

**DIXIE BRANDS, INC. AND
SUBSIDIARIES**

**CONDENSED INTERIM
CONSOLIDATED FINANCIAL
STATEMENTS (Unaudited)**

**As of and For the Three and Nine Months Ended
September 30, 2018 and 2017
(In United States Dollars)**

DIXIE BRANDS, INC. AND SUBSIDIARIES

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DIXIE BRANDS, INC. AND SUBSIDIARIES
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at September 30, 2018 and December 31, 2017

(Unaudited)

	September 30, 2018	December 31, 2017 (audited)
ASSETS		
Cash	\$ 18,583,996	\$ 43,852
Accounts Receivable, net	4,066,933	1,859,405
Inventories	481,072	509,708
Lease Receivable	6,077	21,405
Prepaid Expenses and Other Current Assets	212,478	33,965
Total Current Assets	23,350,556	2,468,335
Related Party Advances and Notes Receivable	2,159,923	2,374,574
Property and Equipment, net	1,133,516	900,047
Intangible Assets, net	769,982	606,070
TOTAL ASSETS	\$ 27,413,977	\$ 6,349,026
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
LIABILITIES		
Accounts Payable	\$ 943,991	\$ 808,845
Accrued Payroll	234,943	105,470
Deferred Revenue	4,200,000	200,000
Other Accrued Liabilities	144,446	776,088
Notes Payable, Current Portion	925,000	5,441,721
Convertible Notes Payable	-	364,574
Total Current Liabilities	6,448,380	7,696,698
Equipment Lease	38,833	66,629
Notes Payable	-	300,000
Derivative Liabilities	-	498,232
TOTAL LIABILITIES	6,487,213	8,561,559
STOCKHOLDERS' EQUITY (DEFICIT)		
Common stock \$.0001 par value, 4,030,000 shares authorized and outstanding as of September 30, 2018 and December 31,	430	401
Preferred Stock \$.0001 par value, 1,090,245 shares authorized and outstanding as of September 30, 2018. No shares authorized or outstanding as of December 31, 2017.	109	-
Additional Paid In Capital	16,061,075	8,799,599
Treasury Stock	(186,000)	-
Contributory Surplus	20,755,536	-
Reserves	657,377	193,688
Accumulated Deficit	(15,714,090)	(10,727,852)
Non-Controlling Interest	(647,673)	(478,369)
Total Stockholders' Equity	20,926,764	(2,212,533)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	\$ 27,413,977	\$ 6,349,026

Nature of Operations (Note 1)

Commitments and Contingencies (Note 12)

Subsequent Events (Note 14)

Approved on behalf of the Board on December 7, 2018.

(signed) "Charles Smith"

Chief Executive Officer

(signed) "James Feehan"

Chief Financial Officer

DIXIE BRANDS, INC. AND SUBSIDIARIES
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS

For the Three and Nine Months Ended September 30, 2018 and 2017

(Unaudited)

	Three months ended		Year to Date	
	September 30,		September 30,	
	2018	2017	2018	2017
Revenues	\$ 2,435,398	\$ 1,161,861	\$ 4,205,169	\$ 2,629,710
Cost of Goods Sold	1,397,230	648,265	2,269,015	1,392,725
Gross Profit	1,038,168	513,595	1,936,154	1,236,985
Expenses:				
General and Administrative	1,245,410	755,825	4,128,693	2,237,981
Sales and Marketing	263,883	195,793	456,865	677,552
Depreciation and Amortization	68,396	70,107	166,936	206,262
Total Expenses	1,577,689	1,021,726	4,752,494	3,121,794
Loss From Operations	(539,521)	(508,131)	(2,816,340)	(1,884,809)
Other (Income) Expense:				
Interest Expense	(20,936)	210,767	564,240	554,635
Gain on Change in Fair Value of Derivative	-	7,109	(498,232)	(74,496)
Loss on Debt Conversion	2,186,614	-	2,186,614	-
Other	(218,722)	(46,626)	(203,420)	(69,833)
Total Other (Income) Expense	1,946,956	171,249	2,049,202	410,305
Net Loss Before Non-Controlling Interest	(2,486,477)	(679,380)	(4,865,542)	(2,295,114)
Non Controlling Interest	(81,592)	(49,456)	(169,304)	(252,801)
Net Loss Attributable to Company	\$ (2,404,885)	\$ (629,924)	\$ (4,696,238)	\$ (2,042,314)

DIXIE BRANDS, INC. AND SUBSIDIARIES
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)
For the Nine Months Ended September 30, 2018 and 2017
(Unaudited)

	Common Stock	Preferred Stock	Additional Paid in Capital	Treasury Stock	Contributory Surplus	Reserves	Retained Earnings	Total Stockholders' Equity (Deficit)	Non-Controlling Interest	Contributions Receivable from non- controlling interest	Total Non-Controlling Interest	Total
Balance, December 31, 2016	\$ 401	\$ -	\$ 8,799,599	\$ -	\$ -	\$ 100,138	\$ (6,687,816)	\$ 2,212,322	\$ 49,796	\$ (228,263)	\$ (178,467)	\$ 2,033,855
Net Loss	-	-	-	-	-	-	(2,042,313)	(2,042,313)	(252,801)	-	(252,801)	(2,295,113)
Incentive Share-based Payment	-	-	-	-	-	52,325	-	52,325	-	-	-	-
Warrants	-	-	-	-	-	21,278	-	21,278	-	-	-	21,278
Balance, September 30, 2017	401	-	8,799,599	-	-	173,741	(8,730,129)	243,612	(203,005)	(228,263)	(431,268)	(187,655)
Net Loss	-	-	-	-	-	-	(1,997,723)	(1,997,723)	(47,101)	-	(47,101)	(2,044,824)
Incentive Share-based Payment	-	-	-	-	-	19,947	-	19,947	-	-	-	19,947
Warrants	-	-	-	-	-	-	-	-	-	-	-	-
Balance, December 31, 2017 (audited)	401	-	8,799,599	-	-	193,688	(10,727,852)	(1,734,164)	(250,106)	(228,263)	(478,369)	(2,212,533)
Adjustments Related to the Adoption of IFRS 9, Credit Loss Reserve	-	-	-	-	-	-	(290,000)	(290,000)	-	-	-	(290,000)
Contributions	29	109	7,261,476	-	20,755,536	-	-	28,017,150	-	-	-	28,017,150
Treasury Stock	-	-	-	(186,000)	-	-	-	(186,000)	-	-	-	(186,000)
Net Loss	-	-	-	-	-	-	(4,696,238)	(4,696,238)	(169,304)	-	(169,304)	(4,865,542)
Incentive Share-based Payment	-	-	-	-	-	77,439	-	77,439	-	-	-	77,439
Warrants	-	-	-	-	-	386,250	-	386,250	-	-	-	386,250
Balance, September 30, 2018	<u>\$ 430</u>	<u>\$ 109</u>	<u>\$ 16,061,075</u>	<u>\$ (186,000)</u>	<u>\$ 20,755,536</u>	<u>\$ 657,377</u>	<u>\$ (15,714,090)</u>	<u>\$ 21,574,436</u>	<u>\$ (419,410)</u>	<u>\$ (228,263)</u>	<u>\$ (647,673)</u>	<u>\$ 20,926,764</u>

DIXIE BRANDS, INC. AND SUBSIDIARIES
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Nine Months Ended September 30, 2018 and 2017

(Unaudited)

	For the 9 months ended	
	September 30, 2018	September 30, 2017
OPERATING ACTIVITIES		
Net Loss	\$ (4,865,542)	\$ (2,295,114)
Adjustments To Reconcile Net Loss To Net Cash Used In Operating Activities:		
Depreciation and Amortization	300,515	366,857
Amortization of Debt Discount	152,595	178,002
Change in Fair Value of Derivative Liabilities	(498,232)	(74,496)
Incentive Share-Based Payment	77,439	-
Warrants	371,931	52,323
Loss on debt conversion	2,186,614	-
Changes in:		
Accounts Receivable	(2,317,528)	(1,291,754)
Lease Receivable	15,328	(100)
Inventories	28,636	209,532
Prepaid Expenses and Other Current Assets	(178,513)	72,035
Accounts Payable	135,146	342,712
Accrued Payroll	129,473	74,882
Deferred Revenue	4,000,000	-
Other Accrued Liabilities	(578,187)	(37,108)
	<u>(1,040,325)</u>	<u>(2,402,230)</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
INVESTING ACTIVITIES		
Purchases of Property and Equipment	(431,061)	(28,647)
Loss on Disposal of Property and Equipment	30,656	33,179
Purchase of Intangibles	(297,491)	(39,750)
Additions to Related Party Advances and Notes Receivable	(407,349)	(482,174)
Payments Received on Notes Receivable	452,000	-
Change in Credit Loss Reserve on Related Party Advances	(10,000)	-
Investments in affiliate	-	(255,111)
	<u>(663,245)</u>	<u>(772,504)</u>
NET CASH USED IN INVESTING ACTIVITIES		
FINANCING ACTIVITIES		
Contribution	4,000,000	-
Purchase of Treasury Stock	(186,000)	-
Proceeds from Issuance of Notes Payable	250,000	2,570,000
Payments on Notes Payable	(3,145,000)	-
Contributory Surplus	19,352,510	-
Payments on Equipment Lease	(27,796)	(30,040)
	<u>20,243,714</u>	<u>2,539,960</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES		
NET INCREASE (DECREASE) IN CASH	18,540,144	(634,773)
CASH, BEGINNING OF PERIOD	<u>43,852</u>	<u>824,766</u>
CASH, END OF PERIOD	<u>\$ 18,583,996</u>	<u>\$ 189,993</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash Paid for Interest	<u>\$ 602,648</u>	<u>\$ 259,604</u>
Cash Paid for Taxes	<u>\$ -</u>	<u>\$ -</u>
SUPPLEMENTAL NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Affect of adoption of IFRS 9	<u>\$ 290,000</u>	<u>\$ -</u>

DIXIE BRANDS, INC. AND SUBSIDIARIES
NOTES TO THE CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Unaudited)

1. NATURE OF OPERATIONS

Dixie Brands Inc. collectively with its consolidated subsidiaries is referred to as “DBI” or the “Company”.

DBI owns the intellectual property, product branding, formulations, proprietary ingredients, consulting expertise, and preparation methods related to a variety of marijuana infused products, referenced herein as the “Dixie Product Line”. DBI has relationships with entities in California, Nevada and Maryland who are locally licensed to manufacture cannabis products, including the Dixie Product Line. DBI designs and distributes packaging, ingredients, and non-cannabis consumer goods.

DBI’s consolidated subsidiaries consist of the following:

- Aceso LLC (“Aceso”), a Delaware limited liability company owned 100% by DBI. Aceso manufactures and distributes hemp oil supplements that promote relaxation, pain relief, improved immunity, and overall wellness.
- DBFN LLC (“DBFN”), a Nevada limited liability company owned 85% by DBI.
- DBPN LLC (“DBPN”), a Nevada limited liability company owned 100% by DBI. DBPN sublicenses and authorizes the DBI intellectual property, product branding, formulations, proprietary ingredients, consulting expertise, and preparation methods to a licensed product manufacturer in Nevada.
- Therabis LLC (“Therabis”), a Delaware limited liability company owned 60% by DBI. Therabis manufactures and distributes hemp oil supplements for pets that calm, relieve itching, and promote mobility.

The Company’s corporate headquarters are located at 4990 Oakland St, Denver, CO 80239.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

The Company’s unaudited condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34 - Interim Financial Reporting. These unaudited condensed interim consolidated financial statements do not include all notes of the type normally included within the annual financial report and should be read in conjunction with the audited financial statements of the Company for the year ended December 31, 2017, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and Interpretations of the IFRS Interpretations Committee.

Basis of measurement

These unaudited condensed interim consolidated financial statements have been prepared on a historical cost basis except for derivative financial instruments, which have been measured at fair value.

Functional and presentation currency

The unaudited condensed interim consolidated financial statements and the accompanying notes are expressed in United States (“U.S.”) Dollars.

DIXIE BRANDS, INC. AND SUBSIDIARIES
NOTES TO THE CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Unaudited)

Basis of consolidation

The accompanying unaudited condensed interim consolidated financial statements include the accounts of the following entities, DBI, Aceso, Therabis, DBFN, and DBPN. All significant intercompany balances and transactions were eliminated in consolidation.

Revenue Recognition

The IASB's new revenue recognition standard IFRS 15 - Revenue from Contracts with Customers ("IFRS 15") was adopted by the Company on January 1, 2018. The new standard replaces IAS 18 - Revenue, and provides for a single model that applies to all contracts with customers with two types of recognition: at a point in time or over time. The Company has applied IFRS 15 retrospectively and determined that there is no change to the comparative periods or transitional adjustments required as a result of adoption. The Company's accounting policy for revenue recognition under IFRS 15 is as follows:

1. Identify the contract with a customer
2. Identify the performance obligation(s)
3. Determine the transaction price
4. Allocate the transaction price to the performance obligation(s)
5. Recognize revenue when/as performance obligation(s) are satisfied

Revenue from the direct sale of goods to customers for a fixed price is recognized when the Company transfers control of the good to the customer. Revenue from licenses is recognized over time as the license services are provided.

Recent Accounting Pronouncements

In July 2014, the IASB issued the final version of IFRS 9, Financial Instruments, which reflects all phases of the financial instruments project and replaces IAS 39, Financial Instruments: Recognition and Measurement. The standard introduces new and revised guidance for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. The Company adopted IFRS 9 reporting as of January 1, 2018, which resulted in an adjustment to equity of \$290,000. The Company has taken an exemption not to restate comparative information for prior periods. Therefore, comparative periods have not been restated, and the results of adopting IFRS 9 have been recognized in accumulated deficit as at January 1, 2018. See significant accounting judgements estimates and assumptions for additional detail.

Significant Accounting Judgements Estimates and Assumptions

The Company evaluates all trade receivables and notes receivables for collectability during the year. The Company reviewed the outstanding balances of two related party customers to determine the estimated cash shortfall that would be incurred if a default would happen. IFRS 9 applies an expected credit loss model where forward-looking information should be taken into account when estimating credit losses. The total provision for credit losses was determined to be \$260,000 for trade receivables and \$170,000 for related party advances and notes receivable as at September 30, 2018 (December 31, 2017 – nil).

Receipt of Series C Funds

The company has received funds related to a raise prior to closing of the raise. The funds are placed outside the operating account and will be held as a contributory surplus until the round is closed. See Note 14 for additional detail.

DIXIE BRANDS, INC. AND SUBSIDIARIES
NOTES TO THE CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL
POSITION

(Unaudited)

3. INVENTORIES

At September 30, 2018 and December 31, 2017, inventories consist of the following:

	September 30, 2018	December 31, 2017 (audited)
Raw Materials:		
Materials	\$ 377,912	\$ 308,916
Ingredients	103,160	117,332
Total Raw Materials	481,072	426,248
Finished Goods	-	83,460
Total Inventories	<u>\$ 481,072</u>	<u>\$ 509,708</u>

4. PROPERTY AND EQUIPMENT

At September 30, 2018 and December 31, 2017, property and equipment consists of:

	September 30, 2018	December 31, 2017 (audited)
Furniture and Fixtures	\$ 174,934	\$ 174,934
Equipment	277,385	232,433
Computer Equipment	64,643	64,643
Leasehold Improvements	508,379	508,378
Leased Equipment	759,248	406,809
Total Property and Equipment, Gross	1,784,589	1,387,197
Less: Accumulated Depreciation	<u>(651,073)</u>	<u>(487,150)</u>
Property and Equipment, Net	<u>\$ 1,133,516</u>	<u>\$ 900,047</u>

DIXIE BRANDS, INC. AND SUBSIDIARIES
NOTES TO THE CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL
POSITION

(Unaudited)

A reconciliation of the beginning and ending balances of property and equipment is as follows:

	Property and Equipment, Gross	Accumulated Depreciation	Property and Equipment, Net
Balance as of December 31, 2017 (audited)	\$ 1,387,197	\$ (487,150)	\$ 900,047
Additions	431,061	-	431,061
Disposals	(33,669)	3,013	(30,656)
Depreciation	-	(166,936)	(166,936)
Balance as of September 30, 2018	<u>\$ 1,784,589</u>	<u>\$ (651,073)</u>	<u>\$ 1,133,516</u>

5. INTANGIBLE ASSETS

At September 30, 2018 intangible assets consist of the following Intellectual Property (“IP”):

	Balance at January 1, 2018	Purchases	Amortization Expense	Balance at September 30 2018
Formula	\$ 37,500	\$ -	\$ -	\$ 37,500
License Agreement	568,570	297,491	133,579	732,482
Total Intangible Assets	<u>\$ 606,070</u>	<u>\$ 297,491</u>	<u>\$ 133,579</u>	<u>\$ 769,982</u>

6. NOTES PAYABLE

At September 30, 2018 and December 31, 2017, notes payable consist of the following:

	September 30, 2018	December 31, 2017 (audited)
***Unsecured promissory notes dated July - November, 2016, which maturing between July - November, 2017 (extended for 12 months); payment is due in full at maturity or to be converted into shares of DBI and membership interest in DBPN in 2018, interest at rate of 12% per annum paid quarterly.	\$ -	\$ 625,000
***Unsecured promissory note dated April, 2016, which maturing in April, 2017 (extended for 12 months); Payment in full is due on the maturity date of note, interest at rate of 12% per annum for six months and thereafter at a rate of 18% to accrue for the length of the note.	150,000	600,000

DIXIE BRANDS, INC. AND SUBSIDIARIES
NOTES TO THE CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL
POSITION

(Unaudited)

	September 30, 2018	December 31, 2017 (audited)
**Unsecured promissory notes dated November - December, 2016, which maturing in May - June, 2018 (Company is in process of negotiating extensions); Payment in full is due on the maturity date of note, interest at rate of 12% per annum paid quarterly.	-	1,150,000
* and ** Unsecured promissory notes dated January - June, 2017, which maturing in July, 2018 - January 2019; Payment in full is due on the maturity date of note, interest at rate of 12% per annum paid quarterly.	-	2,045,000
Unsecured promissory note dated September 8, 2017, which maturing on July 13, 2018; Payment in full is due on the maturity date of note, interest at rate of 8% per annum paid quarterly.	250,000	250,000
Unsecured promissory note dated September 8, 2017, which maturing on July 13, 2018; payment in full is due on the maturity date of note, interest at rate of 8% per annum, paid at maturity date.	275,000	275,000
Unsecured promissory note dated October - December, 2017, which maturing in October - December, 2018; Payment in full is due on the maturity date of note, interest at rate of 12% per annum paid quarterly.	-	825,000
Unsecured promissory note dated May 14, 2018, maturing on May 14, 2019; Payment in full is due on the maturity date of note, interest at rate of 12% per annum paid quarterly.	<u>250,000</u>	<u>-</u>
Total Notes Payable	925,000	5,770,000
Less: Discounts	-	28,279
Less: Current Portion of Notes Payable	<u>925,000</u>	<u>5,441,721</u>
Notes Payable, Net of Current Portion	<u>\$ -</u>	<u>\$ 300,000</u>

*DBI issued notes collectively totaling \$2,045,000 in 2017 (“DBI Notes”). The DBI Notes have a stated interest rate of 12% per annum and a 12 month maturity date. In connection with the principal of the DBI Notes, the Company issued 136,334 warrants to purchase DBI’s common shares at \$15.00 per share. The instrument meets the equity criteria under IAS 9. As such, the warrant was classified as an equity instrument. The DBI Note’s fair value was recorded on initial recognition and will be accreted to the full principal over the expected term. Key assumptions used in the valuation include an expected term of two years from the inception date. Issuance costs were insignificant, were allocated to the warrants and expensed in the period incurred.

DIXIE BRANDS, INC. AND SUBSIDIARIES
NOTES TO THE CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL
POSITION

(Unaudited)

The fair values of the warrants were calculated using a Monte Carlo simulation, with the following assumptions:

	<u>Inception</u>
Risk-free Rate	1.20%
Expected Dividend Yield	0%
Expected Term (in years)	2.0

Warrant Components

	Initial Allocated Value 2017
Notes	\$ 2,023,722
Warrant	<u>21,278</u>
Total Principal	<u>\$ 2,045,000</u>

**On July 31, 2018 and August 1, 2018 certain noteholders signed a note repurchase agreement. The agreement allows the noteholder to receive DBI shares at a price of \$9.30 per share (determined as the price at the series C) equal to their outstanding debt and accrued interest. The shares will be received when the Series C closes. As at September 30, 2018 contributory surplus includes \$1,375,000 of converted debt and the corresponding gain of \$30,383.

***On July 31, 2018 and August 1, 2018 certain note holders signed a note modification agreement. The agreement allows the noteholder to receive 50% of the note value in shares of DBI stock and 50% of the note value in equity in DBFN. The noteholder is to receive DBI shares at a price of \$3.67 per share, valued at \$9.30 per share (determined as the price at the series C) equal to their 50% of their outstanding debt. The noteholder received equity in DBFN, valued at \$537,500 on August 1, 2018 equal to 50% of their outstanding debt. DBFN incurs a loss of \$2,186,614 at the conversion of debt. Accrued interest is due in cash payment to all noteholders.

7. CONVERTIBLE NOTE

At September 30, 2018 and December 31, 2017 convertible note payable consist of the following:

	<u>September 30, 2018</u>	<u>December 31, 2017 (audited)</u>
Unsecured convertible promissory note dated July, 2016, which maturing in July, 2017 (extended to July 2018); payment is due in full at maturity or to be converted into shares of DBI and membership interest in DBPN in 2018, interest at rate of 8% per annum paid quarterly.	\$ -	\$ 500,000
Less: Discounts	<u>-</u>	<u>135,426</u>
Notes Payable	<u>\$ -</u>	<u>\$ 364,574</u>

DIXIE BRANDS, INC. AND SUBSIDIARIES
NOTES TO THE CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Unaudited)

DBI issued a convertible promissory note in July 2016 for \$500,000 (“Note”). The Note matures on the earlier of 2 years or the Company raising at least \$10 million of capital. The Note is convertible into Series B preferred shares at 50% of the price per share under the Series B raise. Since the number of shares to be issued is unknown, the instrument did not meet the “fixed for fixed” criteria under IAS 9 - Financial Instruments: Presentation (“IAS 9”). As such, the conversion option was classified as a derivative liability and accounted for at fair value through profit and loss (“FVTPL”). The Note’s fair value was recorded on initial recognition and will be accreted to the full principal over the expected term. Key assumptions used in the valuation include an expected term of two years from the inception date. Issuance costs were allocated to the conversion option and expensed in the period incurred, as these instruments are at FVTPL. In April 2018, the Company paid the note and accrued interest in full.

The fair value of conversion options (“derivative liability”) was nil and \$498,232 as at September 30, 2018 and 2017, respectively. The fair values of the derivatives were calculated using a Monte Carlo simulation, with the following assumptions:

	<u>Inception</u>	<u>December 31, 2017</u>	<u>September 30, 2018</u>
Risk-free Rate	1.20%	1.39%	–
Expected Dividend Yield	0%	0%	–
Expected Term (in years)	2.0	0.50	–

8. GENERAL AND ADMINISTRATIVE

For the nine months ended September 30, 2018 and 2017, general and administrative expenses were comprised of:

	<u>September 30, 2018</u>	<u>December 31, 2017 (audited)</u>
Salaries and Wages	\$ 1,503,582	\$ 1,243,401
Professional Fees	891,180	88,365
Other	388,583	210,376
Legal - G&A	365,061	126,009
Bad Debt	218,696	140
Rent	180,628	171,768
Lobbying Expense	117,088	100,000
Payroll Taxes & Fees	113,014	8,678
Employee Benefits	104,954	72,310
Insurance	85,293	87,297
Consulting	81,003	70,405
Travel, Meals & Entertainment	79,611	59,232
Total General and Administrative Expenses	<u>\$ 4,128,693</u>	<u>\$ 2,237,981</u>

DIXIE BRANDS, INC. AND SUBSIDIARIES
NOTES TO THE CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Unaudited)

9. STOCKHOLDERS' EQUITY

Preferred Stock

On April 17, 2018, the Company closed an offering ("Series B Financing") of 1,090,245 shares of its preferred stock at \$3.67 per share for gross proceeds of \$4,000,000. The Series B Financing was made to accredited investors in the U.S. and Canada on a non-brokered basis. Proceeds from the Series B Financing were used to pay the costs of the offering, repayment of existing indebtedness, working capital, and for general administrative expenses related to management and operation of the business.

Warrants

In connection with a settlement on April 1, 2018, the Company issued warrants to purchase 276,367 and 312,670 of Company's common shares at \$.92 and \$1.83, respectively, per share. The warrants meet the equity criteria under IAS 9. As such, the warrants will be classified as an equity instrument with a corresponding expense of \$254,119 and \$139,833.

Stock Incentive Plan

The Company's 2015 Incentive Shares Plan (the Plan), which is shareholder-approved, permits the grant of shares to its employees and other service providers for up to 400,000 shares of common stock. Share awards generally vest over three years. Certain share awards provide for accelerated vesting if there is a change in control (as defined in the Plan). The fair value of each share award is estimated by management based on third party valuation report.

A summary of activity under the Plan for the nine month period ending September 30, 2018 is presented below:

	<u>Restricted Stock Units</u>
Outstanding at January 1, 2018	109,333
Granted	97,000
Vested	(37,000)
Forfeited	-
	<hr/>
Outstanding at September 30, 2018	<u>169,333</u>
Vested and expected to vest at September 30, 2018	<u>297,000</u>

The weighted-average grant-date fair value of shares granted during the years 2018 and 2017 was \$3.63 and \$1.67, respectively. The total compensation expense recognized for each the nine months ended September 30, 2018 and 2017 was \$77,439 and \$52,325, respectively, and is included in general and administrative expense in the accompanying unaudited condensed interim consolidated statements of operations. Key assumptions used in the valuation include forfeitures are accounted for on an individual basis and the risk free rate was 1.05% and 1.39% at December 31, 2017 and 2016, respectively.

DIXIE BRANDS, INC. AND SUBSIDIARIES
NOTES TO THE CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL
POSITION

(Unaudited)

10. RELATED PARTY TRANSACTIONS

Transactions with related parties are entered into in the normal course of business and are measured at the amount established and agreed to by the parties.

The Company leases its facility for DBI from Left Bank under a 54 month operating sub-lease agreement that expires in November 2018, and requires escalating annual rentals not exceeding \$209,907 in the final year of the lease. Total rent expense paid to Left Bank for the nine months ended June 30, 2018 and 2017 was \$157,430 and \$154,343 respectively. The total minimum rental commitment at September 30, 2018, under the lease is \$34,985.

The Company has subleased this equipment to Left Bank under a non-cancellable agreement, which expires in August 2019, and requires a monthly rental of \$3,562.

Related party advances and notes receivable:

At September 30, 2018 and December 31, 2017, related party notes receivable consist of the following:

	September 30, 2018	December 31, 2017 (audited)
Left Bank	\$ 912,720	\$ 974,987
Dixie Holdings	85,316	67,700
Silver State Wellness	500,000	500,000
Total Related Party Notes Receivable	<u>1,498,036</u>	<u>1,542,687</u>
Related Party Advances	831,887	831,887
Less: Allowance on Related Party Advances	170,000	-
Total Related Party Advances and Notes Receivable	<u>\$ 2,159,923</u>	<u>\$ 2,374,574</u>

A summary of activity under the notes for the ending balance at September 30, 2018 is as follows:

Balance as of December 31, 2017 (audited)	\$ 2,374,574
Additions	407,349
Change in Allowance on Related Party	10,000
Affect of IFRS 9 adoption	(180,000)
Payments Received	<u>(452,000)</u>
Balance of of September 30, 2018	<u>\$ 2,159,923</u>

DBI holds two notes receivable from Left Bank. The first note for \$315,000, was issued for operational funding during 2014 and 2015. The second note was issued in September, 2017 for \$750,000 to convert advances into notes receivable. The notes accrue interest at 2% per annum and are payable at maturity in June 2022. Interest on these notes is not significant for the nine months ended September 30, 2018 and 2017.

DIXIE BRANDS, INC. AND SUBSIDIARIES
NOTES TO THE CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Unaudited)

Purchases and sales between Left Bank and DBI are recorded in accounts receivable or accounts payable. At September 30, 2018 and December 31, 2017, the Company had \$1,893,639 and \$808,037, respectively of accounts receivable from Left Bank.

DBI has a note receivable from Dixie Holdings, for \$85,316 and \$67,700, as at September 30, 2018 and December 31, 2017, respectively. DBI and Dixie Holdings have common ownership. The note accrues interest at 2% per annum and are payable at maturity in December 2018. Interest on this note is not significant for the six months ended September 30, 2018 and 2017.

In October 2016, DBPN issued \$500,000 under a note receivable bearing interest at 12% from Silver State Wellness, a company who owns 30% of DBPN. DBPN had non-interest bearing advances receivable from Silver State Wellness for \$831,887 as at September 30, 2018 and December 31, 2017. DBPN has equity contributions receivable of \$228,263 as at September 30, 2018 and December 31, 2017 from Silver State Wellness. At September 30, 2018 and December 31, 2017, the Company had \$1,492,205 and \$868,207, respectively of accounts receivable from Silver State Wellness.

Compensation of key management personnel:

The Company's key management personnel have the authority and responsibility for planning, directing and controlling the activities of the Company and consists of the Company's executive management team and management directors. A summary of for the nine months ending September 30, 2018 and June 30, 2017 is as follows:

	September 30, 2018	September 30, 2017
Management Compensation	\$ 187,500	\$ 375,000
Share-Based Payments (a)	66,800	-
	<u>\$ 254,300</u>	<u>\$ 375,000</u>

(a) Share based payments are the fair value of options granted and vested to key management and directors of the company under the Company's stock incentive share plan (Note 7)

11. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

A summary of activity for level 3 derivative liabilities for the nine months ending September 30, 2018 and September 30, 2017 is presented below:

	2018	2017
Balance as at January 1	\$ 498,232	\$ 387,622
Change in Fair Value	1,768	(74,496)
Exercise	(500,000)	-
	<u>\$ -</u>	<u>\$ 313,126</u>

There were no material reclassifications between fair value levels during the six months ended September 30, 2018.

DIXIE BRANDS, INC. AND SUBSIDIARIES
NOTES TO THE CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Unaudited)

12. COMMITMENTS AND CONTINGENCIES

The Company may, from time to time, be subject to various administrative, regulatory, and other legal proceedings arising in the ordinary course of business. Contingent liabilities associated with legal proceedings are recorded when a liability is probable, and the contingent liability amount can be reasonably estimated.,

The Company's operations are subject to a variety of local and state regulations. Failure to comply with one or more of those regulations could result in fines, restrictions on its operations, or losses of permits that could result in the Company ceasing operations. While management of the Company believes that the Company is in compliance with applicable local and state regulation as at September 30, 2018, medical and adult use cannabis regulations continue to evolve and are subject to differing interpretations. As a result, the Company may be subject to regulatory fines, penalties, or restrictions in the future.

13. FINANCIAL RISK MANAGEMENT

Market risk

Strategic and operational risks arise if the Company fails to carry out business operations and/or to raise sufficient equity and/ or debt financing. These strategic opportunities or threats arise from a range of factors that might include changing economic and political circumstances and regulatory approvals and competitor actions. The risk is mitigated by consideration of other potential development opportunities and challenges which management may undertake.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The maximum credit exposure as of September 30, 2018 is the carrying amount of cash, accounts receivable, related party advances and notes receivable.

In addition to credit risk, concentration of risks arises as a result of the concentration of customers. The Company has two customers that account for approximately \$2,500,000 of the over 90 days receivable.

Total receivable	\$4,420,255
More than 90 days	\$3,621,624
Allowance	\$353,322

In order to determine the allowance for credit losses, the Company conducts an analysis of each customer comprising the individual balances within its accounts receivable, including the counterparty's identity, customary pay practices, length of time as a customer, obtaining financial assurances and the terms of the contract under which the obligation arose.

Based on the review of the individual customers within accounts receivable, at September 30, 2018, and specifically the balances greater than 90 days, a provision of \$353,322 was recorded.

There has been an increase in the accounts receivable balance past due from December 31, 2017, however, the Company has entered into agreements subsequent to the quarter end with third parties that will reduce a significant portion of the outstanding amounts by May 15, 2019.

DIXIE BRANDS, INC. AND SUBSIDIARIES
NOTES TO THE CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Unaudited)

The Company considers a variety of factors when determining interest rates for notes receivable, including the creditworthiness of the counterparty, market interest rates prevailing at the note's origination and duration and terms of the note. Notes that are overdue are assessed for impairment. The impairment amount as of September 30, 2018 was \$170,000.

The Company considers payment history and financial strength when assessing accounts receivable and related party advances for impairment. Lack of payment and ability to pay are assessed for impairment. The impairment amount as of September 30, 2018 was \$353,322.

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 ensures that there is sufficient capital in order to meet short-term business requirements, after taking into account the Company's cash holdings. As at September 30, 2018, the Company's financial liabilities consist of accounts payable and accrued liabilities, which have contractual maturity dates within one-year, and notes payable, which have a contractual maturity within 18 months. The Company manages its liquidity risk by reviewing its capital requirements on an ongoing basis. Based on the Company's ability to complete equity cash raises, management regards liquidity risk to be low.

Asset forfeiture risk

Because the cannabis industry remains illegal under U.S. federal law, any property owned by participants that conduct business with affiliates in the cannabis industry, which either are used in the course of conducting such business, or are the proceeds of such business, could be subject to seizure by law enforcement and subsequent civil asset forfeiture. Even if the owner of the property are never charged with a crime, the property in question could still be seized and subject to an administrative proceeding by which, with minimal due process, it could be subject to forfeiture.

Banking risk

Notwithstanding that a majority of states have legalized medical marijuana, there has been no change in U.S. federal banking laws related to the deposit and holding of funds derived from activities related to the cannabis industry. Given that U.S. federal law provides that the production and possession of cannabis is illegal, there is a strong argument that banks cannot accept for deposit funds from businesses involved with the cannabis industry. Consequently, businesses involved in the cannabis industry often have difficulty accessing the U.S. banking system and traditional financing sources. The inability to open bank accounts with certain institutions may make it difficult to operate ordinary businesses.

Interest rate risk

Interest rate risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates. The Company's interest-bearing loans and borrowings are all at fixed interest rates. The Company considers interest rate risk to be immaterial.

DIXIE BRANDS, INC. AND SUBSIDIARIES
NOTES TO THE CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Unaudited)

Capital structure risk management

The Company considers its capital structure to include debt financing, contributed capital, accumulated deficit, non-controlling interests and any other component of members' equity. The Company's objectives when managing its capital are to safeguard its ability to continue as a going concern, to meet its capital expenditures for its continued operations, and to maintain a flexible capital structure which optimizes the cost of capital within a framework of acceptable risk. The Company manages its capital structure and adjusts it as appropriate given changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may issue new units, issue new debt, or acquire or dispose of assets. The Company is not subject to externally imposed capital requirements. 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 have been no changes to the Company's capital management approach during the year ended September 30, 2018.

14. SUBSEQUENT EVENTS

On October 1, 2018, the Company closed an offering ("Series C Financing") of 2,688,172 DBI's units of securities where each unit consist of one common and one warrant ("Series C Warrants"), together with the common shares and warrants ("Company Units") for aggregate gross proceeds of \$25,000,000. The purchase price of each Company Unit is \$9.30. Each Series C Warrant shall entitle the holder thereof to acquire one DBI share of common stock for \$13.95, for a term of one year. As part of the Series C Financing, \$1,375,000 of debt was exchanged for common shares ("Debt Conversion") at the same deemed value of the Company as the Series C Financing. Concurrently with the Series C Financing, certain members of senior management of the Company will be awarded Management Options, exercisable at \$20.00 per share. Proceeds of the Series C Financing will be used to pay the costs of the financing, expenses associated with a planned reverse takeover transaction, repayment of debt, working capital expenses, including financing the Company's expansion plans.

Concurrently with the Series C Financing, each share of preferred stock will automatically convert into common stock at \$2.89 per share and all preferred stock will be cancelled.

The Company received \$19,352,510 relating to the Series C that is included in cash and Contributory Surplus.

Dixie Brands, Inc.

Management Discussion and Analysis For the three months and nine months ended September 30, 2018

This Management Discussion and Analysis (“MD&A”) of Dixie Brands, Inc. (the “Company”) provides analysis of the Company’s financial condition and results for the three months and nine months ended September 30, 2018. The Company’s financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”). The following information should be read in conjunction with the accompanying audited financial statements and the notes thereto. This MD&A was prepared using information that is current as of December 6, 2018, unless otherwise stated.

This MD&A has been prepared by reference to the MD&A disclosure requirements established under National Instrument 51-102 - Continuous Disclosure Obligations of the Canadian Securities Administrators.

This discussion includes certain statements that may be deemed “forward-looking statements”. All Statements in this discussion other than statements of historical facts, that address future acquisitions and events or developments that the Company expects are forward-looking statements. Although the Company believes the expectations expressed in such forward-looking statements based on reasonable assumptions, such statements are not guarantees of future performance and actual results or development may differ materially from those forward-looking statements. Factors that could cause actual results to differ materially from those in forward-looking statements include market prices, regulatory approvals, continued availability of capital and financing and general economic, market or business conditions. Investors are cautioned that any such statements are not guarantees of future performance and that actual results or developments may differ materially from those projected in the forward-looking statements.

The MD&A was prepared and approved by management of the Company on December 6, 2018.

Overview of the Company

Dixie Brands, Inc., (referred to as DBI) is a Delaware Corporation and derives revenues substantially from the cannabis industry in certain states of the United States, which industry is illegal under U. S. federal law. DBI is indirectly involved (through its subsidiaries and licensees) in the cannabis and hemp oil industry in the U. S. where local state laws permit such activities. Currently, its subsidiaries and licensees are directly engaged in the manufacture, possession, use, sale or distribution of cannabis and hemp oil in the recreational and medicinal cannabis market in the states of California, Colorado, Maryland and Nevada.

The principal business is the branding, marketing and licensing of certain technology and Product names related to THC-Products, including brands such as "DIXIE™ ELIXIRS & EDIBLES", as well as full spectrum hemp oil derived human and animal dietary supplements through the brands

"Aceso Wellness" and "Therabis" in the United States, Canada, Mexico, Australia and New Zealand.

Selected Financial Information

The following is selected financial data derived from the consolidated financial statements of the Company for the three months and nine months ending September 30, 2018 and 2017.

The selected consolidated financial information set out below may not be indicative of the Company's future performance:

	Three months ended September 30,		Year to Date September 30,	
	2018	2017	2018	2017
Revenues	\$ 2,435,398	\$ 1,161,861	\$ 4,205,169	\$ 2,629,710
Cost of Goods Sold	1,397,230	648,265	2,269,015	1,392,725
Gross Profit	1,038,168	513,595	1,936,154	1,236,985
Total Expenses	1,577,689	1,021,726	4,752,494	3,121,794
Loss From Operations	(539,521)	(508,131)	(2,816,340)	(1,884,809)
Total Other (Income) Expense	1,946,956	171,249	2,049,202	410,305
Net Loss Attributable to Company	<u>\$ (2,404,885)</u>	<u>\$ (629,924)</u>	<u>\$ (4,696,238)</u>	<u>\$ (2,042,314)</u>
	September 30, 2018	December 31, 2017		
Current Assets	23,350,556	2,468,335		
Total Assets	27,413,977	6,349,026		
Total Liabilities	6,487,213	8,561,559		

Revenue

Revenue for the three months ending September 30, 2018, increased by \$1,273,537 (110%) from the prior year. Revenue for the nine months ending September 30, 2018 increased by \$1,575,459 (60%) from the prior year. The increases in revenue were mainly attributable to our affiliate revenue program. The Company's Colorado affiliate saw a significant increase in revenue during the third quarter. The increase is expected to be consistent going forward.

Specifically, for the three months ending September 30, 2018 revenues related to Packaging and Licensing increased by \$1,147,459 (90%) over the previous year. Consulting revenues decreased by \$27,103 (-46%). Interest/misc. related revenue increased by \$153,182 (29.7%).

For the nine months ending September 30, 2018, revenues related to Packaging and Licensing increased by \$1,727,220 (66%). Consulting revenues decreased by \$82,563 (-47%). Interest/misc. related revenue decreased by \$69,199 (-47%)

Gross Profit

For the three months ending September 30, 2018, gross profit increased by \$524,573 (102%) year over year. Gross margins decreased to 42.6% from 44.2% year over year. The decrease was primarily the result of product mix fluctuations.

Specifically, gross profit related to Packaging and Licensing increased by \$284,653 (36.3%) from the previous year. Consulting GP increased by \$85,495 (100%) and interest/misc. related GP increased by \$154,425 (84%).

For the nine months ending September 30, 2018, gross profit increased by \$699,169 (57%) year over year as a result of the improved overall sales volume. Gross margins declined to 46% from 47.0% year over year. As mentioned above, this was the result of product mix fluctuation.

Specifically, gross profit related to Packaging and Licensing increased by \$727,206 (46%) from the previous year. Consulting GP increased by \$31,891 (19%) and interest/misc. related GP decreased by \$59,929 (-33%).

Total Expenses:

Overall expenses increased \$556,000 for the three months ending September 30, 2018, year over year and \$1,631,000 for the nine months ending September 30, 2018, year over year. The increase can be attributable to additional fees as the company prepared for its RTO. Legal expenses increased by \$240,000. The Company incurred bad debt expense of \$219,000 in 2018 compared to \$0 in 2017. The Company had \$99,000 in recruiting expenses in 2018 compared to \$0 in 2017. The company also had an increase in professional fees of \$802,000 as a result of the 2016 and 2017 audit fees, accounting consultants, and warrant valuation professionals.

Current Assets

Current assets for the nine months ending September 30, 2018, were up \$20,882,000 year over year. The increase was related to receipt of \$19,352,000 cash relating to the Series C prior to the close of the round.

Current Liabilities

Current liabilities for the nine months ending September 30, 2018, were down \$2,074,000 year over year. The decrease was the result of the payment of debt using the Series B and Series C proceeds. During 2018, debt decreased by \$5,181,000.

Discussion of Operations

DBI currently has its DIXIE™ brand and line of THC-infused products in four U.S. states where medical and recreational marijuana are legal. U.S. federal law restricts the Company's ability to

transport its products across state lines, and therefore requires DBI to contract with local state license holders to produce and distribute DIXIE™ brand products. DBI currently operates in the states of California, Colorado, Maryland and Nevada, with a target of expanding into four to six additional states in 2019.

DBI sells full spectrum hemp oil derived human and animal dietary supplements, or CBD-infused products, through the brands "Aceso Wellness" and "Therabis" in the United States, Australia and New Zealand.

DBI is paid an initial production and service fee as well as monthly branding fees, negotiated on a state-by-state basis, for each unit or a derivative thereof sold. DBI may also enter into financial transactions to support licensees or affiliated manufacturing companies in order to promote, support, and develop sales and distribution of DIXIE™ products including through investment in joint ventures in various states. DBI may also provide consulting services to manufacturers and retailers, in compliance with applicable state law; serve as a real estate, fixtures and equipment holding and management company that will acquire, lease, develop and/or manage real property, industrial fixtures and equipment and lease and/or sublease such infrastructure to manufacturers and retailers; invest in such companies, in compliance with applicable state law; and enter into financial transactions to support such, including, without limitation, loan transactions, in order to promote, support, and develop sales and distribution of products utilizing its portfolio of intellectual property.

Business Strategy and Outlook

DBI's objective is to become the largest consumer packaged goods company in the cannabis sector. The Company believes it has the broadest portfolio of revenue-producing, consumer-facing products in the industry, as well as one of the most recognized brands. Through the course of its nine years in business, the DBI team has developed extensive intellectual property assets, commercial product manufacturing expertise, deep understanding of the industry's complex regulatory structure and established distribution channels with proven sales and field marketing programs to drive consumer adoption. The Company has achieved these results with limited access to capital, and expects that the funds raised in its recent financings afford it the opportunity to accelerate its growth.

DBI focuses on segments of the value chain that include extraction, product development, manufacturing, branding and distribution, while avoiding the more capital-intensive segments such as cultivation and retailing. When entering markets in new U.S. states, DBI seeks to control the manufacturing and distribution of its products through contracts with local licensed producers. DBI's goal is to have its broad product portfolio distributed to as many dispensaries as possible while becoming a valued resource for retailers.

Over the next twelve months, DBI has allocated \$5,200,000 to secure license agreements and launch operations in Florida, Massachusetts, Michigan, Oregon, and Pennsylvania. DBI has already secured a license agreement in Canada with Auxly/DoseCann and is preparing for production. DBI has allocated \$2,000,000 to the expansion of distribution channels and product development for Aceso and Therabis. DBI has an extensive product innovation pipeline, many of

which are not being manufactured by any other infused products manufacturer. Management considers these expansion plans to be fully funded through the cash resources on hand following the completion of the recent Series C Financing.

Based on results for the first nine months of 2018, the recent growth trajectory in its existing markets, and the commencement of sales in California during the fourth quarter, DBI estimates to generate revenue in excess of \$8 million in fiscal 2018.

DBI expects growth trends in its existing markets to continue into 2019 as the company increases its distribution footprint and brand awareness. In particular, California represents a significant year-over-year growth opportunity as it is the largest market in the U.S. and DBI has only begun to have its THC-infused products distributed in the state in the final three months of 2018. The planned expansion into new states is expected to add significant incremental revenue, weighted towards the later part of 2019 and into 2020, and dependent upon the timing of market entry in each state. New product launches and innovations are expected to result in increased sales in both existing and new markets. International licensing agreements, such as the agreement with Auxly/DoseCann to introduce DBI's THC-infused products into the Canadian market, represent another opportunity for long-term growth. DBI also expects to increase sales within its CBD-infused brands, Therabis and Aceso, through distribution agreements and investment in sales and marketing activities.

Based on the combined impact of these growth initiatives as well as increasing consumer demand and acceptance for cannabis products in general, DBI currently believes that its total revenue opportunity for 2019 is approximately \$65 million to \$75 million, increasing to \$140 million to \$160 million in 2020. At these revenue levels, DBI believes it has the potential to generate EBITDA (earnings before interest, taxes, depreciation and amortization) equal to approximately 10% to 15% of revenue in 2019 and 20% to 25% of revenue in 2020.

Liquidity & Capital Resources

On April 17, 2018, DBI closed its Series B Financing for gross proceeds of US \$4.0 million. On July 26, 2018, DBI commenced its Series C Financing for expected gross proceeds of US \$25,000,000 closed on October 1, 2018.

DBI has historically relied upon equity financings to satisfy its capital requirements and will continue to depend upon equity capital to finance its activities moving forward for the foreseeable future.

Uses of Proceeds

Proceeds from the financings will be used to, fund continued revenue growth in California and Nevada, provide capital for expansion into new U.S. states such as Massachusetts, Michigan, Florida, Oregon and Pennsylvania, for general working capital, for product development, and to further develop the management team and company infrastructure to support international expansion efforts. Notwithstanding the foregoing, there may be circumstances where, for sound business reasons, a reallocation of funds may be necessary for the Company to achieve its objectives. The Company may require additional funds beyond the funds raised in order to fulfill

all its expenditure requirements to meet its new business objectives and expects to either issue additional securities or incur debt. There can be no assurance that additional funding required by the Company will be available if required. However, it is anticipated that available funds subsequent to closing the Series C Offering will be sufficient to satisfy the Company's objectives over the next 12 months.

Financial Risk Management

Market risk

Strategic and operational risks arise if the Company fails to carry out business operations and/or to raise sufficient equity and/ or debt financing. These strategic opportunities or threats arise from a range of factors that might include changing economic and political circumstances and regulatory approvals and competitor actions. The risk is mitigated by consideration of other potential development opportunities and challenges which management may undertake.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The maximum credit exposure as of September 30, 2018 is the carrying amount of cash, accounts receivable, related party advances and notes receivable.

In addition to credit risk, concentration of risks arises as a result of the concentration of customers. The Company has two customers that account for approximately \$2,500,000 of the over 90 days receivable.

Total receivable	\$4,420,255
More than 90 days	\$3,621,624
Allowance	\$353,322

In order to determine the allowance for credit losses, the Company conducts an analysis of each customer comprising the individual balances within its accounts receivable, including the counterparty's identity, customary pay practices, length of time as a customer, obtaining financial assurances and the terms of the contract under which the obligation arose.

Based on the review of the individual customers within accounts receivable, at September 30, 2018, and specifically the balances greater than 90 days, a provision of \$353,322 was recorded.

There has been an increase in the accounts receivable balance past due from December 31, 2017, however, the Company has entered into agreements subsequent to the quarter end with third parties that will reduce a significant portion of the outstanding amounts by May 15, 2019.

The Company considers a variety of factors when determining interest rates for notes receivable, including the creditworthiness of the counterparty, market interest rates prevailing at the note's origination and duration and terms of the note. Notes that are overdue are assessed for impairment. The impairment amount as of September 30, 2018 was \$170,000.

The Company considers payment history and financial strength when assessing accounts receivable and related party advances for impairment. Lack of payment and ability to pay are assessed for impairment. The impairment amount as of September 30, 2018 was \$353,322.

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 ensures that there is sufficient capital in order to meet short-term business requirements, after considering the Company's cash holdings. As at September 30, 2018, the Company's financial liabilities consist of accounts payable and accrued liabilities, which have contractual maturity dates within one-year, and notes payable, which have a contractual maturity within 18 months. The Company manages its liquidity risk by reviewing its capital requirements on an ongoing basis. Based on the Company's ability to complete equity cash raises, management regards liquidity risk to be low.

Asset forfeiture risk

Because the cannabis industry remains illegal under U.S. federal law, any property owned by participants that conduct business with affiliates in the cannabis industry, which either are used in the course of conducting such business, or are the proceeds of such business, could be subject to seizure by law enforcement and subsequent civil asset forfeiture. Even if the owner of the property is never charged with a crime, the property in question could still be seized and subject to an administrative proceeding by which, with minimal due process, it could be subject to forfeiture.

Banking risk

Notwithstanding that a majority of states have legalized medical marijuana, there has been no change in U.S. federal banking laws related to the deposit and holding of funds derived from activities related to the cannabis industry. Given that U.S. federal law provides that the production and possession of cannabis is illegal, there is a strong argument that banks cannot accept for deposit funds from businesses involved with the cannabis industry. Consequently, businesses involved in the cannabis industry often have difficulty accessing the U.S. banking system and traditional financing sources. The inability to open bank accounts with certain institutions may make it difficult to operate ordinary businesses.

Interest rate risk

Interest rate risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates. The Company's interest-bearing loans and borrowings are all at fixed interest rates. The Company considers interest rate risk to be immaterial.

Capital structure risk management

The Company considers its capital structure to include debt financing, contributed capital, accumulated deficit, non-controlling interests and any other component of members' equity. The Company's objectives when managing its capital are to safeguard its ability to continue as a going concern, to meet its capital expenditures for its continued operations, and to maintain a flexible capital structure which optimizes the cost of capital within a framework of acceptable risk. The Company manages its capital structure and adjusts it as appropriate given changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may issue new units, issue new debt, or acquire or dispose of assets. The Company is not subject to externally imposed capital requirements. 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 have been no changes to the Company's capital management approach during the year ended September 30, 2018.