facilities. Certain expenses were paid by the CEO of the Company in order to conduct daily operational activities. The Company reimbursed \$1.3MM to the CEO throughout FY 2019.

In the first quarter of FY 2019, the Company engaged in streaming services with an entity related to the CEO (“Related Service Provider”). Throughout the term, the Company paid \$325,016 for services rendered by the Related Service Provider. As of December 31, 2019, the Company has settled all amounts due in full.

Throughout the year, the Company incurred expenses for air travel to various locations for distribution meetings, marketing events and related business activities. On occasion, the Company commissioned services from an air charter service that is related to the CEO (“Related Air Charter”). Throughout the fiscal year, the Company incurred \$360,259 in service fees from the Related Air Charter.

During FY 2019, Company incurred licensing fees of \$92,862 in relation to the IGNITE Goat skull and IGNITE trademarks which is owned by Blitz.

## **SUBSEQUENT EVENTS**

### **CONTRACTS & AGREEMENTS**

Subsequent to year-end, on January 20, 2020, the Company launched Ignite Beverages, Inc. (“Ignite BEV”). Ignite BEV is expected to focus on the development and distribution of innovative premium beverages across multiple categories including water, energy, and alcohol. In February 2020, Ignite Beverages entered into four one-year renewable exclusive distribution agreements with various United States distributors to distribute select IGNITE branded beverage products to wholesale channels of trade for the purposes of resale in specific counties in the State of California and Alabama.

On February 11, 2020, the Company, through its subsidiary, Ignite International, Ltd. entered in to an exclusive one-year, renewable manufacturing, distribution and marketing agreement with VapeEZ Technology Bahrain to manufacture, package, market and distribute certain IGNITE products in Bahain KSA, UAE, Kuwait and Egypt.

On February 20, 2020 the Company, through its subsidiary, Ignite Beverages, Inc. entered an agreement with the Coastal Carolina Division of Circle K to offer IGNITE CBD products to the public throughout over 400 retail locations in North Carolina, South Carolina and Virginia in the United States.

### **CAPITAL CONTRIBUTIONS**

On January 21, 2020, capital contribution was made by the members of Ignite Distribution, LLC. The members collectively contributed US\$1,000,000 in proportion to their respective ownership interests to be used for operational requirements. 50.1% ownership in Ignite Distribution, LLC held Ignite International, Ltd. resulted in a capital contribution of US \$501,000 and the 49.9% ownership in Ignite Distribution, LLC held by UBIQ resulted in a capital contribution of \$499,000.

On February 14, 2020, an additional capital contribution was made by the members of Ignite Distribution, LLC. The members collectively contributed US\$499,000 in proportion to their respective ownership interests to be used for operational requirements. 50.1% ownership in Ignite Distribution, LLC held Ignite International, Ltd. resulted in a capital contribution of US \$250,000 and the 49.9% ownership in Ignite Distribution, LLC held by UBIQ resulted in a capital contribution of \$249,000.

### **RESIGNATIONS & APPOINTMENTS**

On May 8, 2020, the Chief Financial Officer (“CFO”), resigned from the Company. On June 8, 2020, the Company appointed a new CFO.

On June 15, 2020, the Company appointed a President, who will also serve as a Director to the Company.

## **GRANT OF STOCK OPTIONS**

Subsequent to year ended December 31, 2019, the Company granted 2,000,000 options to purchase subordinate voting shares in the capital of the Company pursuant to the Company's stock option plan. The stock options entitle the holder thereof to acquire subordinate voting shares of the Company at an exercise price of CA\$2.25 per subordinate voting share, over a three (3) year vesting term.

## **INVESTMENT IN SUBSIDIARY**

Subsequent to FY 2019, the Company activated a partnership agreement with a global entrepreneur and industry leader in hemp and CBD that was executed at the end of FY 2019. To facilitate the partnership agreement, the Company formed, Ignite Social, LLC. (Ignite "Social"). Ignite Social was created for individuals and social media influencers to work with the Company directly and initiate a social selling concept that allows an influencer's direct and indirect value to be measured. Ignite Social will offer a distinct and unique set of nutraceuticals and performance wear products for its members to enjoy and promote as well as exclusive sponsored events all around the world for its members.

## **ACQUISITIONS**

On May 5, 2020, in consideration of financial accommodations (note 19) to be provided by International Investments, Ignite USJO issued 800 shares of the common stock International Investments free and clear of Encumbrances (the "New Shares"). The New Shares shall constitute 80% of the issued and outstanding shares of common stock of Ignite USJO, reducing the Company's ownership to 10% of the issued and outstanding common stock of Ignite USJO.

In conjunction with the change in ownership, Ignite USJO was converted from an LLC to a corporation and the name was changed accordingly from Ignite Distribution, LLC to Ignite Distribution, Inc. ("Ignite Distro").

On May 29, 2020, the Company entered a binding term sheet, pursuant to which, the Company will acquire the remaining 90% of the issued and outstanding equity securities of Ignite Distribution, Inc. (the "Target") that it does not already own.

On June 12, 2020 (the "Closing Date"), a definitive share purchase agreement was executed reflecting the terms of the binding term sheet and was approved of the Canadian Securities Exchange. As consideration for the purchase of the shares of the Target, IGNITE (i) issued to II an unsecured promissory note (the "**II Note**") in the amount of US\$3.35 million, bearing an annual interest rate of 10%, maturing on June 11, 2022; the II Note shall be repayable on the earlier of (x) the Company having consolidated annual EBITDA of at least US\$10 million, as reported on its quarterly or annual financial statements and calculated in the ordinary course AND the Company having unencumbered cash of at least US\$10 million during the same reporting period; and (y) two years from the Closing Date, with II being permitted to convert the II Note at any time prior to its maturity at a price per Subordinate Voting Share of CA\$1.54; (ii) issued to MMS an unsecured promissory note (the "**MMS Note**") in the amount of US\$500,000, bearing an annual interest rate of 10%, maturing on December 11, 2021, with either the Company or MMS being permitted to convert the MMS Note at any time prior to its maturity at a price per Subordinate Voting Share equal to the greater of (x) CA\$1.53, being the closing price on May 28, 2020; and (y) 110% of the closing market price of the shares on the last trading date immediately prior to the conversion of the MMS Note; and (iii) issued 285,205 Subordinate Voting Shares to II and 35,651 Subordinate Voting Shares to MMS.

## **FINANCING**

On April 28, 2020, Ignite US received a loan in the amount of US\$1.1MM from the Small Business Administration (“SBA”) as a result of its application to the Paycheck Protection Program (“PPP Loan”). PPP is a loan designed to provide a direct incentive for businesses to keep their workers on the payroll. SBA will forgive loans if all employees are kept on the payroll for eight weeks and the money is used for payroll, rent, mortgage interest, or utilities. The Company has kept all employees subsequent to the receipt of the PPP Loan and intends on applying for loan forgiveness.

On May 20, 2020, Ignite USJO received a PPP Loan of US\$0.06MM and on May 28, 2020 an additional PPP Loan of US\$0.03MM from the SBA. The Company has kept all employees subsequent to the receipt of the PPP Loan and intends on apply for loan forgiveness.

On June 9, 2020, the Company announced that it has closed another non-brokered, private placement of convertible debentures (the “Debentures”) for proceeds of CA\$5MM from International Investments, Ltd. (“II”). The principal balance will accrue interest at a rate of 10% per annum, with the principal and interest due on the maturity date of the Debenture (the “Maturity Date”). The Maturity Date is the earlier of (i) June 7, 2022; and (ii) the Company achieving a minimum of CA\$10MM of (x) earnings before interest, taxes, depreciation and amortization and; (y) free cash flow, as reported in its annual or quarterly financial statements.

Prior to the Maturity Date, II has the right to convert the balance of principal and interest payable thereunder to subordinated voting shares in the capital of the Company at a price per subordinate voting share equal to CA\$1.58.

## **COVID-19 PANDEMIC**

In March 2020, the World Health Organization declared COVID-19 (Coronavirus) a global pandemic. The COVID-19 pandemic has caused global economic uncertainty and has adversely affected workforces, economies, and financial markets globally. Measures have been put in place to combat the spread of the virus, which include the implementation of travel bans, self-imposed quarantine periods, social distancing, and temporary closures of non-essential businesses. The Company reacted quickly to ensure the safety of its employees and business partners, including a mandated work-from home and travel ban policy for all employees. Given the economic uncertainty, it is not possible to accurately predict the duration or magnitude of the adverse results of the outbreak and its effect on the Company at this time.

In March 2020, in line with the Company’s commitment to an aggressive plan to proactively implement measures to sustain its operations (see Outlook section), the Company assessed its operations for non-essential head count and reduced its salaries and benefit costs by an approximate \$1.3MM annualized.



## SECURITIES OUTSTANDING

As at December 31, 2019 and the date of this MD&A, the Company had the following shares issued and outstanding:

<b>Series</b>	<b>Outstanding</b>	<b>As converted</b>
	<b>#</b>	<b>#</b>
Subordinate Voting Shares	107,203,254	107,203,254
Proportionate Voting Shares	748,625	149,725,000
	<b>107,951,879</b>	<b>256,928,254</b>

As at December 31, 2019 the Company had the following securities outstanding which are exercisable for subordinate voting shares:

<b>Securities</b>	<b>Securities Exercisable</b>	<b>Total Securities Outstanding</b>
	<b>#</b>	<b>#</b>
Stock options	40,000	5,190,000
Warrants	5,000,000	5,000,000

As at the date of this MD&A, the Company had the following securities outstanding which are exercisable for subordinate voting shares:

<b>Series</b>	<b>Outstanding</b>	<b>As converted</b>
	<b>#</b>	<b>#</b>
Subordinate Voting Shares	107,524,110	107,524,110
Proportionate Voting Shares	748,625	149,725,000
		<b>257,279,110</b>

As at the date of this MD&A, the Company had the following securities outstanding which are exercisable for subordinate voting shares:

<b>Securities</b>	<b>Securities Exercisable</b>	<b>Total Securities Outstanding</b>
	<b>#</b>	<b>#</b>
Stock options	1,483,333	5,993,619
Warrants	5,000,000	5,000,000

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

### RISK MANAGEMENT

The Company's management regularly reviews and assesses its operating environment and identifies priority and emerging risks. These risks, if materialized, may significantly impact the achievement of the Company's goals. Many of these risks are beyond the Company's control, their effects may be difficult to predict, and they could cause the financial results to differ significantly from planned objective.

The Company's risk exposures and the impact on the Company's financial instruments are summarized below.

### **CREDIT RISK**

Credit risk is the risk of loss associated with a counterparty's inability to fulfil its payment obligations. The Company's cash includes cash and cash equivalents and short-term deposits held in financial institutions. Deposits includes term deposits and a letter of credit. The Company held \$15.1MM in cash, and \$1.8MM in deposits at the end of FY 2019. Management believes the risk of loss on cash, deposits and prepaid expenses is minimal. Management also believes the risk is marginal for sales tax receivable.

The Company's e-commerce operations do not give rise to significant accounts receivable amounts and associated risks are inconsequential.

The Company's financial assets subject to risk include trade receivables of \$1.5MM arising from royalty agreements and wholesale distribution. Receivables considered low risk primarily consist of sales tax receivable from government agencies amounting to \$0.8MM.

The Company limits the total exposure to individual customer counterparties by maintaining a credit policy, which sets forth prepayment on all e-commerce orders and short credit term requirements for trade customers in order to mitigate losses from non-collection of trade receivables.

The carrying amount of cash, deposits, and accounts and other receivable represent the maximum exposure to credit risk. At the end of FY 2019, these amounted to \$18.4MM. An expected credit loss of \$0.3MM related to trade accounts receivable and working capital advances was recorded at the end of FY 2019.

### **LIQUIDITY RISK**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's approach to managing liquidity risk is to review, on an ongoing basis, capital requirements to ensure that it will have enough liquidity to meet liabilities when due.

At the end of FY 2019, the Company had cash of \$15.1MM to settle current liabilities of \$14MM, including short term lease obligations.

The Company's non-current financial liabilities comprise of convertible debentures of \$18MM and long-term lease obligations of \$1.7MM resulting from the adoption of IFRS 16 on January 1, 2019.

### **INTEREST RATE RISK**

The Company has cash balances which are not at a significant risk to fluctuating interest rates. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. As the end of FY 2019, the Company did not have any cash and cash equivalents invested that are subject to variable interest rates.

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**FOREIGN CURRENCY RISK**

The Company is also exposed to currency risk by having balances and transactions in currencies that are different from its functional currency. The Company operates in foreign jurisdictions, which use both the Pound Sterling (GBP£) and United States Dollar (USD\$). The Company is also exposed to foreign currency risk on its promissory note payable, which is dominated in US dollars (refer to note 19 of the Company's consolidated financial statements for FY 2019).

The Company does not currently use derivative instruments to reduce upward and downward risk associated with foreign currency fluctuations.

At December 31, 2019, the net financial amounts for each in currency the Company is exposed to is as follow:

	<b>Denominated in Foreign Currencies</b>
	<b>\$</b>
Financial assets denominated in foreign currencies	2,037,744
Financial liabilities denominated in foreign currencies	(14,996,160)
<b>Net exposure</b>	<b>(12,958,416)</b>

A one (1) percent change in the US dollar exchange rate relative to the Canadian dollar would change the Company's profit or loss for FY 2019 by \$0.3MM. A one (1) percent change in the pound sterling exchange rate relative to the Canadian dollar would change the Company's profit or loss for the FY 2019 by \$0.02MM.

**CAPITAL RISK MANAGEMENT**

The Company adapts its capital structure based on the funds available to the Company, to support the development of its business. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The Company is largely dependent upon external financings to fund activities. To search for new business opportunities and pay for operating and administrative costs, the Company will raise additional capital as needed. The Company will continue to assess new business opportunities and seek to acquire new business assets if it determines there are sufficient business opportunities or economic potential and if it has adequate financial resources to do so. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during FY 2019. The Company is not subject to externally imposed capital requirements. Changes in capital are described in the statement of changes in shareholders' equity section of the Company's consolidated financial statements which can be found on SEDAR under the Company's corporate profile.

## **CONTINGENCIES – INDEMNIFICATION OF DIRECTORS AND OFFICERS**

### **RISKS AND UNCERTAINTIES**

There are a number of risk factors that could cause future results to differ materially from those described herein. The risks and uncertainties described in this Listing Statement are not the only ones the Company may face. Additional risks and uncertainties that the Company is unaware of, or that the Company currently deems not to be material, may also become important factors that affect the Company. If any such risks actually occur, the Company's business, financial condition or results of operations could be materially adversely affected. If such circumstances arise, investors could lose all or part of their investment.

An investment in the Company Shares should be considered highly speculative. The following list of risk factors is not a definitive list of all risk factors associated with the Company. Additional risks and uncertainties, including those currently known or considered immaterial by the Company may also adversely affect the Company Shares and/or the business of the Company.

#### **RISKS RELATED TO THE COMPANY'S OPERATIONS**

##### ***Limited Operating History as a Vertically-Integrated Company***

The Company and its management have no history of operations as a vertically integrated company in the cannabis industry. As such, upon completion of the proposed Business Combination, the Company will be subject to all of the business risks and uncertainties associated with any new business enterprise, including the lack of experience in managing and operating the business and the risk that the Company will not achieve its financial objectives as estimated by management or at all.

##### ***Lack of Availability of Growth Opportunities***

The Company's business plan includes growth through the Company's identification of suitable investment, acquisition, or partnership opportunities, pursuing such opportunities, consummating investments acquisitions or partnerships, and effectively generating returns on such. If the Company is unable to manage its growth effectively, its business, operating results, and financial condition could be adversely affected.

##### ***Foreign Taxes and Double Taxation***

The Company may invest in companies or directly operate in foreign jurisdictions and may be subject to double taxation on its foreign investments and operations, which will reduce the return on investments and the profitability, if any, of the Company.

##### ***Conflicts of Interest***

The Company may, in the future, raise further funds through the sale of securities to other companies which may be associated with the directors or officers of the Company, and, as such, the directors and officers of the Company may increase their ownership and/or control positions in the Company without an equal opportunity to participate in such financings being granted to other shareholders. Under certain circumstances, shareholder approval of such

action may be required. As certain directors and officers are involved with other companies, there may be potential conflicts of interest limiting the amount of time managing the affairs of the Company.

### ***Lack of Capital***

Until revenues exceed expenses, the Company will raise the necessary capital through private placements and other financing tools. There can be no assurance that management will be successful in raising the necessary capital required to fund ongoing activities.

### ***Strategic Investments or Acquisitions and Joint Ventures may Result in Additional Risks and Uncertainties in the Company's Business***

The Company may grow its business through strategic investments, acquisitions, or joint ventures. When it makes strategic investments or acquisitions or enters into joint ventures, the Company expects to face numerous risks and uncertainties in combining or integrating the relevant businesses and systems. In addition, future acquisitions or joint ventures may involve the issuance of additional Company Shares, which may dilute shareholders' interests in the Company.

Although the Company will perform diligence on any businesses it purchases or makes an investment in, in light of the circumstances of each transaction, an unavoidable level of risk remains regarding the actual condition of these businesses. The Company may not be able to ascertain the value or understand the potential liabilities of the acquired businesses and their operations until it assumes operating control of the assets and operations of these businesses or an investment is made.

In addition, expansion, acquisitions, or joint ventures may require significant managerial attention, which may be diverted from the Company's other operations. If the Company is unsuccessful in overcoming these risks, its business, financial condition, or results of operations could be materially and adversely affected.

### ***Environmental Regulations and Risks***

Through its investments and operations, the Company may be subject to environmental regulation. These regulations mandate, among other things, the maintenance of air and water quality standards and land reclamation. They also set forth limitations on the generation, transportation, storage, and disposal of solid and hazardous waste. Environmental legislation is evolving in a manner that will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors, and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Company's operations.

Government approvals and permits are currently, and may in the future, be required in connection with the Company's operations. To the extent such approvals are required and not obtained, the Company may be curtailed or prohibited from proceeding with the development of its operations as currently proposed.

Failure to comply with applicable laws, regulations and permit requirements may result in enforcement actions thereunder, including orders issued by regulator or judicial authorities causing operations to cease or to be curtailed

and may include corrective measures requiring capital expenditures, installations of additional equipment, or remedial actions. The Company may be required to compensate those suffering loss or damage by reason of its operations and may have civil or criminal fines or penalties imposed for violations of applicable laws and regulations.

### ***Product Liability***

Through its investments and operations, the Company may manufacture, process and/or distribute products designed to be ingested by humans, and therefore face an inherent risk of exposure to product liability claims, regulatory action and litigation if products are alleged to have caused significant loss or injury. In addition, the manufacture and sale of its branded products involve the risk of injury to consumers due to tampering by unauthorized third parties or product contamination. Previously unknown adverse reactions resulting from human consumption of the Company's products alone or in combination with other medications or substances could occur. The Company may be subject to various product liability claims, including, among others, that the products produced by them caused injury or illness, include inadequate instructions for use or include inadequate warnings concerning possible side effects or interactions with other substances. A product liability claim, or regulatory action could result in increased costs, could adversely affect the reputation of the Company, and could have a material adverse effect on the business, results of operations and financial condition of the Company. There can be no assurances that product liability insurance will be obtained or maintained on acceptable terms or with adequate coverage against potential liabilities.

### ***Product Recalls***

Through its investments and operations, the Company may cultivate, manufacture, and distribute cannabis products. Cultivators, manufacturers and distributors of products are sometimes subject to the recall or return of their products for a variety of reasons, including product defects, such as contamination, unintended harmful side effects or interactions with other substances, packaging safety and inadequate or inaccurate labeling disclosure. If any product produced by the Company under these arrangements is recalled due to an alleged product defect or for any other reason, the Company could be required to incur the unexpected expense of the recall and any legal proceedings that might arise in connection with the recall and may lose a significant amount of sales and may not be able to replace those sales at an acceptable margin or at all. Additionally, if any of the products produced by the Company were subject to recall, the image of that product and the Company could be harmed. A recall for any of the foregoing reasons could lead to decreased demand for products produced by the Company and could have a material adverse effect on its results of operations and financial condition.

### ***Risks Inherent in an Agricultural Business***

Cannabis is an agricultural product. There are risks inherent in the cultivation business, such as insects, plant diseases and similar agricultural risks. Although the products are usually grown indoors or green houses under climate-controlled conditions, with conditions monitored, there can be no assurance that natural elements will not have a material adverse effect on the production of the Company's investees' or contract partners' products and, consequentially, on the business, financial condition and operating results of the Company.

### ***Reliance on Key Inputs***

The cultivation, extraction and processing of cannabis and derivative products is dependent on several key inputs and their related costs including raw materials, electricity, water, and other local utilities. Any significant interruption or negative change in the availability or economics of the supply chain for key inputs could materially impact the business, financial condition, and operating results of the Company. Some of these inputs may only be available from a single supplier or a limited group of suppliers. If a sole source supplier were to go out of business, the Company may be unable to find a replacement for such source in a timely manner, or at all. Any inability to secure required supplies and services or to do so on appropriate terms could have a materially adverse impact on the business, financial condition, and operating results of the Company.

In addition, cannabis growing operations consume considerable energy, making the Company vulnerable to rising energy costs. Rising or volatile energy costs may adversely impact the business of the Company and its ability to operate profitably.

### ***Service Providers in the United States***

As a result of any adverse change to the approach in enforcement of United States cannabis laws, adverse regulatory or political change, additional scrutiny by regulatory authorities, adverse change in public perception in respect of the consumption of marijuana or otherwise, third party service providers to the Company could suspend or withdraw their services, which may have a material adverse effect on the Company's business, revenues, operating results, financial condition or prospects.

## **RISKS RELATED TO THE MARIJUANA INDUSTRY**

### ***The fact that Marijuana is Illegal in Most Jurisdictions May Affect the Trading of Company Shares***

The Company's business may involve the distribution of securities of an entity that is expected to indirectly derive a portion of its revenues from the cannabis industry in certain U.S. states, which industry is illegal under U.S. federal law. Ignite US, through its joint venture with Harvest, will be indirectly engaged in the cultivation, processing, possession, use, sale or distribution of cannabis in the medicinal and/or adult-use cannabis marketplace in the United States where local state law permits such activities. In Canada, the Cannabis Act regulates the production, distribution, and sale of cannabis for unqualified adult use and came into force on October 17, 2018. The ACMPR will continue to operate in tandem with the recreational regime and will be re-evaluated within five years of the Cannabis Act coming into force. Currently, Ignite Canada and Ignite US are not directly engaged in the manufacturing, importation, possession, use, sale or distribution of cannabis in the recreational cannabis marketplace in either Canada or the United States, nor are Ignite Canada and Ignite US directly engaged in the manufacturing, importation, possession, use, sale or distribution of cannabis in the medical cannabis marketplace in the United States or Canada.

Almost half of the U.S. states have enacted legislation to regulate the sale and use of medical cannabis without limits on THC, while other states have regulated the sale and use of medical cannabis with strict limits on the levels of THC. Notwithstanding the permissive regulatory environment of cannabis at the state level, cannabis continues

to be categorized as a controlled substance under the CSA in the United States and as such, may be in violation of federal law in the United States.

As a result of the conflicting views between state legislatures and the United States federal government regarding cannabis, involvement in cannabis businesses in the United States is subject to inconsistent legislation and regulation. Unless and until U.S. Congress amends the CSA with respect to cannabis (and as to the timing or scope of any such potential amendments there can be no assurance), there is a risk that federal authorities may enforce current federal law, which may adversely affect the current and future business of the Company in the United States. As such, there are a number of risks associated with Company's existing and future business in the United States.

For the reasons set forth above, Ignite Canada and Ignite US's existing business in the United States cannabis market, and the Company's future business, may become the subject of heightened scrutiny by regulators, stock exchanges, clearing agencies and other authorities in Canada. It has been reported by certain publications in Canada that the Canadian Depository for Securities Limited is considering a policy shift that would see its subsidiary, CDS Clearing and Depository Services Inc. ("CDS"), refuse to settle trades for cannabis issuers that have investments in the United States. CDS is Canada's central securities depository, clearing and settlement hub settling trades in the Canadian equity, fixed income and money markets. On February 8, 2018, following discussions with the Canadian Security Administrators and recognized Canadian securities exchanges, the TMX Group, who is the owner of the Canadian Depository for Securities Limited, announced the signing of a Memorandum of Understanding ("MOU") with Aequis NEO Exchange Inc., the CSE and the Toronto Stock Exchange confirming that it relies on such exchanges to review the conduct of listed issuers. The MOU notes that securities regulation requires that the rules of each of the exchanges must not be contrary to the public interest and that the rules of each of the exchanges have been approved by the securities regulators. Pursuant to the MOU, CDS will not ban accepting deposits of or transactions for clearing and settlement of securities of issuers with cannabis-related activities in the U.S.

Even though the MOU indicated that there are no plans of banning the settlement of securities through CDS, there can be no guarantee that the settlement of securities will continue in the future. If such a ban were to be implemented, it would have a material adverse effect on the ability of holders of Subordinate Voting Shares to make and settle trades. In particular, the Subordinate Voting Shares would become highly illiquid until an alternative was implemented, and investors would have no ability to affect a trade of the Subordinate Voting Shares through the facilities of a stock exchange.

#### ***Risk Factors Related to the United States***

Unlike in Canada, which has federal legislation and a framework regarding the cultivation, distribution, sale, and possession of medical cannabis under the Cannabis Act, cannabis remains a Schedule I substance under the CSA in the U.S. While numerous states and the District of Columbia have passed laws permitting possession and use of marijuana for medical or recreational purposes, it remains illegal on the federal level and individuals and businesses engaged in the marijuana industry have ongoing risk of prosecution for felony crimes under federal laws.

While in August 2013, as a result of the conflicting views between state and federal government regarding cannabis, then Deputy Attorney General, James Cole, authored the Cole Memorandum addressed to all U.S. district attorneys, outlining certain priorities for the Department of Justice ("DOJ") relating to the prosecution of cannabis offenses,



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on January 4, 2018, a memorandum from then U.S. Attorney General Jeff Sessions was issued to U.S. district attorneys, effectively rescinding previous guidance from the DOJ specific to cannabis enforcement in the U.S., including the Cole Memorandum. U.S. federal prosecutors no longer have guidance relating to the exercise of their discretion on prosecuting cannabis related violations of U.S. federal law. Following this decision, the Canadian Securities Administrators issued Staff Notice 51-352 on February 8, 2018, explaining that Canadian public companies with U.S. Marijuana Related Activities are required to provide additional disclosures. These disclosures and additional expectations apply to all issuers with U.S. marijuana-related activities, including those with direct and indirect involvement in the cultivation and distribution of marijuana, as well as issuers that provide goods and services to third parties involved in the U.S. marijuana industry. Issuers are expected to provide these disclosures in prospectus filings and other required documents, such as their Annual Information Form and MD&A.

It is possible that further developments could significantly adversely affect the business, financial condition and results of businesses involved in U.S. marijuana-related activities and in the cannabis industry generally. Such potential proceedings could involve significant restrictions being imposed upon the Company or its subsidiaries or investees, while diverting the attention of key executives. Such proceedings could have a material adverse effect on the Company's business, revenues, operating results, and financial condition as well as the Company's reputation, even if such proceedings were concluded successfully in favor of Company.

U.S. Congress passed appropriations bills for the last 4 years which have not appropriated funds to the DOJ for prosecution of cannabis offenses for individuals who are in compliance with state level medical cannabis laws. Most recently, U.S. Congress extended the prohibition to September 2019. This prohibition is, however, subject to ongoing extension/approval by U.S. Congress and could be rescinded. Courts have interpreted these appropriations bills to effectively prevent the federal government from prosecuting individuals when those individuals comply with state law. This conduct continues to violate federal law, and U.S. courts have observed that should U.S. Congress at any time choose to appropriate funds to fully prosecute under the CSA, any individual or business, (despite fully complying with state laws) could be prosecuted for violations of federal law. If U.S. Congress ever restores funding, the federal government will have the authority to prosecute individuals for any violations of the law which occurred before it lacked funding and that are within the CSA's five-year statute of limitations. Further, the prohibition on the use of funds relates solely to medical marijuana state laws and does not prevent the DOJ from spending funds to prosecute individuals and businesses operating under state recreational marijuana laws.

There are currently 33 States and the District of Columbia which have laws broadly legalizing marijuana in some form or another, 10 of which (Alaska, California, Colorado, Maine, Massachusetts, Michigan, Nevada, Oregon, Vermont, and Washington) and the District of Columbia have adopted expansive laws legalizing marijuana for recreational use. Notwithstanding the permissive regulatory environment of medical cannabis at the state level, cannabis continues to be categorized as a controlled substance under the CSA and as such, violates federal law in the U.S.

Violations of any federal regulations and laws could result in administrative sanctions, penalties, fines, criminal charges, and convictions which may result in diminished profit, cessation of business activities or divestiture losses. These violations can also have a material adverse effect on the Company, including its brand, reputation, and ability to conduct business, financial position, ability to raise additional capital, operating results, profitability, or liquidity.

It is difficult for the Company to estimate the resources and time needed for the investigation of any such matters or its final resolution.

Further, because marijuana is illegal under U.S. federal law, investing in cannabis business could be found to violate the CSA. As a result, individuals involved with cannabis business, including but not limited to investors and lenders, may be indicted under U.S. federal law. Your investment in the Company, and the investment in or operation of companies in the cannabis business by the Company, may: (a) expose you personally to criminal liability under U.S. federal law, resulting in monetary fines and jail time; and (b) expose any real and personal property used in connection with the Company's business to seizure and forfeiture to the U.S. federal governments. The risk of strict enforcement of the CSA remains uncertain.

The Company's business in the U.S. will currently be limited to the licensing of its brands and the personality of Dan Bilzerian for products in the cannabis industry. In order to become a licensee or sub-licensee, the licensee entity must provide the Company with the licenses it has been granted by the state regulatory authorities which permit it to carry on the sale of cannabis products. On a go-forward basis, the licensee entity is also required to maintain the licenses in good standing, or the Company shall have the right to cancel the licensing arrangement. On this basis, management is of the view that the Company's business interests in the United States will adhere to the principles of the Cole Memorandum.

#### ***Risks Related to Other Laws and Regulations***

The industry in which the Company will operate may subject the Company to compliance with a myriad of other federal, state, provincial and local laws and regulations, which could include, among others, laws and regulations relating to cannabis, personally identifiable information, wage and hour restrictions, health and safety matters, consumer protection and environmental matters. The Company's business objectives are contingent upon, in part, compliance with regulatory requirements enacted by these governmental authorities and obtaining all regulatory approvals, where necessary, for the sale of its products. The Company cannot predict the time required to secure all appropriate regulatory approvals for its products. Compliance with such laws and regulations may be costly and a failure to comply with such laws and regulations could result in fines, penalties, litigation, and other liability that could materially adversely affect the Company.

The Company's business and products are and will continue to be regulated as applicable laws continue to change and develop. Regulatory compliance and the process of obtaining regulatory approvals can be costly and time-consuming. Further, the Company cannot predict what kind of regulatory requirements its business will be subject to in the future. Any delays in obtaining, or failure to obtain regulatory approvals would significantly delay the development of markets and products and could have a material adverse effect on the business, results of operations and financial condition of the Company.

Furthermore, although the operations of Ignite Canada are currently carried out in accordance with all applicable rules and regulations (except as disclosed in this Listing Statement with respect to investments in entities with cannabis activities in the United States), no assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner which could limit or curtail the Company's ability to conduct its business. Amendments to current laws and regulations governing the importation, distribution, transportation and/or production of medical marijuana, or more stringent implementation thereof

could have a substantial adverse impact on the Company. Local, state, provincial and federal laws and enforcement policies concerning marijuana-related conduct are changing rapidly and will continue to do so for the foreseeable future. Changes in applicable law are unpredictable and could have a material adverse effect on the Company. Changes in applicable laws or regulations could significantly diminish the Company's prospects. The Company has little or no control over potential changes to laws or regulations that may affect its business.

Additionally, governmental regulations affect taxes and levies, healthcare costs, energy usage and labor issues, all of which may have a direct or indirect effect on the Company's business and its customers or suppliers. Changes in these laws or regulations, or the introduction of new laws or regulations, could increase the costs of doing business for the Company, or its customers or suppliers, or restrict the Company's actions, causing the Company to be materially adversely affected.

### ***Nevada Regulatory Risks***

In Nevada, all marijuana establishments must register with the Nevada Department of Taxation ("DOT") and be issued a medical marijuana establishment registration certificate. In a local governmental jurisdiction that issues business licenses, the issuance by the DOT of a medical marijuana establishment registration certificate is considered provisional until the local government has issued a business license for operation and the establishment is in compliance with all applicable local governmental ordinances. Final registration certificates are valid for a period of one year and are subject to annual renewals after required fees are paid and the business remains in good standing. Renewal requests are typically communicated through email from the DOT and include a renewal form. The renewal periods serve as an update for the DOT on the licensee's status toward active licensure. It is important to note provisional licenses do not permit the operation of any commercial or medical cannabis activity. Only after a provisional licensee has gone through necessary state and local inspections, if applicable, and has received a final registration certificate from the DOT may an entity engage in cannabis business operation. There is no assurance that Tahoe and/or Harvest will be issued final registration certificates in respect of their provisional licenses.

### ***Anti-Money Laundering Laws and Regulations***

The Company will be subject to a variety of laws and regulations domestically and in the United States that involve money laundering, financial recordkeeping and proceeds of crime, including the Bank Secrecy Act, as amended by Title III of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (USA PATRIOT Act), Sections 1956 and 1957 of U.S.C. Title 18 (the Money Laundering Control Act), the Proceeds of Crime (Money Laundering) and Terrorist Financing Act (Canada), as amended and the rules and regulations thereunder, the Criminal Code (Canada) and any related or similar rules, regulations or guidelines, issued, administered or enforced by governmental authorities in the United States and Canada.

Banks often refuse to provide banking services to businesses involved in the marijuana industry due to the present state of the laws and regulations governing financial institutions in the United States. The lack of banking and financial services presents unique and significant challenges to businesses in the marijuana industry. The potential lack of a secure place in which to deposit and store cash, the inability to pay creditors through the issuance of checks and the inability to secure traditional forms of operational financing, such as lines of credit, are some of the many challenges presented by the unavailability of traditional banking and financial services.

The FinCEN guidance provides instructions to banks seeking to provide services to cannabis-related businesses. The FinCEN guidance states that in some circumstances, it is permissible for banks to provide services to cannabis-related businesses without risking prosecution for violation of federal money laundering laws. It refers to supplementary guidance relating to the prosecution of money laundering offenses predicated on cannabis-related violations of the CSA. While the FinCEN guidance has not been rescinded by the DOJ at this time, it remains unclear whether the current administration will follow its guidelines. Overall, the DOJ continues to have the right and power to prosecute crimes committed by banks and financial institutions, such as money laundering and violations of the Bank Secrecy Act, that occur in any state, including in states that have legalized the applicable conduct and the DOJ's current enforcement priorities could change for any number of reasons, including a change in the opinions of the President of the United States or the United States Attorney General. A change in the DOJ's enforcement priorities could result in the DOJ prosecuting banks and financial institutions for crimes that previously were not prosecuted.

In the event that any of the Company's operations, or any proceeds thereof, any dividends or distributions therefrom, or any profits or revenues accruing from such operations in the United States were found to be in violation of money laundering legislation or otherwise, such transactions may be viewed as proceeds of crime under one or more of the statutes noted above or any other applicable legislation. This could restrict or otherwise jeopardize the ability of the Company to declare or pay dividends, effect other distributions, or subsequently repatriate such funds back to Canada. Furthermore, in the event that a determination was made that the Company's proceeds from operations (or any future operations or investments in the United States) could reasonably be shown to constitute proceeds of crime, the Company may decide or be required to suspend declaring or paying dividends without advance notice and for an indefinite period of time.

#### ***Change in Laws, Regulations and Guidelines***

The Company's operations will be subject to various laws, regulations and guidelines relating to the manufacture, management, transportation, storage and disposal of medical marijuana, as well as being subject to laws and regulations relating to health and safety, the conduct of operations and the protection of the environment.

On June 21, 2018, the Cannabis Act received Royal Assent and came into force on October 17, 2018. The ACMPR will continue to operate in tandem with the recreational regime and will be re-evaluated within five years of the Cannabis Act coming into force. The governments of every Canadian province and territory have implemented different regulatory regimes for the distribution, sale and use of recreational cannabis within those jurisdictions. For example, Quebec, Manitoba, New Brunswick, Nova Scotia, Prince Edward Island, and the Northwest Territories have chosen the government regulated model for distribution, whereas Saskatchewan and Newfoundland & Labrador have opted for a private sector approach. Alberta, British Columbia, and Ontario are pursuing a hybrid approach of public and private sale and distribution. See Section 3.3 – Trends, Commitments, Events or Uncertainties – Canada – Provincial and Territorial Regulatory Framework.

As the federal and provincial governments adjust to the new legal recreational-use cannabis environment, they may implement changes to their regulatory schemes and guidelines. For instance, while Ontario had previously committed to a government-regulated model for distribution, it subsequently enacted the Cannabis License Act, 2018, which creates a licensing scheme for private cannabis retail stores, licenses for which were awarded via a lottery. There can be no assurance as to what changes to regulatory schemes and guidelines that the federal or

provincial governments may enact, or the effect of any such changes on the Company's business and results of operations.

***Risks Related to the Licensing Process***

The recreational and medical marijuana rules are constantly changing throughout the global cannabis industry. As a result, consumers and producer rights are in limbo. The future business partnerships and licensee agreements that the Company may make may be subject to receiving regulatory certification or accreditation through Health Canada, U.S. laws, or any other applicable regulatory authority. Any failure of the Company or any of its subsidiaries or investees to maintain a license or any failure to comply with the requirements of a license would have a material adverse impact on the business, financial condition and operating results of the Company and could lead to a significant decline in the value of its securities.

***Unfavourable Publicity or Consumer Perception***

Management of the Company believe that the recreational and medical marijuana industry is highly dependent upon consumer perception regarding the safety, efficacy and quality of the marijuana produced. Consumer perception of the Company's proposed products may be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding the consumption of marijuana products.

There can be no assurance that future scientific research, findings, regulatory proceedings, litigation, media attention or other research findings or publicity will be favourable to the recreational and medical marijuana markets or any particular product, or consistent with earlier publicity. The Company's dependence upon consumer perceptions means that future research reports, findings, regulatory proceedings, litigation, media attention or other publicity that are perceived as less favourable than, or that question, earlier research reports, findings or publicity could have a material adverse effect on the demand for the Company's proposed products and the business, results of operations, financial condition and cash flows of the Company. Further, adverse publicity reports or other media attention regarding the safety, efficacy and quality of marijuana in general, or the Company's proposed products specifically, or associating the consumption of marijuana with illness or other negative effects or events, could have such a material adverse effect. Such adverse publicity reports or other media attention could arise even if the adverse effects associated with such products resulted from consumers' failure to consume such products appropriately or as directed.

***Liability, Enforcement Complaints, etc.***

The Company's participation (and Ignite Canada's and Ignite US's prior participation) in the marijuana industry may lead to litigation, formal or informal complaints, enforcement actions, and inquiries by various federal, provincial, state, or local governmental authorities. Litigation, complaints, and enforcement actions could consume considerable amounts of financial and other corporate resources, which could have an adverse effect on the Company's future cash flows, earnings, results of operations and financial condition.

***The Company's Contracts May be Unenforceable***

As the CSA currently prohibits the production, processing and use of marijuana, contracts with third parties (customers, suppliers, vendors, landlords, etc.) pertaining to the production, processing, or selling of marijuana-related products, including any leases for real property, may be unenforceable. In addition, if the U.S. federal government begins strict enforcement of the CSA, any property (personal or real) used in connection with a marijuana-related business may be seized by and forfeited to the federal government. In this case, the Company's inability to enforce contracts, including its sub-licensing contracts, or any loss of business property (whether the Company's or its vendors') will have a material adverse effect on the Company.

***The Company May not be Able to Obtain or Maintain a Bank Account***

Because producing, manufacturing, processing, possessing, distributing, selling, and using marijuana is a crime under the CSA, most banks and other financial institutions are unwilling to provide banking services to marijuana businesses due to concerns about criminal liability under the CSA as well as concerns related to federal money laundering rules in the United States. Though guidelines issued in past years allow financial institutions to provide bank accounts to certain cannabis businesses, few banks have taken advantage of those guidelines and many cannabis businesses still operate on an all-cash basis. Operating on an all-cash or predominantly-cash basis would make it difficult for the Company to manage its business, pay its employees and pay its taxes, and may create serious safety issues for the Company, its employees and its service providers. Although Ignite Canada currently has several bank accounts, the Company's inability to maintain these bank accounts, or obtain and maintain other bank accounts after the Business Combination, could have a material adverse effect on the Company.

***The Marijuana Industry Faces Significant Opposition***

It is believed by many that large well-funded businesses may have strong economic opposition to the marijuana industry. The pharmaceutical industry is well funded with a strong and experienced lobby that eclipses the funding of the marijuana industry. Any inroads the pharmaceutical industry could make in halting or impeding the marijuana industry could have a material adverse effect on the Company.

***The Protections of Bankruptcy Law may be Unavailable in the U.S.***

As discussed above, the use of marijuana is illegal under U.S. federal law. Therefore, it may be argued that the U.S. federal bankruptcy courts cannot provide relief for parties who engage in marijuana or marijuana-related businesses. Recent U.S. bankruptcy court rulings have denied bankruptcies for dispensaries upon the justification that businesses cannot violate U.S. federal law and then claim the benefits of U.S. federal bankruptcy for the same activity. The Company may not be able to seek the protection of the bankruptcy courts in the U.S. for the equal protection of creditors or debtor-in-possession financing or obtain credit from U.S. federal-chartered financial institutions.

***Risks Related to Intellectual Property Protection***

The Company will not be able to register any U.S. federal trademarks for its cannabis products. Because producing, manufacturing, processing, possessing, distributing, selling, and using cannabis is illegal under the CSA, the United States Patent and Trademark Office will not permit the registration of any trademark that identifies cannabis

products. As a result, the Company may be unable to protect its cannabis product trademarks beyond the geographic areas in which it conducts business. The use of the Company's trademarks by one or more other persons could have a material adverse effect on the value of such trademarks.

### ***Heightened Scrutiny by Canadian Authorities***

For the reasons set forth above, the business, operations and investments of the Company may become the subject of heightened scrutiny by regulators, stock exchanges and other authorities in Canada. As a result, the Company may be subject to significant direct and indirect interaction with public officials. There can be no assurance that this heightened scrutiny will not in turn lead to the imposition of certain restrictions on the Company's ability to invest or hold interests in other entities in the U.S. or any other jurisdiction, in addition to those described herein.

On February 8, 2018, the Canadian Securities Administrators published Staff Notice 51-352 describing the Canadian Securities Administrators' disclosure expectations for specific risks facing issuers with cannabis-related activities in the U.S. Staff Notice 51-352 confirms that a disclosure-based approach remains appropriate for issuers with U.S. cannabis-related activities. Staff Notice 51-352 includes additional disclosure expectations that apply to all issuers with U.S. cannabis-related activities, including those with direct and indirect involvement in the cultivation and distribution of cannabis, as well as issuers that provide goods and services to third parties involved in the U.S. cannabis industry.

### ***Constraints on Marketing Products***

The development of the Company's business and operating results may be hindered by applicable restrictions on sales and marketing activities imposed by government regulatory bodies. The regulatory environment in the United States limits the Company's ability to compete for market share in a manner similar to other industries. If the Company is unable to effectively market its products and compete for market share, or if the costs of compliance with government legislation and regulation cannot be absorbed through increased selling prices for its products, the Company's sales and operating results could be adversely affected.

## **SECURITIES LAW AND TAXATION RISKS**

### ***Risks Related to Potential Changes to Determining Foreign Private Issuer Status in the United States***

The transactions contemplated by the Business Combination were structured so that the Company would be a Foreign Private Issuer as defined in Rule 405 under the U.S. Securities Act and Rule 3b-4 under the U.S. Exchange Act, following completion of the Business Combination. The term "Foreign Private Issuer" is defined as any non-U.S. corporation, other than a foreign government, except any issuer meeting the following conditions:

- (a) more than 50 percent of the outstanding voting securities of such issuer are, directly or indirectly, held on record by residents of the United States; and
- (b) any one of the following:
  - (i) the majority of the executive officers or directors are United States citizens or residents, or
  - (ii) more than 50 percent of the assets of the issuer are located in the United States, or
  - (ii) the business of the issuer is administered principally in the United States.

The term ‘held of record’ is defined by Rule 12g5-1 under the U.S. Exchange Act. Generally speaking, the holder identified on the record of security holders is considered as the record holder.

In December 2016, the SEC issued a Compliance and Disclosure Interpretation to clarify that issuers with multiple classes of voting stock carrying different voting rights may, for the purposes of calculating compliance with this threshold, examine either (i) the combined voting power of its share classes or (ii) the number of voting securities, in each case held of record by U.S. residents. Based on this interpretation, each issued and outstanding Subordinate Voting Share and each issued and outstanding Proportionate Voting Share is counted as one voting security for the purposes of determining the 50 percent U.S. resident threshold and the Company is expected to be a Foreign Private Issuer upon completion of the Business Combination.

Should the SEC’s guidance and interpretation change, it is likely the Company will lose its Foreign Private Issuer status.

***Risks Related to the Company’s Loss of Foreign Private Issuer Status in the United States***

The Company is expected to be a Foreign Private Issuer. If, as of the last business day of the Company’s second fiscal quarter for any year, more than 50% of the Company’s outstanding voting securities (as determined under Rule 405) are directly or indirectly held of record by residents of the United States, and (i) the majority of the Company’s executive officers or directors are United States citizens or residents, or (ii) more than 50 percent of the assets of the Company are located in the United States, or (iii) the business of the Company is administered principally in the United States, then the Company will no longer meet the definition of a Foreign Private Issuer, which may have adverse consequences on the Company’s ability to raise capital in private placements or Canadian prospectus offerings. In addition, the loss of the Company’s Foreign Private Issuer status may likely result in increased reporting requirements and increased audit, legal and administration costs. These increased costs may significantly affect the Company’s business, financial condition, and results of operations.

***U.S. Domestic Corporation for U.S. Federal Income Tax Purposes***

As a result of the Business Combination, the Company will be treated as a U.S. domestic corporation for U.S. federal income tax purposes under Section 7874(b) of the Code. As a result, the Company will be subject to U.S. income tax on its worldwide income and that any dividends paid by the Company to Non-U.S. Holders will be subject to U.S. federal income tax withholding at a 30% rate or such lower rate as provided in an applicable treaty. The Company will continue to be treated as a U.S. domestic corporation for U.S. federal tax purposes.

Dividends received by U.S. Holders will not be subject to U.S. withholding tax but will be subject to Canadian withholding tax. Dividends paid by the Company will be characterized as U.S. source income for purposes of the foreign tax credit rules under the Code. Accordingly, U.S. Holders generally will not be able to claim a credit for any Canadian tax withheld unless, depending on the circumstances, they have an excess foreign tax credit limitation due to other foreign source income that is subject to a low or zero rate of foreign tax.

In addition, Section 382 of the Code contains rules that limit for U.S. federal income tax purposes the ability of a corporation that undergoes an “ownership change” to utilize its net operating losses (and certain other tax



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attributes) existing as of the date of such ownership change. Under these rules, a corporation is treated as having had an “ownership change” if there is more than a 50% increase in stock ownership by one or more “five percent shareholders,” within the meaning of Section 382 of the Code, during a rolling three-year period.

Furthermore, the Company will be subject to Canadian income tax on its worldwide income. Consequently, it is anticipated that the Company will be liable for both U.S. and Canadian income tax, which could have a material adverse effect on its financial condition and results of operations.

Because the Company Shares are treated as shares of a U.S. domestic corporation, the U.S. gift, estate, and generation-skipping transfer tax rules generally apply to a Non-U.S. Holder of the Company Shares.

## **OTHER BUSINESS AND OPERATING RISKS**

### ***Limited Operating History***

Ignite Canada and Ignite US have yet to generate any significant revenue. The Company is therefore subject to many of the risks common to early-stage enterprises operating in a competitive industry, including under-capitalization, cash shortages, limitations with respect to personnel, financial, and other resources, and lack of revenues. There is no assurance that the Company will be successful in achieving its anticipated investment objectives or operate profitably. The Company’s business must be considered in light of the risks, expenses, and problems frequently encountered by companies in their early stages of development. Specifically, such risks may include, among others:

- the Company’s inability to fund operations from unpredictable cash flows;
- the Company’s failure to anticipate and adapt to developing markets;
- the Company’s inability to attract, retain and motivate qualified personnel; and
- the Company’s failure to operate profitably in a competitive industry.

There can be no assurance that the Company will be successful in addressing these risks. To the extent it is unsuccessful in addressing these risks, the Company may be materially and adversely affected. There can be no assurance that the Company will ever achieve or sustain profitability.

### ***History of Losses***

Ignite Canada and Ignite US have incurred losses in recent periods. The Company may not be able to achieve or maintain profitability and may continue to incur significant losses in the future. In addition, the Company expects to continue to increase operating expenses as it implements initiatives to continue to grow its new business. If the Company’s revenues do not increase to offset these expected increases in costs and operating expenses, it will not be profitable.

### ***Reliance on Management and Key Personnel***

The Company’s success substantially depends on the skills, talents, abilities, and services of its executive management team. The contributions of the existing management team to the immediate and near term operations of the Company are likely to be of central importance. Should one or more of these individuals become

incapacitated, leave the employment of the Company or in some other way cease to participate sufficiently in the management and operation of the Company, its business could be materially adversely affected. The Company's inability to attract and retain qualified management personnel, could affect its ability to manage its business and could materially adversely affect its business, financial condition, cash flows, and results of operations. The Company's financial position, liquidity and results of operations depend on the executive management team's ability to execute its business strategy. Management's inability or failure to execute any element of the Company's business strategy could materially adversely affect the Company's financial position and results of operation.

The Company also relies heavily on key personnel and this future success depends on having the key people on board. In the unlikely event of a dramatic change in condition to Dan Bilzerian and his personal brand (popularity, health, illness, incarceration, death, dismemberment) this would have a material adverse effect on the Company's ability to execute its business strategy and its results of operations and financial condition may be materially adversely affected. The Company does not have key personnel insurance, nor does it expect to obtain such insurance in the near future. The loss of the services of such key personnel may have a material adverse effect on the Company business, financial condition, results of operations and prospects. In addition, there can be no assurance that the Company will be able to continue to attract and retain all personnel necessary for the development and operation of its business.

#### ***Officers and Directors Exercise Significant Control***

Immediately after Closing, the officers and directors of the Company will own approximately 150,964,000 of the issued and outstanding Subordinate Voting Shares (assuming the conversion of the Proportionate Voting Shares to Subordinate Voting Shares at the Conversion Ratio), and are expected to control approximately 59% of the votes of the Company pursuant to their ownership. The Company's shareholders nominate and elect the Board, which generally has the ability to control the acquisition or disposition of the Company's assets, and the future issuance of its securities. Accordingly, for any matters with respect to which a majority vote of the Company Shares may be required by law, the Company's directors and officers may have the ability to control such matters. Because the directors and officers will exercise a significant amount of voting power in the Company, investors may find it difficult or impossible to replace the Company's directors if they disagree with the way the Company's business is being operated.

#### ***Operating Risks and Insurance Coverage***

The Company will be affected by a number of operational risks and it may not be adequately insured for certain risks, including: labour disputes; catastrophic accidents; fires; blockades or other acts of social activism; changes in the regulatory environment; impact of non-compliance with laws and regulations; and natural phenomena, such as inclement weather conditions, floods, earthquakes and ground movements. There is no assurance that the foregoing risks and hazards will not result in damage to, or destruction of, the Company's assets, personal injury or death, environmental damage, adverse impacts on the Company's operations, costs, monetary losses, potential legal liability and adverse governmental action, any of which could have an adverse impact on the Company's future cash flows, earnings and financial condition. Also, the Company may be subject to or affected by liability or sustain loss for certain risks and hazards against which the Company cannot insure or which it may elect not to insure because of the cost. This lack of insurance coverage could have an adverse impact on the Company's future cash flows, earnings, results of operations and financial condition.

Insurance that is otherwise readily available, such as workers compensation, general liability, and directors and officers insurance, is more difficult for the Company to find, and more expensive, because it is in the cannabis industry. There are no guarantees that the Company will be able to find such insurance in the future, or that the cost will be affordable. If the Company is forced to go without such insurance, it may prevent the Company from entering into certain business sectors, may inhibit its growth, may expose the Company to additional risk and financial liabilities and could have a material adverse effect.

***Risks Related to the New License Agreements***

The Company's success is expected to be dependent substantially on its ability to realize the benefits from the New License Agreements. Failure to comply with the terms of the New License Agreements, or an early termination or cancellation of the New License Agreements for any reason, would have a material adverse effect on the Company's ability to execute its business strategy and its results of operations and financial condition may be materially adversely affected.

***The Company's Websites are Accessible in Jurisdictions where Medical or Recreational Use of Marijuana is not Permitted and, as a Result the Company may be Found to be Violating the Laws of those Jurisdictions***

The Company's websites, which advertise its products for use in connection with marijuana, are visible in jurisdictions where the medical and recreational use of marijuana is unlawful. As a result, the Company may face legal action brought against it by such jurisdictions for engaging in an activity illegal in that jurisdiction. Such an action could have a material adverse effect on the Company.

***Currency Fluctuations***

Due to the Company's operations in the United States, and its intention to continue future operations outside Canada, the Company may be exposed to significant currency fluctuations. All or substantially all of the Company's financings will be raised in Canadian dollars, but a substantial portion of the Company's operating expenses are incurred in US dollars. There is no expectation that the Company will put any currency hedging arrangements in place. Fluctuations in the exchange rate between the US dollar and the Canadian dollar may have a material adverse effect on the Company's business, financial condition, and operating results. The Company may, in the future, establish a program to hedge a portion of its foreign currency exposure with the objective of minimizing the impact of adverse foreign currency exchange movements. However, even if the Company develops a hedging program, there can be no assurance that it will effectively mitigate currency risks.

***European Anti-Money Laundering Laws and Regulation***

European laws, regulations and their enforcement, particularly those pertaining to anti-money laundering, relating to making and/or holding investments in cannabis-related practices or activities are in flux and vary dramatically from jurisdiction to jurisdiction across Europe (including without limitation, the United Kingdom). The enforcement of these laws and regulations and their effect on the Company's shareholders are uncertain and involve considerable risk. In the event that any of the Company's operations, or any proceeds thereof, any dividends or distributions therefrom, or any profits or revenues accruing from such operations are found to be in violation of

such laws or regulations, such transactions (including holding of Company Shares) could expose any shareholder(s) in that jurisdiction to potential prosecution and/or criminal and civil sanction.

***Risks Associated with Acquisitions***

As part of its overall business strategy, the Company may pursue select strategic acquisitions, which would provide additional product offerings, vertical integrations, additional industry expertise and a stronger industry presence in both existing and new jurisdictions. Future acquisitions may expose it to potential risks, including risks associated with: (a) the integration of new operations, services and personnel; (b) unforeseen or hidden liabilities; (c) the diversion of resources from the existing business and technology; (d) potential inability to generate sufficient revenue to offset new costs; (e) the expenses of acquisitions; or (f) the potential loss of or harm to relationships with both employees and existing users resulting from its integration of new businesses. In addition, any proposed acquisitions may be subject to regulatory approval.

***The Company Will Be an Entrant Engaging in a New Industry***

The marijuana industry is fairly new. There can be no assurance that an active and liquid market for shares of the Company will develop and shareholders may find it difficult to resell their shares. Accordingly, no assurance can be given that the Company will be successful in the long term.

***Dependence on Suppliers and Skilled Labour***

The ability of the Company to compete and grow will be dependent on it having access, at a reasonable cost and in a timely manner, to skilled labour, equipment, parts, and components. No assurances can be given that the Company will be successful in maintaining its required supply of skilled labour, equipment, parts, and components. This could have an adverse effect on the financial results of the Company.

***Difficulty to Forecast***

The Company must rely largely on its own market research to forecast sales as detailed forecasts are not generally obtainable from other sources at this early stage of the recreational cannabis industry in Canada and the U.S. A failure in the demand for its products to materialize as a result of competition, technological change or other factors could have a material adverse effect on the business, results of operations and financial condition of the Company.

***Failure to Manage Growth Effectively***

The rapid execution necessary for the Company to successfully implement its business strategy requires an effective planning and management process. The Company anticipates significant growth and will be required to continually improve its financial and management controls, reporting systems and procedures on a timely basis, and to expand, train and manage its personnel. There can be no assurance that the Company's procedures or controls will be adequate to support operations. If the Company is unable to manage growth effectively, it could suffer a material adverse effect.

### ***Internal Controls***

Effective internal controls are necessary for the Company to provide reliable financial reports and to help prevent fraud. Although the Company will undertake a number of procedures and will implement a number of safeguards, in each case, in order to help ensure the reliability of its financial reports, including those imposed on the Company under Canadian securities law, the Company cannot be certain that such measures will ensure that the Company will maintain adequate control over financial processes and reporting. Failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm the Company's results of operations, or cause it to fail to meet its reporting obligations. If the Company or its auditors discover a material weakness, the disclosure of that fact, even if quickly remedied, could reduce the market's confidence in the Company's consolidated financial statements and materially adversely affect the trading price of the Subordinate Voting Shares.

### ***Liquidity***

The Company cannot predict at what prices the Subordinate Voting Shares will trade upon completion of the Business Combination. Following the Business Combination, the price of the Subordinate Voting Shares may fluctuate significantly due to the market's reaction to the Business Combination and general market and economic conditions. An active trading market for the Subordinate Voting Shares following the Business Combination may never develop or, if developed, it may not be sustained. CSE Approval has not yet been obtained and cannot be guaranteed. There is a significant liquidity risk associated with an investment in the Company. There can be no assurance that an active and liquid market for the Subordinate Voting Shares will be maintained and an investor may find it difficult to resell any securities of the Company.

### ***Additional Financing***

The Company's ability to implement its business plan may depend on its ability to obtain additional financing. The Company cannot provide assurance that it will be able to secure additional financing on terms favorable to the Company or at all. If adequate funds are not available on acceptable terms, the Company's ability to continue and grow its businesses would be dependent on the cash flow, if any, from its operations, which may not be sufficient. If additional funds are raised through the issuance of shares, the percentage ownership of then-current shareholders may be reduced, such holders may experience additional dilution and such new securities may have rights, preferences or privileges senior to those of the Company's previously issued shares.

### ***Litigation***

The Company may become party to litigation from time to time in the ordinary course of business which could adversely affect its business. Should any litigation in which the Company becomes involved be determined against the Company, such a decision could adversely affect the Company's ability to continue operating and the market price for Subordinate Voting Shares and could use significant resources. Even if the Company is involved in litigation and wins, litigation can redirect significant resources.

### ***Asset Location and Legal Proceedings***

Many of the Company's assets and investments will be located outside of Canada and many of its officers and directors will be resident outside of Canada and their assets are outside of Canada. Serving process on the directors and officers may prove to be difficult or excessively time consuming. Additionally, it may be difficult to enforce a judgment obtained in Canada against the Company, its subsidiaries and any directors and officers residing outside of Canada.

### ***Legislative or Regulatory Reform***

The Company's operations will be subject to a variety of laws, regulations, guidelines and policies relating to the manufacture, import, export, management, packaging/labeling, advertising, sale, transportation, storage and disposal of medical marijuana but also including laws and regulations relating to drugs, controlled substances, health and safety, the conduct of operations and the protection of the environment. Due to matters beyond the control of the Company, these laws, regulations, guidelines, and policies may cause adverse effects to its operations.

The commercial marijuana industry is a new industry and the Company anticipates that such regulations will be subject to change as the governments monitor licensed producers in action.

### ***Competition***

The Company has numerous competitors throughout Canada and the United States utilizing a substantially similar business model. Excessive competition may impact sales and may cause the Company to reduce prices of its products. Any material reduction in prices could have a material adverse effect on the Company. The Company will be operating in a highly competitive industry where it may compete with numerous other companies in the cannabis industry, some of which may have far greater resources, more experience, and more qualified personnel than it does. There can be no assurance that the Company will be able to successfully compete against these other entities. To remain competitive, the Company will require a continued high level of investment in research and development, marketing, sales, and client support. The Company may not have sufficient resources to maintain research and development, marketing, sales, and client support efforts on a competitive basis which could materially and adversely affect the Company's business, financial condition, and results of operations.

The legal cannabis industry is relatively new, and it is highly competitive and regulated and is evolving at a fast pace. New risks may emerge to the new industry and the Company may not be able to predict all risks or be able to predict the outcome of certain events will affect the actual results of statements contained in any forward-looking statements. The Company may incur reoccurring costs and obligations related to regulatory compliance in jurisdictions which it operates. Failure to comply with these regulations may result in penalties, restrictions of operations and potentially additional costs for corrective measures. Further, changes in regulations, more vigorous enforcement of regulations or other unanticipated events could require increased compliance costs, or extensive changes to operations, which may give rise to material liabilities, and could have a material adverse effect on the Company and its business.

Because of the early stage of the industry in which the Company will operate, the Company expects to face additional competition from new entrants. If the number of users of cannabis in Canada and the United States

increases, the demand for products will increase and the Company expects that competition will become more intense, as current and future competitors begin to offer an increasing number of diversified products. To remain competitive, the Company will require a continued high level of investment in research and development, marketing, sales, and client support. The Company may not have sufficient resources to maintain research and development, marketing, sales, and client support efforts on a competitive basis which could materially and adversely affect its business, financial condition, and results of operations.

### ***External Factors***

The Company's business strategy includes operating in the cannabis industry. The success of this strategy is subject to numerous external factors, such as the Company's ability to attract, train and retain qualified personnel, the ability to access capital, the ability to obtain required permits and licenses, the prevailing laws and regulatory environment of each jurisdiction in which the Company may operate, which are subject to change at any time, the degree of competition within the industries and markets in which the Company operates and its effect on the Company's ability to retain existing and attract new customers. Some of these factors are beyond the Company's control.

### ***Changes in Industry Standards***

The industry in which the Company operates could be subject to rapid changes, including, among others, changes in consumer requirements and preferences. There can be no assurance that the demand for any products or services offered by the Company will continue, or that the mix of the Company's future product and service offerings will satisfy evolving consumer preferences. The success of the Company will be dependent upon its ability to develop, introduce and market products and services that respond to such changes in a timely fashion. Consumer preferences change from time to time and can be affected by a number of different and unexpected trends. The Company's failure to anticipate, identify or react quickly to these changes and trends, and to introduce new and improved products on a timely basis, could result in reduced demand for the Company's products, which would in turn cause the Company's revenues and profitability to suffer.

### ***Dependence on Technology***

The Company relies on information technology systems. All of these systems are dependent upon computer and telecommunications equipment, software systems and Internet access. The temporary or permanent loss of any component of these systems through hardware failures, software errors, the vulnerability of the Internet, operating malfunctions or otherwise could interrupt the Company's business operations and materially adversely affect the Company.

### ***U.S. Shareholders***

Major securities clearing firms in the United States have ceased participating in transactions related to securities of Canadian public companies involved in the cannabis industry. This appears to be due to the fact that marijuana continues to be listed as a controlled substance under U.S. federal law, with the result that marijuana-related practices or activities, including the cultivation, possession or distribution of marijuana, are illegal under U.S. federal law. Accordingly, U.S. residents who acquire Company Shares as "restricted securities" may find it difficult – if not

impossible – to resell such securities over the facilities of any Canadian stock exchange on which the Company Shares may then be listed. It remains unclear what impact, if any, this and any future actions among market participants in the United States will have on the ability of U.S. residents to resell any Company Shares that they may acquire in open market transactions. Our understanding is that all U.S. brokers must use a clearing service to facilitate resale transactions over Canadian securities exchanges. Some U.S. brokers have self-clearing capabilities; those that do not must use third party clearing firms. Furthermore, U.S. holders of the Company Shares may have difficulty or be unable to open a brokerage account with a U.S. broker, which may restrict such holder's ability to trade its Company Shares in a timely manner.

### ***Risk Related to Capital Markets***

If the Company raises capital by issuing debt securities, such debt securities would rank senior to the Company Shares upon its bankruptcy or liquidation. In addition, the Company may raise capital by issuing equity securities that may be senior to the Company Shares for the purposes of dividend and liquidating distributions, which may adversely affect the market price of the Company Shares. Finally, upon bankruptcy or liquidation, holders of its debt securities and preferred shares and lenders with respect to other borrowings will receive a distribution of the Company's available assets prior to the holders of the Company Shares. Additional equity offerings may dilute the holdings of existing shareholders or reduce the market price of the Subordinate Voting Shares, or both.

The market price of the Subordinate Voting Shares has been and is likely in the future to be volatile. The Subordinate Voting Shares may fluctuate in response to factors such as: halting of trading by the CSE, SEC or FINRA, announcements by us regarding liquidity, legal proceedings, significant acquisitions, equity investments and divestitures, strategic relationships, addition or loss of significant customers and contracts, capital expenditure commitments, loan, note payable and agreement defaults, loss of our subsidiaries and impairment of assets, issuance of convertible or equity securities for general or merger and acquisition purposes, issuance or repayment of debt, accounts payable or convertible debt for general or merger and acquisition purposes, sale of a significant number of shares of our by shareholders, general market and economic conditions, quarterly variations in our operating results, investor relation activities, announcements of technological innovations, new product introductions by us or our competitors, competitive activities, and additions or departures of key personnel.

These broad market and industry factors may have a material adverse effect on the market price of Subordinate Voting Shares, regardless of our actual operating performance. These factors could have a material adverse effect on its business, financial condition, and/or results of operations.

## **OTHER MATERIAL FACTS**

### **CERTAIN UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS**

The following discussion is a summary of certain material U.S. federal income tax considerations for U.S. Holders and Non-U.S. Holders (each as defined below) relating to the ownership and disposition of Subordinate Voting Shares. This summary is general in nature and does not discuss all aspects of U.S. federal income taxation that may be relevant to a holder of Subordinate Voting Shares in light of its particular circumstances. In addition, this summary does not address the U.S. federal alternative minimum tax, the Medicare tax on net investment income,



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U.S. federal estate and gift taxes, U.S. state and local taxes or foreign taxes. This summary deals only with Subordinate Voting Shares held as capital assets within the meaning of Section 1221 of the Code (generally, property held for investment), and does not address tax considerations applicable to any holder of Subordinate Voting Shares that may be subject to special treatment under the United States federal income tax laws, including:

- a bank or other financial institution;
- a tax-exempt or governmental organization;
- a retirement plan or other tax-deferred account (other than with respect to US Holders in the 401(k) Plan);
- a partnership, an S corporation or other entity treated as a partnership or pass-through (or an investor therein);
- an insurance company;
- a mutual fund, regulated investment company or real estate investment trust;
- a Person that purchases or sells Subordinate Voting Shares as part of a wash sale for tax purposes;
- a dealer or broker in stocks and securities, or currencies;
- a trader in securities that elects mark-to-market treatment;
- a holder of Subordinate Voting Shares subject to the alternative minimum tax provisions of the Code;
- a holder of Subordinate Voting Shares that received Subordinate Voting Shares through the exercise of an employee stock option, through a tax qualified retirement plan or otherwise as compensation;
- a Person that owns (or is deemed to own) 10% or more of the total votes or total value of the outstanding Company stock;
- a Person who is required to accelerate the recognition of any item of gross income with respect to Company stock as a result of such income being recognized on an applicable financial statement;
- a U.S. Holder whose functional currency is not the U.S. dollar;
- a Person that holds Subordinate Voting Shares as part of a hedge, straddle, constructive sale, conversion, or other integrated transaction;
- “controlled foreign corporations”;
- “passive foreign investment companies”; or
- a U.S. expatriates.

This summary is based on the Code, treasury regulations promulgated under the Code, and rulings and judicial decisions, all as in effect as of the date hereof, and all of which are subject to change or differing interpretations at any time, possibly with retroactive effect. We have not sought, and do not intend to seek, any ruling from the IRS with respect to the statements made and the conclusions reached in the following summary, and no assurance can be given that the IRS will agree with the views expressed herein, or that a court will not sustain any challenge by the IRS in the event of litigation. If a partnership (including any entity or arrangement treated as a partnership for U.S. federal income tax purposes) holds Subordinate Voting Shares, the tax treatment of a partner in the partnership generally will depend upon the status of the partner and the activities of the partnership. A partner in a partnership should consult its own tax advisors regarding the tax consequences of acquiring, holding, and disposing of Subordinate Voting Shares.

**THIS DISCUSSION IS INTENDED ONLY AS A GENERAL SUMMARY OF CERTAIN MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES TO A HOLDER OF SUBORDINATE VOTING SHARES. WE URGE BENEFICIAL OWNERS OF SUBORDINATE VOTING SHARES TO CONSULT THEIR OWN TAX ADVISORS WITH RESPECT TO THE SPECIFIC TAX CONSEQUENCES OF ACQUIRING, HOLDING AND DISPOSING OF SUBORDINATE VOTING SHARES.**

## **U.S. Holders**

A “**U.S. Holder**” of Subordinate Voting Shares means a holder that is for U.S. federal income tax purposes:

- an individual citizen or resident of the U.S.;
- a corporation (or other entity taxable as a corporation) created or organized in or under the laws of the U.S. or any state thereof or the District of Columbia;
- an estate the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust if it: (1) is subject to the primary supervision of a court within the U.S. and one or more U.S. persons have the authority to control all substantial decisions of the trust; or (2) has a valid election in effect under applicable treasury regulations to be treated as a U.S. Person.

With respect to the first bullet point above, an individual is generally treated as a resident of the U.S. in any calendar year for U.S. federal income tax purposes if the individual either (i) is the holder of a green card, generally during any point of such year, or (ii) is present in the U.S. for at least 31 days in that calendar year, and for an aggregate of at least 183 days during the three-year period ending on the last day of the current calendar year. For purposes of the 183-day calculation (often referred to as the Substantial Presence Test), all of the days present in the U.S. during the current year, one-third of the days present in the U.S. during the immediately preceding year, and one-sixth of the days present in the second preceding year are counted. Residents of the U.S. are generally treated for U.S. federal income tax purposes as if they were U.S. citizens.

## **Non-U.S. Holders**

A “**Non-U.S. Holder**” is a beneficial owner of Subordinate Voting Shares (other than an entity or arrangement classified as a partnership for U.S. federal income tax purposes) that is not a U.S. Holder.

### ***Tax Classification as a U.S. Domestic Corporation***

As a result of the Business Combination, pursuant to Section 7874(b) of the Code and the treasury regulations promulgated thereunder, notwithstanding that the Company is organized under the provisions of the BCBCA, solely for U.S. federal income tax purposes, it is anticipated that the Company will be treated as a U.S. domestic corporation.

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

Generally, the Company will be subject to U.S. federal income tax on its worldwide taxable income (regardless of whether such income is “U.S. source” or “foreign source”) and will be required to file a U.S. federal income tax return annually with the IRS. The Company anticipates that it will also be subject to tax in Canada. It is unclear whether the Company will be entitled to foreign tax credits under the Code and how the foreign tax credit rules will operate in certain circumstances, as a result of the Company being treated as a U.S. domestic corporation for U.S.

federal income tax purposes and the taxation of the Company also in Canada. Accordingly, it is possible that the Company will be subject to double taxation with respect to all or part of its taxable income. It is anticipated that such U.S. and Canadian tax treatment will continue indefinitely and that the Subordinate Voting Shares will be treated indefinitely as shares in a U.S. domestic corporation for U.S. federal income tax purposes, notwithstanding future transfers. The remainder of this summary assumes that the Company will be treated as a U.S. domestic corporation for U.S. federal income tax purposes.

### ***Tax Considerations for U.S. Holders***

#### Distributions

Distributions of cash or property with respect to Subordinate Voting Shares will constitute dividends for U.S. federal income tax purposes to the extent paid from the Company's current or accumulated earnings and profits, as determined under U.S. federal income tax principles. Dividends will generally be taxable to a non-corporate U.S. Holder at the preferential rates applicable to long-term capital gains, provided that such holder meets certain holding period and other requirements. Distributions in excess thereof will generally be treated first, as a return of capital and be applied against, and reduce, a U.S. Holder's adjusted tax basis in its Subordinate Voting Shares, but not below zero, and thereafter be treated as capital gain and treated as described under Section 24 – *Other Material Facts – Certain United States Federal Income Tax Considerations – Tax Considerations for U.S. Holders – Sale or Other Taxable Disposition* below.

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

#### Sale or Other Taxable Disposition

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

#### Foreign Tax Credit Limitations

Because it is anticipated that the Company will be subject to tax both as a U.S. domestic corporation and as a Canadian corporation, a U.S. Holder may pay, through withholding, Canadian tax, as well as U.S. federal income tax, with respect to dividends paid on Subordinate Voting Shares. For U.S. federal income tax purposes, a U.S. Holder generally may elect for any taxable year to receive either a credit or a deduction for foreign income taxes paid by the holder during the year. Complex limitations apply to the foreign tax credit, including a general limitation that the credit cannot exceed the proportionate share of a taxpayer's U.S. federal income tax that the taxpayer's foreign source taxable income bears to the taxpayer's worldwide taxable income. In applying this limitation, items of income and deduction must be classified, under complex rules, as either foreign source or U.S. source. The status of the Company as a U.S. domestic corporation for U.S. federal income tax purposes will cause dividends paid by the Company to be treated as U.S. source rather than foreign source for this purpose. As a result, a foreign tax credit

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may be unavailable to U.S. Holders for any Canadian tax paid on dividends received from the Company. Similarly, to the extent a sale or disposition of the Subordinate Voting Shares by a U.S. Holder results in Canadian tax payable by the U.S. Holder (for example, in the event the Subordinate Voting Shares constitute taxable Canadian property within the meaning of the ITA), a U.S. foreign tax credit may be unavailable to the U.S. Holder for such Canadian tax. In each case, however, the U.S. Holder should be able to take a deduction for the U.S. Holder's Canadian tax paid, provided that the U.S. Holder has not elected to credit other foreign taxes during the same taxable year. The foreign tax credit rules are complex, and each U.S. Holder should consult its own tax advisors regarding these rules.

Foreign Currency

The amount of any distribution paid to a U.S. Holder in foreign currency, or the amount of proceeds paid in foreign currency on the sale, exchange or other taxable disposition of Subordinate Voting Shares, generally will be equal to the U.S. dollar value of such foreign currency based on the exchange rate applicable on the date of receipt (regardless of whether such foreign currency is converted into U.S. dollars at that time). A U.S. Holder will have a basis in the foreign currency equal to its U.S. dollar value on the date of receipt. Any U.S. Holder who converts or otherwise disposes of the foreign currency after the date of receipt may have a foreign currency exchange gain or loss that would be treated as ordinary income or loss, and generally will be U.S. source income or loss for foreign tax credit purposes. Different rules apply to U.S. Holders who use the accrual method of tax accounting. Each U.S. Holder should consult its own U.S. tax advisors regarding the U.S. federal income tax consequences of receiving, owning, and disposing of foreign currency.

Information Reporting and Backup Withholding

U.S. backup withholding (currently 24%) is imposed upon certain payments to Persons that fail (or are unable) to furnish the information required pursuant to U.S. information reporting requirements. Distributions to U.S. Holders will generally be exempt from backup withholding, provided the U.S. Holder meets applicable certification requirements, including providing a U.S. taxpayer identification number on a properly completed IRS Form W-9, or otherwise establishes an exemption. The Company must report annually to the IRS and to each U.S. Holder the amount of distributions and dividends paid to that U.S. Holder and the proceeds from the sale or other disposition of Subordinate Voting Shares, unless such U.S. Holder is an exempt recipient.

Backup withholding does not represent an additional tax. Any amounts withheld from a payment to a U.S. Holder under the backup withholding rules will generally be allowed as a credit against such U.S. Holder's U.S. federal income tax liability, and may entitle such U.S. Holder to a refund, provided the required information and returns are timely furnished by such U.S. Holder to the IRS.

***Tax Considerations for Non-U.S. Holders***

Distributions

Distributions of cash or property on Subordinate Voting Shares will constitute U.S. source dividends for U.S. federal income tax purposes to the extent paid from the Company's current or accumulated earnings and profits, as determined under U.S. federal income tax principles. Distributions in excess thereof will first constitute a return of capital and be applied against and reduce a Non-U.S. Holder's adjusted tax basis in its Subordinate Voting Shares, but not below zero, and thereafter be treated as capital gain and will be treated as described under Section 24 –

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Other Material Facts – *Certain United States Federal Income Tax Considerations – Tax Considerations for Non-US Holders – Sale or Other Taxable Disposition* below.

Subject to the discussions under Section 24 – *Other Material Facts – Certain United States Federal Income Tax Considerations – Tax Considerations for Non-U.S. Holders – Information Reporting and Backup Withholding* and under Section 24 – *Other Material Facts – Certain United States Federal Income Tax Considerations – Tax Considerations for Non-U.S. Holders – FATCA* below, any dividend paid to a Non-U.S. Holder of Subordinate Voting Shares generally will be subject to U.S. federal withholding tax at a rate of 30%, or such lower rate as may be specified under an applicable income tax treaty, unless the dividend is effectively connected with the Non-U.S. Holder's conduct of a trade or business within the U.S.. In order to receive a reduced treaty rate, a Non-U.S. Holder must provide its financial intermediary with an IRS Form W-8BEN or IRS Form W-8BEN-E, as applicable (or an appropriate successor form), properly certifying such holder's eligibility for the reduced rate. If a Non-U.S. Holder holds Subordinate Voting Shares through a financial institution or other agent acting on the Non-U.S. Holder's behalf, the Non-U.S. Holder will be required to provide appropriate documentation to such agent, and the Non-U.S. Holder's agent will then be required to provide such (or a similar) certification to us, either directly or through other intermediaries. A Non-U.S. Holder that does not timely furnish the required certification, but that qualifies for a reduced treaty rate, generally may apply for and obtain a refund of any excess amounts withheld by timely filing an appropriate claim for refund with the IRS. Non-U.S. Holders should consult their own tax advisors regarding their entitlement to benefits under any applicable income tax treaty.

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

Sale or Other Taxable Disposition

Subject to the discussions under Section 24 – *Other Material Facts – Certain United States Federal Income Tax Considerations – Tax Considerations for Non-U.S. Holders – Information Reporting and Backup Withholding* and under Section 24 – *Other Material Facts – Certain United States Federal Income Tax Considerations – Tax Considerations for Non-U.S. Holders – FATCA* below, any gain realized on the sale or other disposition of Subordinate Voting Shares by a Non-U.S. Holder generally will not be subject to U.S. federal income tax unless:

- the gain is effectively connected with the Non-U.S. Holder's conduct of a trade or business in the U.S. (or, if required by an applicable income tax treaty, is attributable to a U.S. permanent establishment, or fixed base, of the Non-U.S. Holder);

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- the Non-U.S. Holder is an individual who is present in the United States for 183 days or more in the taxable year of disposition, and certain other conditions are met; or
- the rules of the Foreign Investment in Real Property Tax Act of 1980 (“**FIRPTA**”) apply to treat the gain as effectively connected with a U.S. trade or business.

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

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

With respect to the third bullet point above, pursuant to FIRPTA, in general, a Non-U.S. Holder is subject to U.S. federal income tax in the same manner as a U.S. Holder on any gain realized on the sale or other disposition of a “U.S. real property interest” (“USRPI”). For purposes of these rules, a USRPI generally includes stock in a U.S. corporation if such corporation's interests in U.S. real property constitute 50% or more, by value, of the sum of the U.S. corporation's (i) assets used in a trade or business, (ii) U.S. real property interests, and (iii) interests in real property outside of the U.S. A U.S. corporation whose interests in U.S. real property constitute 50% or more, by value, of the sum of such assets is commonly referred to as a U.S. real property holding corporation (“USRPHC”). The Company believes that it is not, has not been, and as a result of the Business Combination, does not anticipate becoming a USRPHC.

#### Information Reporting and Backup Withholding

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

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

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

#### FATCA

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

Such 30% FATCA withholding will not apply to a foreign financial institution if such institution undertakes certain diligence and reporting obligations, or otherwise qualifies for an exemption from these rules. The diligence and reporting obligations include, among others, entering into an agreement with the U.S. Department of Treasury pursuant to which the foreign financial institution must (i) undertake to identify accounts held by certain "specified United States persons" or "United States-owned foreign entities" (each as defined in the Code), (ii) annually report certain information about such accounts, and (iii) withhold 30% on certain payments to non-compliant foreign financial institutions and certain other account holders. Foreign financial institutions located in jurisdictions that have an intergovernmental agreement with the U.S. governing FATCA may be subject to different rules.

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

Under the applicable treasury regulations and administrative guidance, withholding under FATCA generally applies currently to payments of dividends on Subordinate Voting Shares.

**THE FOREGOING SUMMARY IS NOT INTENDED TO CONSTITUTE A COMPLETE DESCRIPTION OF ALL TAX CONSEQUENCES THAT MAY BE RELEVANT TO PARTICULAR HOLDERS OF SUBORDINATE VOTING SHARES AND IS NOT TAX OR LEGAL ADVICE. HOLDERS OF SUBORDINATE VOTING SHARES SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM (INCLUDING THE APPLICATION AND EFFECT OF ANY STATE, LOCAL, NON-U.S. INCOME AND OTHER TAX LAWS) OF ACQUIRING, HOLDING AND DISPOSING OF SUBORDINATE VOTING SHARES.**

**CERTIFICATE OF THE ISSUER**

Pursuant to a resolution duly passed by its Board of Directors, Ignite International Brands, Ltd. hereby applies for the listing of the above mentioned securities on the Canadian Securities Exchange. The foregoing contains full, true and plain disclosure of all material information relating to Ignite International Brands, Ltd. It contains no untrue statement of a material fact and does not omit to state a material fact that is required to be stated or that is necessary to prevent a statement that is made from being false or misleading in light of the circumstances in which it was made.

Dated this 15<sup>th</sup> day of June, 2020.

*/s/ Dan Bilzerian*

Dan Bilzerian

Chief Executive Officer and Director

*/s/ Paul Dowdall*

Paul Dowdall

Chief Financial Officer

**ON BEHALF OF THE BOARD OF DIRECTORS**

*/s/ Luciano Galasso*

Luciano Galasso

Director

*/s/ Thomas Kofman*

Thomas Kofman

Director