Dixie Brands Inc.

Management Discussion and Analysis
For the three and twelve months ended December 31, 2018

This Management Discussion and Analysis ("MD&A") of Dixie Brands Inc. (the "Company" "DBI") provides analysis of the Company's financial condition and results for the three months and twelve months ended December 31, 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 April 30, 2019, 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 a guarantee 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 April 30, 2019.

Overview of the Company

DBI was founded on May 5, 2014. On November 27, 2018, it completed a reverse takeover of Academy Explorations Limited, a registered issuer in the Province of Ontario. On November 29, 2018, DBI's subordinate voting shares were listed on the Canadian Securities Exchange under the ticker symbol DIXI.U.

DBI was formed for the primary purpose of managing, protecting, and promoting a portfolio of licensed intellectual property and commercialization of proprietary processes and products related to the DIXIE™ brand. DBI owns intellectual property, including the DIXIE™ trademarks, recipes, processes, trade secrets and goodwill associated therewith. Dixie engages in the licensing of its intellectual property, proprietary bases, essences, and other prepared ingredients the formula for which is an industrial secret of DBI, from which branded and proprietary THC-infused products are manufactured by operating companies and distributed by third-party distributors. DIXIE™ products are made with pure, premium cannabis.

Through DBI's manufacturing and distribution agreements, each proprietary product is infused with clean, carbon dioxide extracted THC that is laboratory tested. DBI currently controls the intellectual property for many premium THC-infused product lines, including: DIXIE™ Elixirs Sparkling Beverages, DIXIE™ Mints, DIXIE™ Dew Drops (sublingual tinctures), DIXIE™ Chocolates, DIXIE™ Topicals, and DIXIE™ Synergy 1:1 CBD and THC Products. DBI also controls the operations and intellectual property for its hemp supplement subsidiaries, Aceso Wellness and Therabis, LLC.

The DIXIE™ family of word marks, including, but not limited to, "DIXIE ELIXIRS & EDIBLES", "DIXIE MINTS", "DIXIE TONICS" and "SYNERGY", "ACESO WELLNESS", "THERABIS" the logo, as well as trade secret recipes and product manufacturing know-how are exclusively owned by DBI.

The market for cannabis products in the U.S. is regulated by numerous federal, state and local laws and regulations including those relating to cannabis, environmental protection and human health and safety. Marijuana, or cannabis, is illegal in the U.S. under the federal law and is listed as a Schedule I hallucinogenic substance pursuant to the Controlled Substances Act. Accordingly, DBI and its subsidiaries operate under the guidelines and regulations established on a state by state basis.

Currently, DBI has licensed certain portions of its intellectual property to qualified state regulated producers in the following four states: Colorado, California, Nevada and Maryland, and Canada.

Selected Financial Information

The following is selected financial data derived from the consolidated financial statements of the Company for the three months and twelve months ending December 31, 2018 and 2017.

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

	Three months ended December 31,		Year to Date December 31,	
	2018	2017	2018	2017
Revenues	$ 1,586,282	$ 709,677	$ 5,791,451	$ 3,339,387
Cost of Goods Sold	141,120	371,052	2,773,549	1,763,777
Gross Profit	1,445,162	338,625	3,017,902	1,575,610
Total Operating Expenses	11,375,265	1,212,100	16,127,759	4,333,894
Loss From Operations	(9,930,103)	(873,475)	(13,109,857)	(2,758,284)
Total Other (Income) Expense	6,079,292	1,171,349	8,128,494	1,581,654
Net Loss Attributable to Company	$ (16,009,395)	$ (2,044,824)	$ (21,238,351)	$ (4,339,938)

	December 31, 2018	December 31, 2017
Current Assets	21,990,079	2,468,335
Total Assets	24,899,172	6,349,026
Total Liabilities	8,963,523	8,561,559

Revenue

Revenue for the three months ending December 31, 2018 and 2017 was $1,586,282 and $709,676, respectively, resulting in an increase of $876,605 (123.5%) from the prior year. Revenue for the twelve months ending December 31, 2018 and 2017 was $5,791,451 and $3,339,387, respectively, resulting in an increase of $2,452,064 (73.4%).

For the three months ending December 31, 2018 and 2017 revenues related to Packaging, Sales of Finished Goods, and Licensing were $1,586,282 and $605,141, respectively, resulting in an increase of $981,141 (162.1%) from the previous year. Other miscellaneous revenue at December 31, 2018 and 2017 was $0 and $104,535, respectively, which resulted in a decrease of $104,535 (-100%) from the previous year.

For the twelve months ending December 31, 2018 and 2017 revenues related to Packaging, Sales of Finished Goods, and Licensing were $5,514,717 and $2,904,233, respectively, resulting in an increase of $2,610,484 (89.9%) from the previous year. Other miscellaneous revenue at December 31, 2018 and 2017 was $276,734 and $435,154, respectively, which resulted in a decrease by $158,420 (-36.4%) from the previous year.

The increase in revenue was driven by our re-entry into the California market in the third quarter of 2018 with sales commencing in the fourth quarter, and by an overall increase in sales from the markets that we have been in historically. Sales growth in our historical markets was attributable to both existing products and the launch of new products, as well as higher penetration into the dispensary channel.

Gross Profit

For the twelve months ending December 31, 2018 and 2017 gross profit was $3,017,902 (52%) and $1,575,610 (47%), respectively, resulting in an increase of $1,442,292. The overall increase in gross profit was the result of improved overall sales volume, as well as improved productivity and increased sales in our higher margin product lines.

Total Operating Expenses

For the three months ending December 31, 2018 and 2017 total expenses were $11,375,265 and $1,212,100, respectively, resulting in an increase of $10,163,165. For the twelve months ending December 31, 2018 and 2017 total expenses were $16,127,759 and $4,333,894, respectively, resulting in an increase of $11,793,865. The primary increase in expenses relate to the following items.

General and Administrative expense was $14,741,237 in fiscal 2018, compared to $3,289,008 in 2017. The increase in G&A expenses was driven by the following items.

- Bad Debt expense was $3,708,095 in 2018 and $211,539 in 2017. Bad debt expenses were a non-cash expense that was the result of further IFRS analysis regarding our affiliates notes and accounts receivable in some of our historical territories.

- Stock Option Incentives were $2,362,780 in 2018 and $0 in 2017. Stock option incentives were a non-cash expense that was the result of the issuance of stock options to key management.

- Share Based Compensation was $1,712,091 in 2018 and $72,272 in 2017. Share Based Compensation was a non-cash expense that increased due to the automatic vesting of all outstanding employee incentive shares at the date of the reverse take-over (RTO) of Academy Explorations Limited on November 27th, 2018.

- Salaries and Benefits were $2,665,705 in 2018 and $1,608,072 in 2017. Included in 2018 salaries and benefits were performance-based bonuses primarily relating to the completion of the 2016 and 2017 audit and the completion of the initial public offering.

- Professional Fees were $1,809,778 in 2018 and $102,044 in 2017. Included in professional fees were accounting fees relating to an initial audit of two fiscal years, one quarterly review, and guidance on material accounting transactions. Third party valuation services were also required to complete the audits. In addition, the company contracted with temporary accounting consultants.

Other Expense totaled $7,885,316 in 2018, compared to $1,581,654 in 2017. Notable items comprising Other Expense include the following.

- Listing Expense were $6,695,137 in 2018 and $0 in 2017. Listing expenses were a non-cash transaction that pertained to the reverse take-over of Academy Explorations Limited. This is a nonrecurring expense.

- Interest Expense was $644,598 in 2018 and $744,129 in 2017. All loans were extinguished of as of January 2, 2019. Interest expense is expected to be minimal in 2019.

- Debt Settlement Expense was $1,535,015 in 2018 and $0 in 2017. Debt Settlement Expense was a non-cash expense that was due to the conversion of DBFN debt into common shares of DBI.

In total, $16,013,297 of the 2018 General and Administrative and Other expenses was comprised of non-cash expenses as described above. These non-cash expenses were primarily incurred in association with the Company's financing, RTO and public listing activities in 2018.

Current Assets

Current assets for the twelve months ending December 31, 2018, were up $19,521,744 year over year due to increased cash on hand from the Series B and Series C financings completed during 2018. These financials raised total gross proceeds of $25,419,539.

Current Liabilities

Current liabilities increased $1,028,725 year over year. The increase can be attributed to $4,000,000 in deferred licensing fees relating to the licensing of Dixie products in Canada and $1,819,148 accrued finders' fees relating to Series C financing. This increase was offset by a $4,666,721 decrease in the current portion of Notes Payable resulting from the repayment of debt with proceeds raised in the Series B financing.

Historical Data

Quarter Ended	Total Revenue
December 31, 2018	1,586,282
September 30, 2018	2,435,398
June 30, 2018	817,558
March 31, 2018	952,213
December 31, 2017	709,677
September 30, 2017	1,161,861
June 30, 2017	881,838
March 31, 2017	586,011

Discussion of Operations

DBI plans to expand the DIXIE™ brand and line of products into selected U.S. states where medical and recreational marijuana are legal by contracting with local state license holders in those states to produce and distribute DIXIE™ brand products. DBI is typically 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. DBI also controls the operations and intellectual property for its hemp supplement subsidiaries, Aceso Wellness and Therabis, LLC.

Significant Events or Milestones

On January 2, 2019, the Company purchased an additional 25% of its subsidiary Therabis, LLC, or 25,000 units, for a total purchase price of $7,422,827, plus expenses not to exceed $63,774. The initial closing payment was in the amount of $3,922,827 with a deferred closing payment in the amount of $3,500,000. With this purchase, Dixie Brands holds an 85% ownership in Therabis, LLC. In addition to the purchase price of $7,422,827 the outstanding balance of the Promissory Notes of $877,173, of which principal totals $775,000 and interest totals $102,173 was paid.

On March 5, 2019, the Company entered into a Packaging and Supply Agreement with Choice Labs, whereby Dixie Brands' portfolio of products will be manufactured, sold and distributed across the state of Michigan. The companies had a selection of products available for sale in Michigan provisioning centers by late March.

On March 12, 2019, the Company signed a joint venture agreement with Khiron Life Sciences Corp. ("Khiron"), a vertically integrated cannabis leader with core operations in Latin America. With the execution of this agreement, a new company called Dixie Khiron JV Corp. ("Dixie-Khiron") has been established with 50% owned by each of the Company and Khiron. Dixie-Khiron will introduce Dixie's cannabis-infused products across Latin America to take advantage of opportunities arising from the legalization of cannabis throughout the region.
In accordance with the March 12 agreement, Dixie will also manufacture and distribute Khiron's Kuida® brand of cannabidiol (CBD)-based cosmeceuticals in the United States. Kuida is expected to be broadly distributed and is expected to have particular appeal to the growing U.S. Hispanic population, estimated at nearly 60 million.

Business Strategy and Outlook

The Company is pursuing a number of initiatives that are expected to result in significant revenue growth in 2019 and in future years. Key objectives for this year include the following:

- Continue to expand the number of dispensaries selling the Dixie Brands portfolio of THC-infused products within the existing U.S. footprint of California, Colorado, Maryland, Michigan and Nevada. California is estimated at one-third of the total U.S. cannabis market and represents a significant growth opportunity for Dixie which re-launched in the state in the final months of 2018.

- Establish operations in four-to-six new U.S. states in 2019, of which Michigan is the first.

- Secure additional distribution agreements for Aceso Hemp and Therabis to grow the presence of both brands in bricks and mortar locations and complement their established e-commerce channels.

- Continue to innovate by introducing new products that take advantage of Dixie's intellectual property and expertise.

- Enter the Canadian cannabis-infused products market by the end of 2019, following the publication of final regulations by Health Canada, through a licensing agreement with Auxly Cannabis.

- Evaluate potential mergers and acquisitions in order to accelerate growth, enter new markets and add new brands.

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

DBI has historically relied upon equity financings to satisfy its capital requirements. While the Company's 2019 business plan is expected to be fully funded by the proceeds of the financings completed in 2018, the Company may continue to depend upon equity capital to finance its activities in the future, including any significant corporate development opportunities that may arise.

Uses of Proceeds

Proceeds from the Series A and Series B financings will be used to fund continued revenue growth in California and Nevada, to provide capital for expansion into new U.S. states 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 of 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.

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.

Left Bank LLC d/b/a Dixie Elixirs & Edibles ("Left Bank")

One Director of the Company is the sole owner of Left Bank.

The Company purchased the intellectual properties (Note 6) from Left Bank in 2015 for $1,000,000.

The Company leases the facility for DBI from Left Bank under a sub-lease agreement that expired in November 2018. Currently the Company leases the building under a month to month agreement. Annual rent is not to exceed $209,907. Total rent expense paid to Left bank for the years ended December 31, 2018 and 2017 is $192,415 and $202,093, respectively. Left Bank holds inventory on behalf of the Company at the facility for a total amount of $111,253 at December 31, 2018.

In July 2018, DBI entered into a new manufacturing agreement with Left Bank for a total term of 3 years which entitles DBI to 85% of the gross revenue generated by Left Bank and DBI also reimburses certain production costs generated by Left Bank.

In addition to the above arrangements between the Company and Left Bank, DBI incurred shared expenses with Left Bank for accounting services provided by DBI accounting team and consultants for $126,000, owed by Left Bank. The Company also incurred various shared expenses with Left Bank for $393,511, owed by Left Bank.

Purchases and sales between Left Bank and DBI are recorded in accounts payable or accounts receivable. In 2018, the Company earned $3,242,216 of packaging revenue and $143,470 of raw materials and ingredients resale revenue. DBI also incurred $1,359,171 of cost of goods sold reimbursements based on the new manufacturing agreement with Left Bank. As a result, the Company wrote off the accounts receivable balance from Left Bank of $1,359,171 to offset the accounts payable balance.

At December 31, 2018 and 2017, the Company had $2,793,198 and $812,930, respectively of accounts receivable from Left Bank. The Company recorded an ECL provision for Left Bank under IFRS 9 for $1,390,000 for accounts receivable and for $143,820 for notes receivable.

Dixie Holdings

Dixie Holdings is jointly owned by the CEO of DBI and one of the Directors of the Company. DBI purchased intangible assets from Dixie Holdings (Note 6) in 2018 for $297,492.

DBI has a note receivable from Dixie Holdings, for $186,816 and $67,700, as at December 31, 2018 and 2017, respectively. The note accrued interest at 2% per annum and are payable at maturity in December 2018. Interest on this note is not significant as at December 31, 2018 and 2017. On December 31, 2018, the full balance of $186,816 was written off as bad debt expenses.

During the year, DBI wrote off an additional $136,333 of related party advances from Dixie Holdings as bad debt expenses.

Silver State Wellness

Silver State Wellness owns 30% of DBPN. In October 2016, DBPN issued $675,000 under a note receivable bearing interest at 12% from Silver State Wellness. DBPN had non-interest-bearing advances receivable from Silver State Wellness for $656,887 and $868,207 as at December 31, 2018 and 2017, respectively.

DBPN has equity contributions receivable of $228,263 as at December 31, 2018 and 2017 from Silver State Wellness. At December 31, 2018 and 2017, the Company had $1,107,741 and $868,207, respectively of accounts receivable from Silver State Wellness including $655,209 of affiliate packaging revenue and $133,882 of materials and ingredients resale revenue. The Company also incurred $761,513 of COGS reimbursement due to Silver State Wellness based on the licensing agreement. The Company recorded an ECL provision for Silver State Wellness under IFRS 9 for $530,369.

DBI has $10,006 worth of accounts receivable and Therabis also has $28,781 worth of accounts receivable from Silver State Wellness.

Rose Capital Fund

Rose Capital Fund owns 25% of Therabis. In May 2018, Therabis issued $775,000 under promissory notes bearing interest at 12% to Rose Capital Fund.

During the year, RSG 3 (which is Rose Capital Fund), and Rose Capital Fund I LP, exercised a total of $826,444 worth of warrants.

Auxly

One of the Directors of the Company is an officer of Auxly. During the year the Company entered into a licensing agreement with Auxly and received a prepayment of $4,000,000. Subsequent to the year end, $3,250,000 has been returned to Auxly (see Note 7).

Series C Financing Settlements

During the year, DBI paid out a total of $2,845,000 of promissory notes payable to related party debtholders through the issuance of Series C financing. In addition, $450,000 worth of notes payable were converted into common shares of the Company through Series C financing.

The Company incurred $283,000 of finder's fees payable to certain Directors of the Company.

Related party advances and notes receivable:

At December 31, related party advances and notes receivable consist of the following:

	2018	**2017**
Left Bank	1,755,886	974,988
Dixie Holdings	186,816	67,700
Silver State Wellness	1,331,887	500,000
Total Related Party Notes Receivable	3,274,589	1,542,688
Related Party Advances	97,155	831,886
Less: Fair Value Adjustment	429,919	-
Less: Allowance on Related Party Advances	1,667,381	-
Total Related Party Advances and Notes Receivable	1,274,444	2,374,574

DBI holds two notes receivable from Left Bank. The first note for $633,333 and the second note is for $1,122,553. During the year, both notes receivables were extended to June 2022. The notes accrue interest at 2% per annum and are payable at maturity in June 2022. Interest on these notes is not significant as at December 31, 2018 and 2017.

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.

	2018	2017
Management Compensation	$ 621,365	$ 500,000
Stock Incentives	2,362,780	-
Share-Based Compensation	1,712,091	-
	$ 4,558,436	$ 500,000

During 2018, the Company issued a total of $398,094 of cash bonuses to key management personnel. Throughout the year, there are $1,712,091 worth of incentive shares being exercised through the Series C offering. The Company also issued a total of $2,362,780 worth of stock options to key management personnel.

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

The Company's exposure to non-payment or non-performance by our counterparties is a credit risk. The maximum credit exposure as at December 31, 2018 is the carrying amount of cash, accounts receivable and other receivables and promissory notes receivable. The Company has a significant outstanding balance in accounts receivable over 90 days as of December 31, 2018. The Company mitigates its credit risk on its other receivables and promissory notes receivable through its review of the counterparties and business review. 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.

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 December 31, 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 shareholders 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 shares, 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.